

# PORTUGAL

January – December 2017

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▶ Macroeconomic environment and financial system ◀

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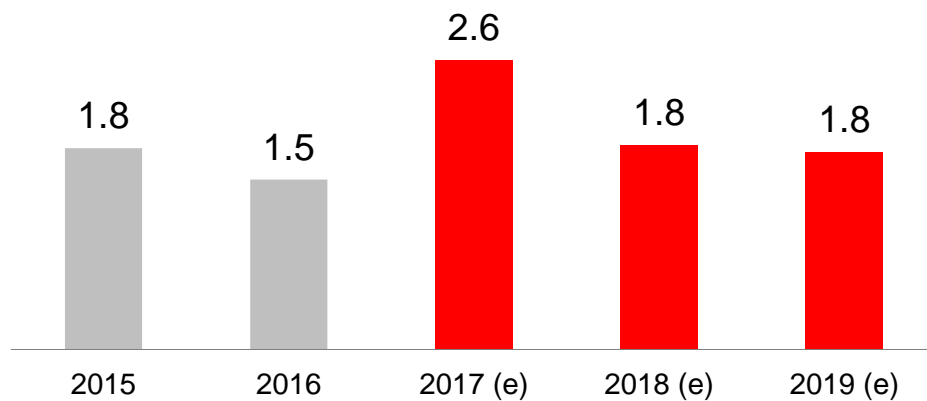
Appendix

**Note: All figures excluding Popular**

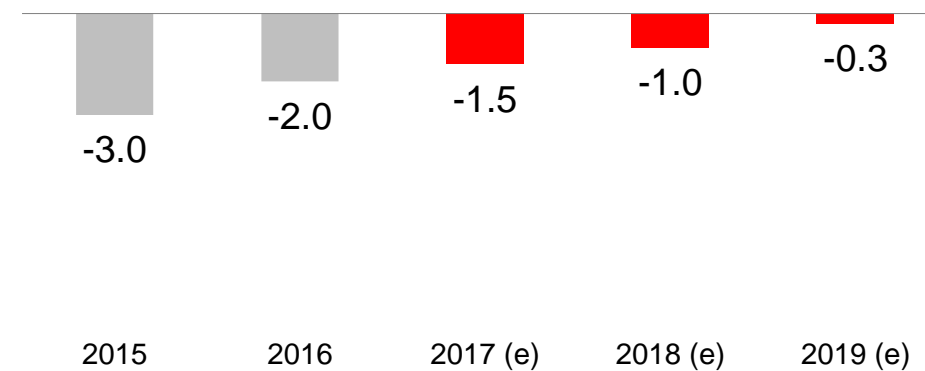
# Macro-economic environment

## GDP growth consolidates above potential, bringing down unemployment

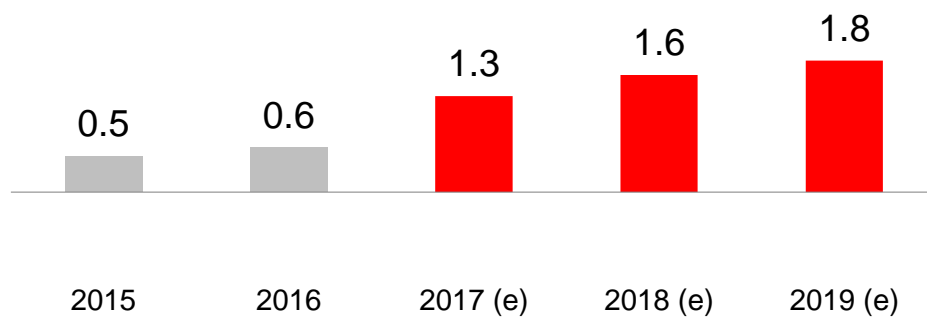
Annual GDP Growth (% , real)



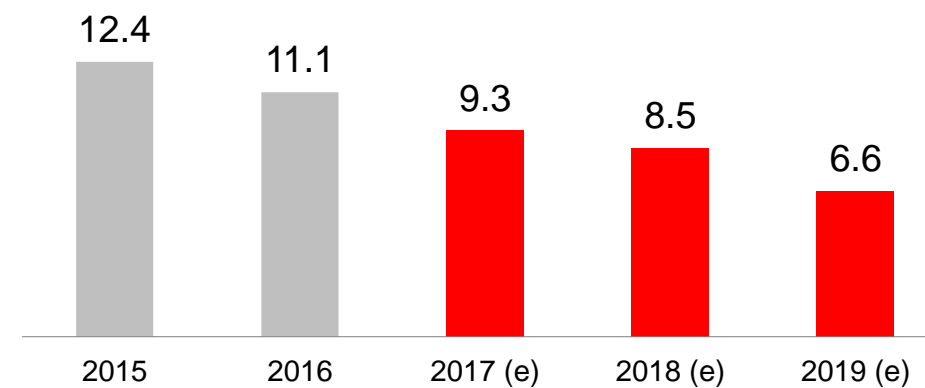
Fiscal Balance (% GDP)



Inflation (annual change, %)

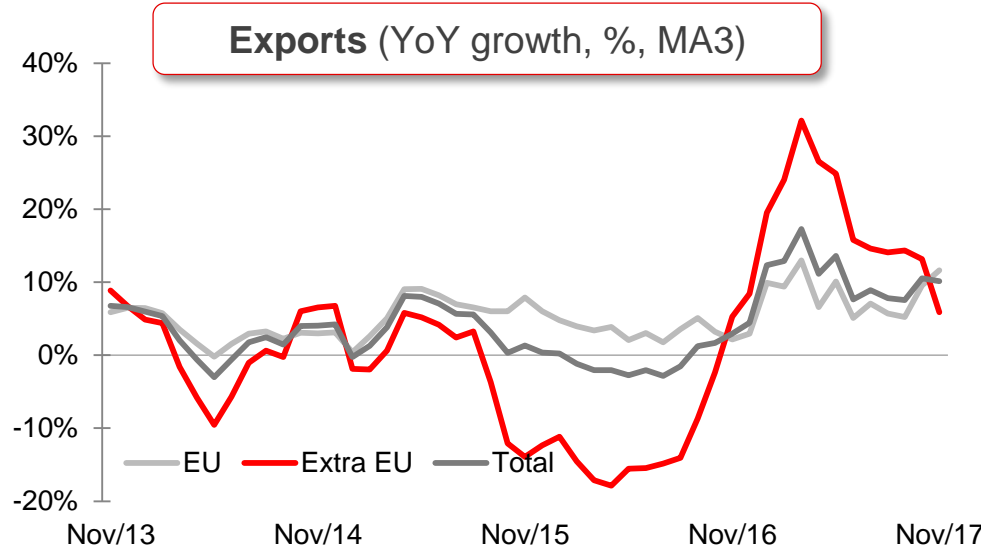
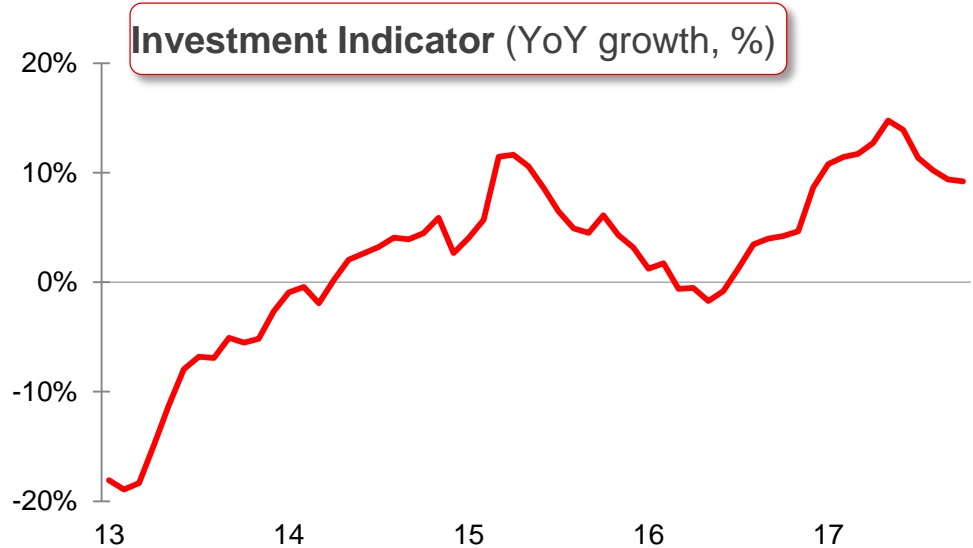
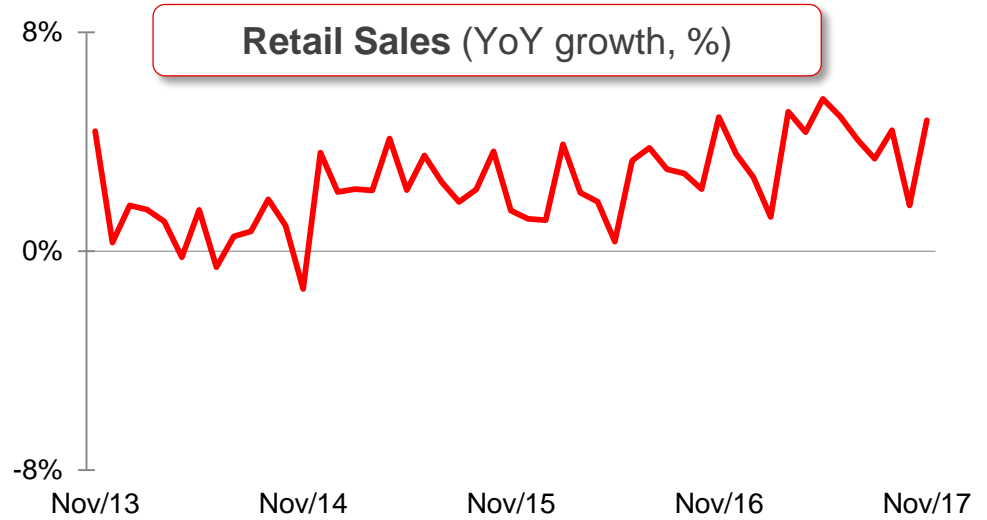
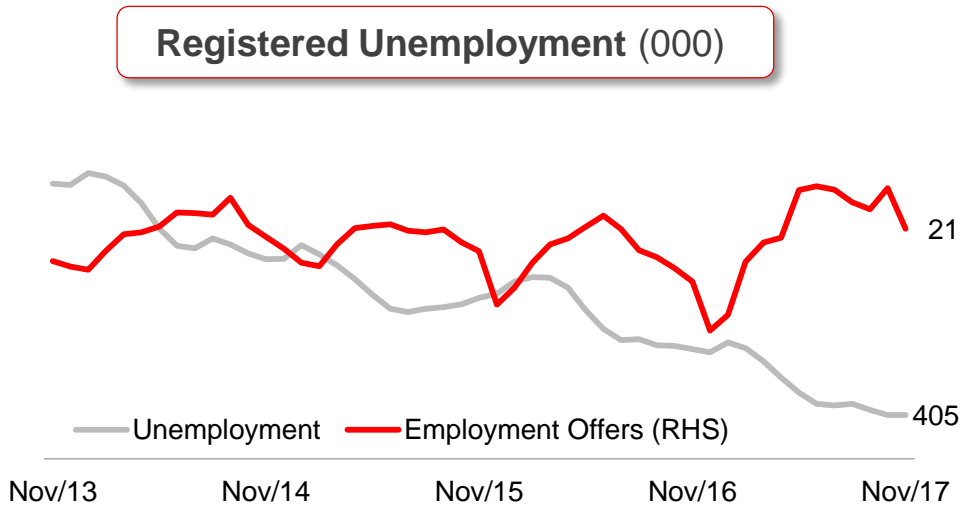


Unemployment (% , annual average)



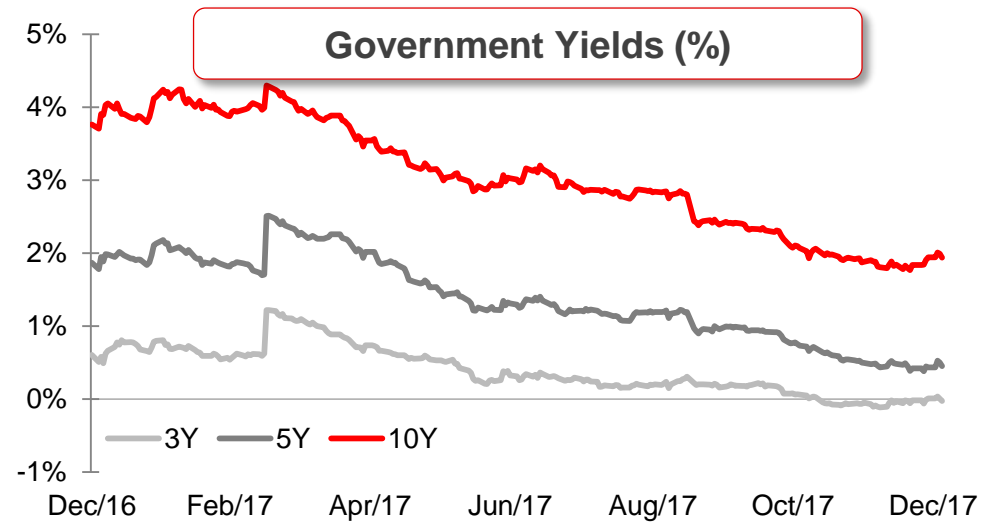
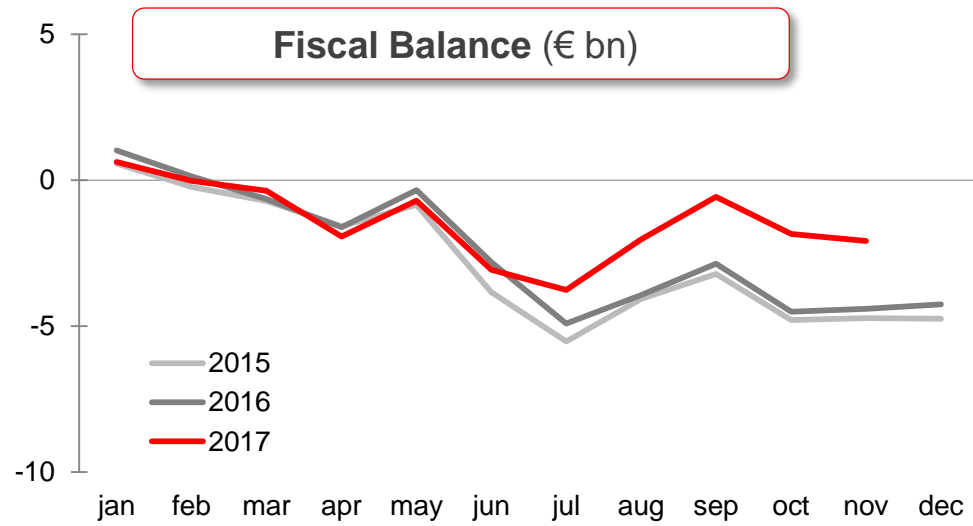
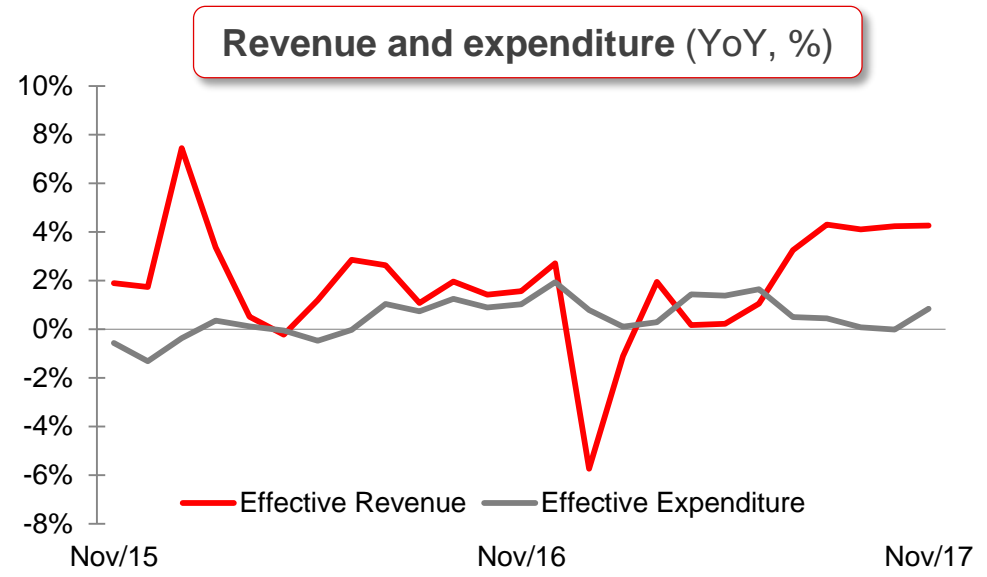
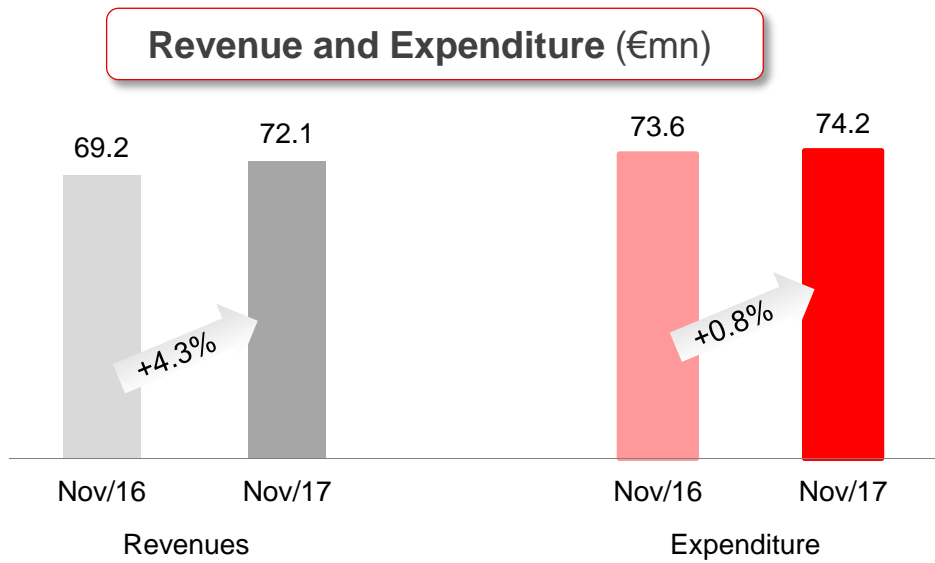
# Macro-economic environment

## Growth continues to be led by dynamic exports and investment



# Macro-economic environment

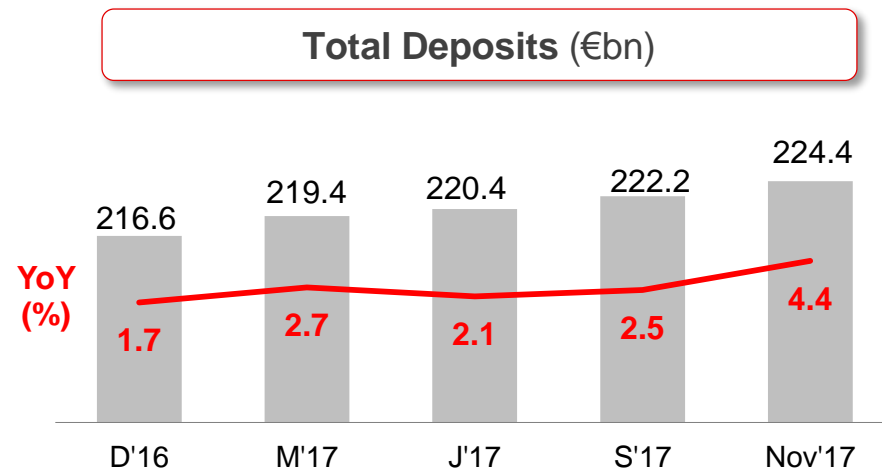
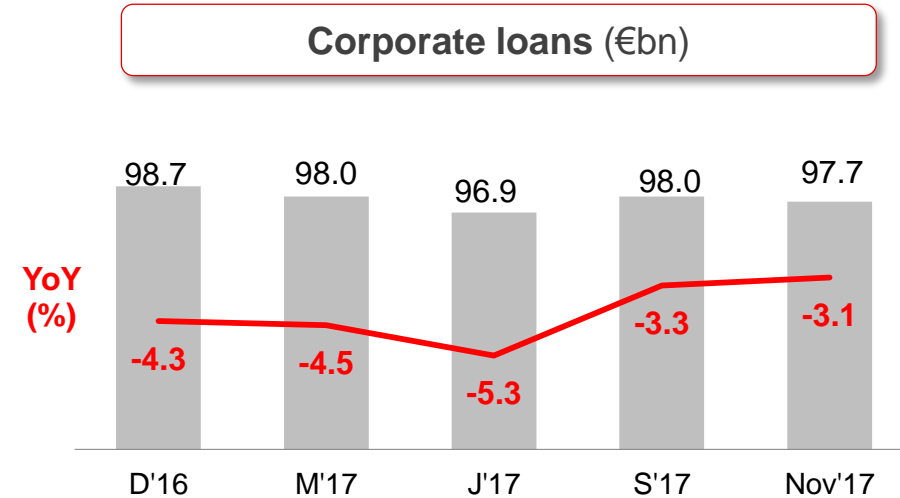
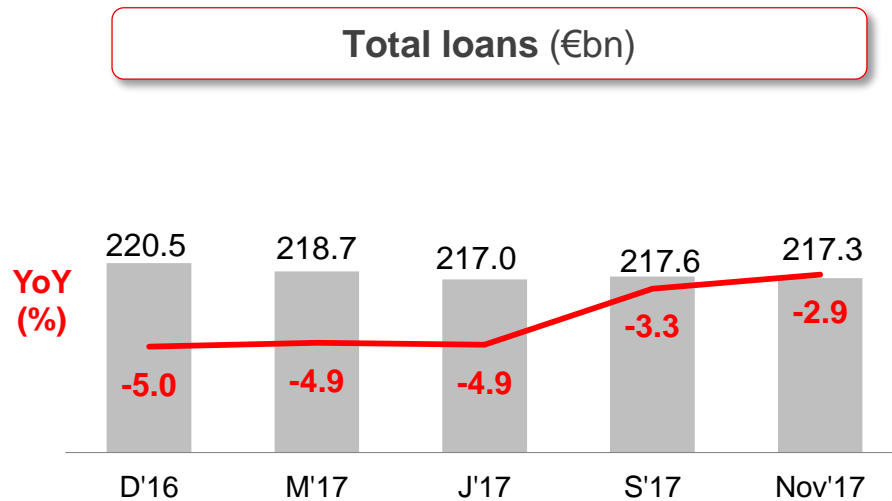
**In 2017, the fiscal deficit narrowed to 1.2% of GDP, below target**



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

# Financial system: Loan and deposit evolution

## Loan book declines at a more moderate pace



- The deleveraging process is ongoing, as the banking sector increased the pace of balance sheet cleanup. Total loans could decline c. 3% in 2017(E), following -5% in 2016.
- Deposits remain resilient, and could grow around 2% in 2017(E), after c.2% in 2016.



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## Santander Totta is now the 1<sup>st</sup>. private bank in Portugal\* in loans












### 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	12M'17	Var. YoY
 Gross loans <sup>1</sup>	31,296	+7.8%
 Customer funds <sup>1</sup>	38,169	+4.4%
 Attributable profit <sup>1</sup>	440	+10%
 RoTE	12.7%	-34bps
 Efficiency ratio	48.0%	-70 bps
 Loans' market share <sup>2</sup>	15.5%	+137bps
 Deposits' market share <sup>2</sup>	13.2%	-58bps
 Loyal customers <sup>3</sup>	686	+8%
 Digital customers <sup>3</sup>	558	+11%
 Branches	563	-14%
 Employees	5,895	-7%



## Improved customer experience due to innovative products and services

### Market recognition and material facts



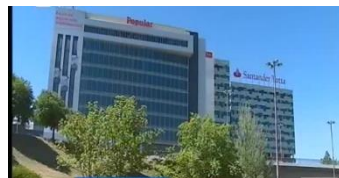
S&P upgraded BST rating to BBB-/A-3

Fitch upgraded BST rating to BBB+/F2



Moody's reaffirmed the Bank's rating (Ba1/NP)

DBRS upgraded Bank's rating to A(L)/R1(L)



At the end of 2017 Santander Totta integrated Banco Popular Portugal and thus became the largest private bank in Portugal in performing loans and in number of branches



In September the Bank issued €1bn covered bonds. The operation was a huge success with books well above €3.25bn and represents the first Portuguese 10 year covered bond transaction since 2011



### Retail and digital services



SanTotta launched a new campaign "Mais Fortes" for SMEs which demonstrates the Bank's commitment to fulfilling its mission of helping people and businesses prosper in areas such as urban rehabilitation, agriculture, internationalization and tourism, as well as non-financial solutions



Corporate Customers can view in NetBanco Empresas all the operations performed in POS. This new feature allows the selection of movements by dates, by type (debit / credit) and by amounts. Transfers on the App and digital fingerprint login are new functionalities also available

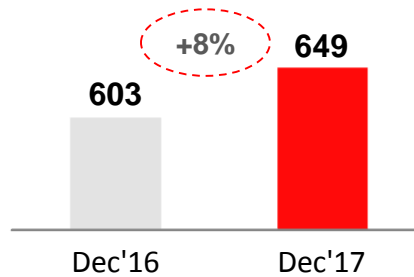


The Bank launched more digital services available on the Santander Totta App. The PagaSIMPLES is a new way of payment associated with Credit Cards that allows customers to pay their purchases in monthly installments



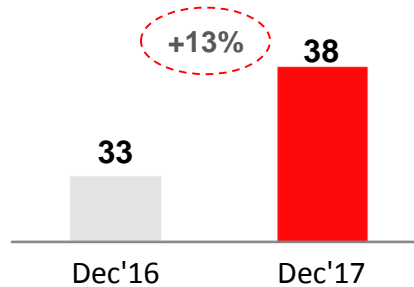
## Dynamic growth in the most valuable customer segments

### Loyal individuals (k)



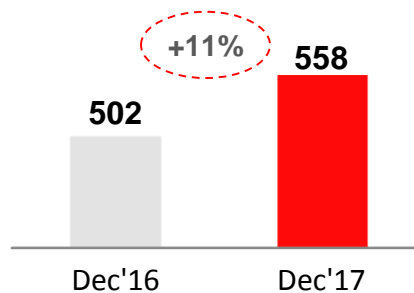
- The number of loyal customers is growing above the targets...

### Loyal companies (k)



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

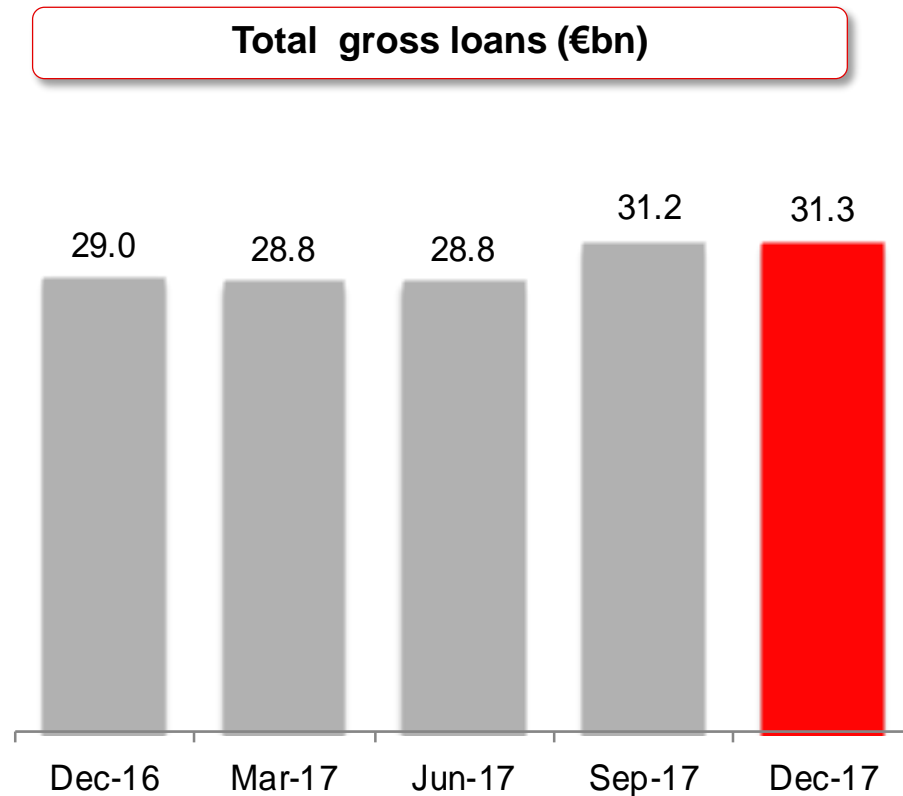
### Digital customers (k)



- The number of digital clients maintains a strong growth



## Loan book increased in 4Q, both at household and corporate segments



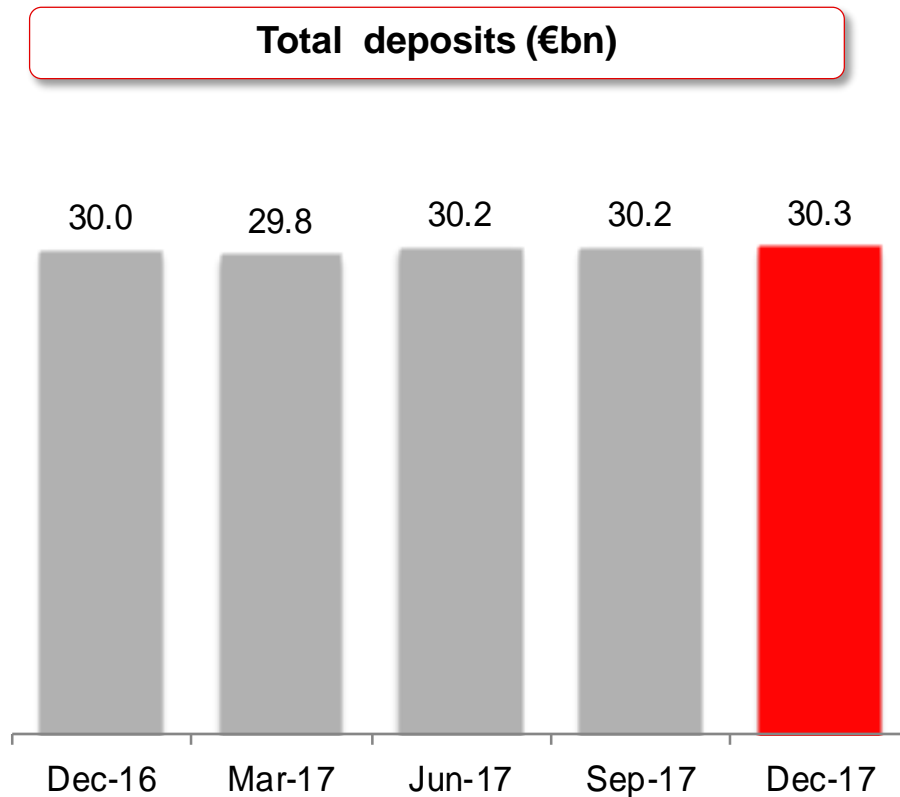
	Dec-17	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>19,191</b>	<b>+0.9</b>	<b>+0.3</b>
<i>from which:</i>			
Mortgage	17,214	+1.1	+0.3
Consumer credit	1,573	+5.2	+1.5
<b>Corporates</b>	<b>9,566</b>	<b>-0.5</b>	<b>+0.9</b>
<b>Total</b>	<b>31,296</b>	<b>+7.8</b>	<b>+0.3</b>
Loans to Corporates (*)	13,650	-1.2	-0.1
Total Loans (*)	35,380	+6.5	+0.0

(\*) includes commercial paper

Note: Total credit includes a loan to the State in the amount of € 2.3bn. Excluding this effect total credit decreased 0.1% YoY



## Steady growth in customer funds, especially at the level of off-balance resources



	Dec-17	YoY (%)	QoQ (%)
Demand	11,326	+1.6	-3.6
Time and Savings	16,112	-1.9	+2.4
<b>Total Deposits</b>	<b>27,438</b>	<b>-0.5</b>	<b>-0.2</b>
Financial insurance	2,832	+16.3	+3.5
<b>Deposits &amp; financial insurance</b>	<b>30,268</b>	<b>+0.9</b>	<b>+0.2</b>
Securities placed	4,477	+17.7	-0.4
Investment funds and other	3,423	+23.5	+7.0
<b>Total Customer Funds</b>	<b>38,169</b>	<b>+4.4</b>	<b>+0.7</b>



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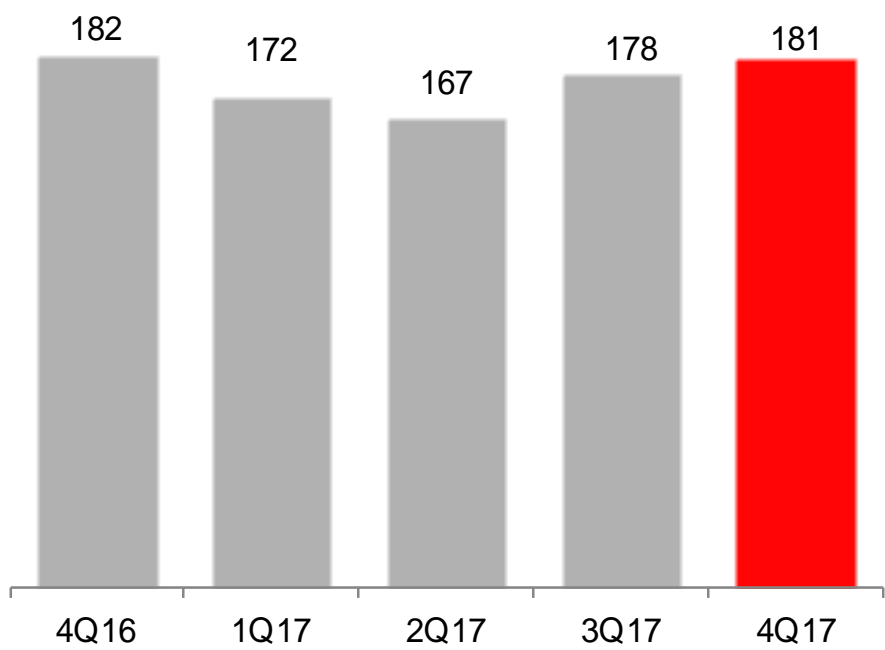
Appendix



# Net interest income

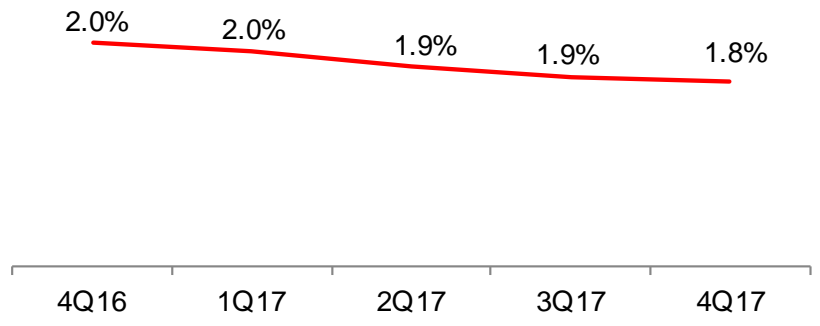
## NII continued to increase

Net Interest Income (€MM)

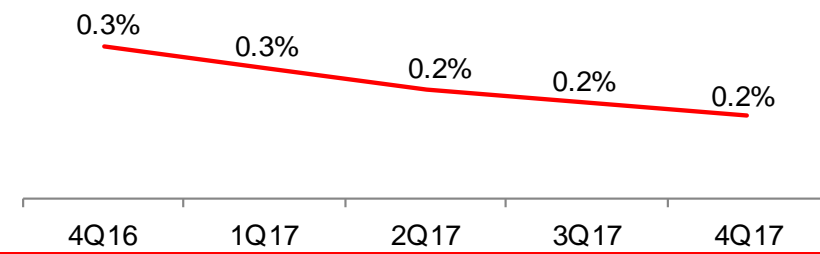


	4Q16	1Q17	2Q17	3Q17	4Q17
<b>NIM<sup>1</sup> (%)</b>	1.59	1.51	1.45	1.50	1.49
<b>Official interest rate<sup>2</sup> (%)</b>	0.00	0.00	0.00	0.00	0.00

Yield on loans (%)



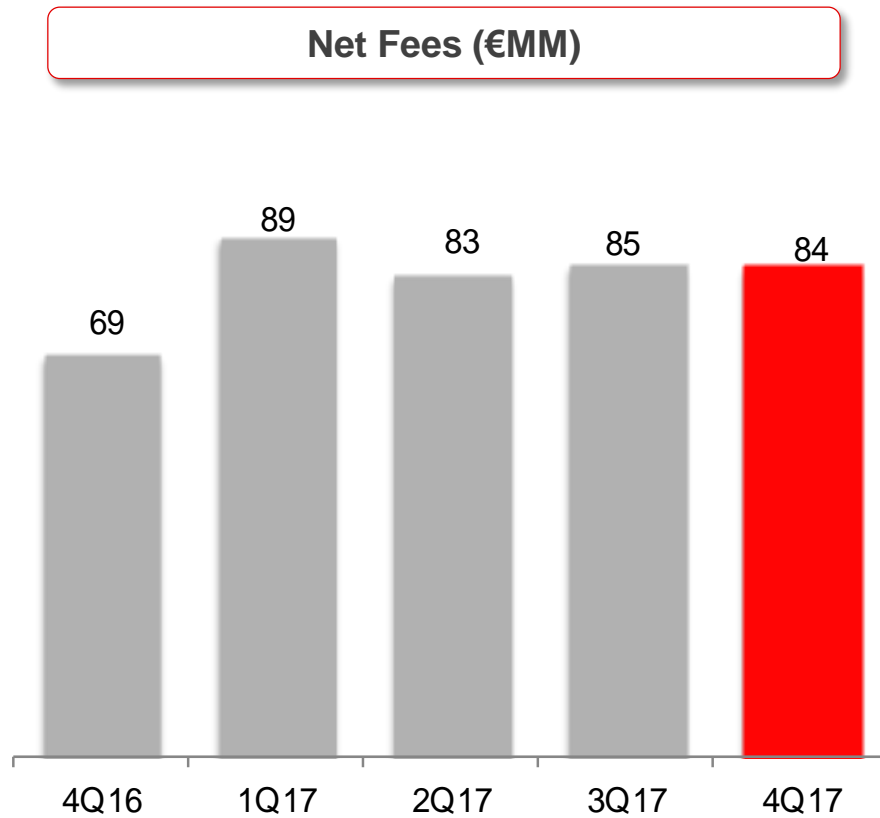
Cost of deposits (%)



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



Fees show a positive evolution, associated with larger client transactionality



	12M17	12M16	YoY (%)	QoQ (%)
Credit	86	87	-1.8	-8.3
Credit cards	76	64	+19.4	-2.5
Mutual funds	21	17	+21.0	+10.0
Insurance	93	91	+2.0	+0.9
Other	66	55	+20.1	+7.9
<b>Total</b>	<b>341</b>	<b>314</b>	<b>+8.7</b>	<b>-0.2</b>

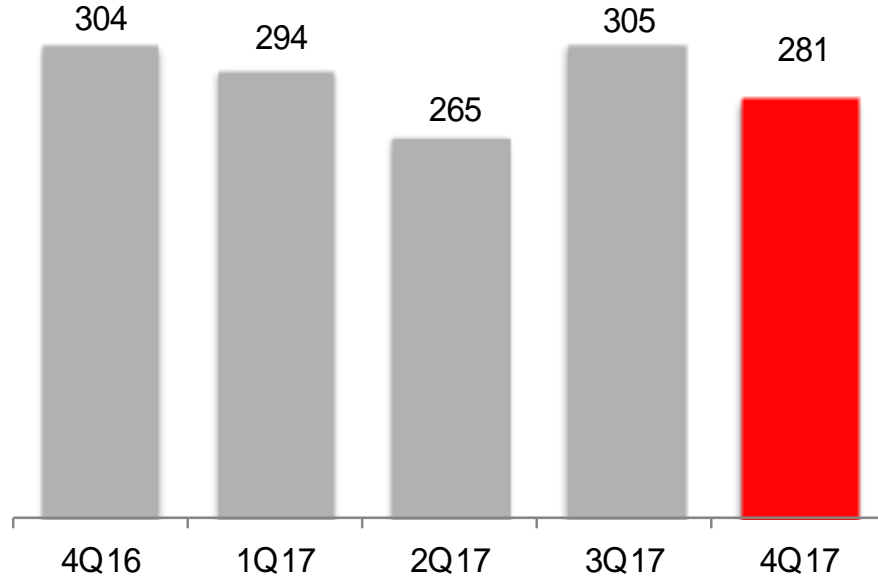




# Gross income

Commercial revenues improved in the quarter, while gross income is influenced by the volatility of gains in financial transactions

Gross Income (€MM)



	12M17	12M16	YoY (%)	QoQ (%)
Net interest income	697	733	-4.9	+2.0
Net Fees	341	314	+8.7	-0.2
<b>Subtotal</b>	<b>1,038</b>	<b>1,047</b>	<b>-0.8</b>	<b>+1.3</b>
Other <sup>1</sup>	107	163	-34.0	-63.4
<b>Gross income</b>	<b>1,145</b>	<b>1,209</b>	<b>-5.3</b>	<b>-7.8</b>

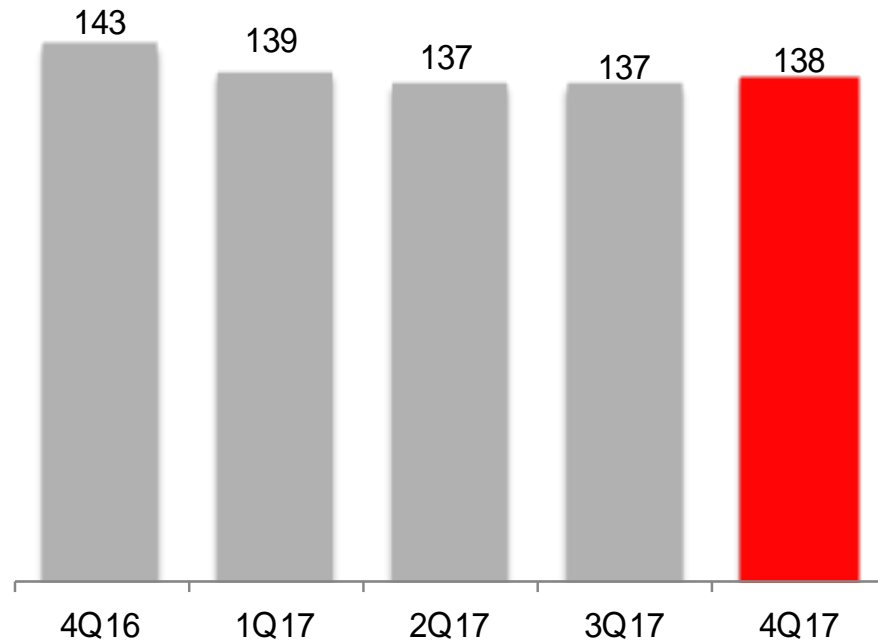
(1) Other includes Gains (losses) on financial transactions and Other operating income



# Operating expenses

## Improving efficiency, as the process of operational and structure simplification continues

Operating expenses (€MM)



	12M17	12M16	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	512	551	-7.1	+0.8
Depreciation and amortization	38	38	+0.3	+1.9
<b>Total</b>	<b>550</b>	<b>589</b>	<b>-6.7</b>	<b>+0.9</b>

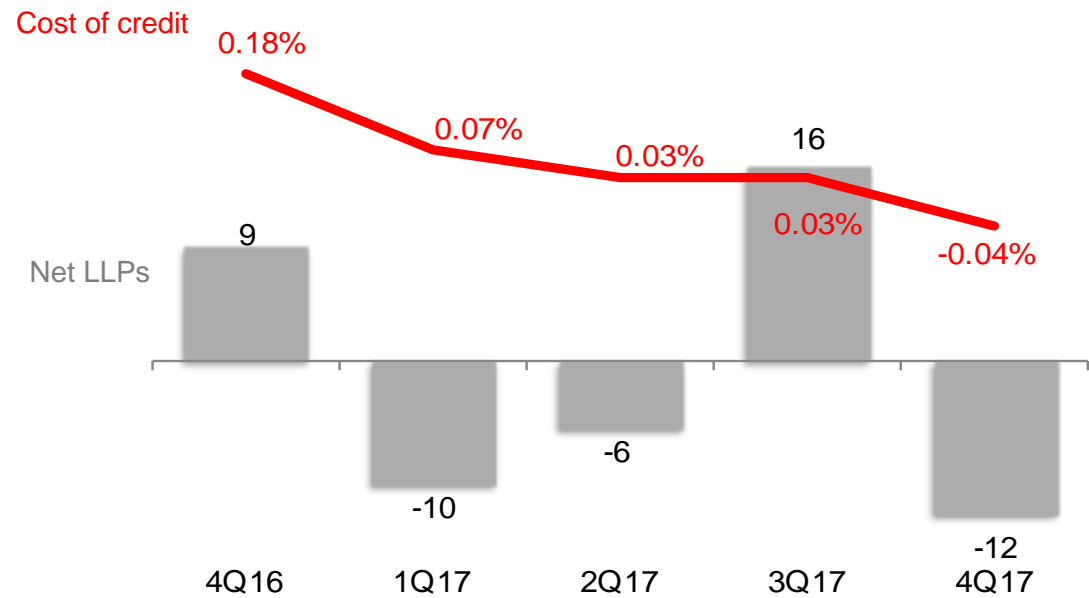
Efficiency ratio <i>(with amortisations)</i>	48.0%	48.7%
Number of branches	563	657
Number of employees	5,895	6,306



# Net operating income after loan-loss provisions (LLPs)

## The NPL ratio declines the lowest level since 2011

LLPs and cost of credit



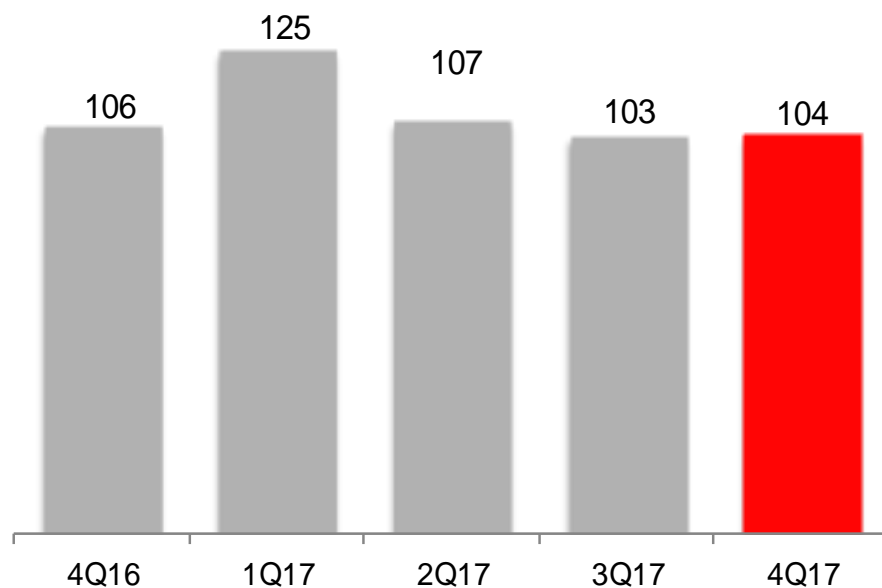
	12M17	12M16	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>595</b>	<b>620</b>	<b>-4.0</b>	<b>-14.9</b>
LLPs	-12	54	-	-
<b>Net Op. Income after LLPs</b>	<b>608</b>	<b>567</b>	<b>+7.3</b>	<b>+2.0</b>
NPL ratio	5.7%	8.8%		
NPL coverage ratio	59.1%	63.7%		



# Attributable profit

**Attributable profit increased 10.2% YoY in 2017**

Attributable profit (€MM)



	12M17	12M16	YoY (%)	QoQ (%)
<b>Underlying Profit before taxes</b>	<b>573</b>	<b>533</b>	<b>+7.5</b>	<b>+8.8</b>
Tax on profit	130	131	-0.4	+31.3
<b>Underlying consolidated profit</b>	<b>442</b>	<b>402</b>	<b>+10.1</b>	<b>+0.6</b>
<b>Underlying att. Profit</b>	<b>440</b>	<b>399</b>	<b>+10.2</b>	<b>+0.5</b>
Non-recurring	-	-	-	-
<b>Attributable profit to the Group</b>	<b>440</b>	<b>399</b>	<b>+10.2</b>	<b>+0.5</b>
Effective tax rate	22.8%	24.6%		



## Market Environment & Financial System

- GDP growth should stabilise around 2%, as the cycle is maturing. Net exports and investment continue to be the main drivers, supporting the decline of unemployment to pre-crisis levels.
- The fiscal deficit should have narrowed to 1.2% of GDP in 2017, below the original target of 1.5%, supported by strong revenue growth and controlled expenditure. In 2018, the Government aims to reduce it further, to 1.0%.
- New loans remain dynamic, but still insufficient to offset the natural decline of the stock. Deposits continue to grow, despite the switch into off-balance resources.

## Strategy & Business

- Consolidating the position as 1<sup>st</sup> private bank in Portugal, in terms of domestic activity, following the integration of Banco Popular.
- We aim to reinforce our position in the corporate segment, with reinforced focus in the SME segment.
- Continuing to increase the number of loyal customers, based on the different levers (1|2|3 and Advance).
- Sound capital structure, with the Common Equity Tier 1 ratio (CET1-fully loaded) reaching 16.4% in November.

## Results

- Sustained recurrent results of activity, supported by the reduction in operating costs and cost of credit.
- Commercial revenue improved, backed by the significant increase in commissions, while NII recovered in 4Q, but insufficient to offset the annual decline..
- 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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EUR million			Variation	
	31-Dec-17	31-Dec-16	Amount	%
Customer loans	30,210	27,328	2,882	10.5
Cash, central banks and credit institutions	4,517	2,459	2,058	83.7
Debt securities	10,018	11,622	(1,604)	(13.8)
<i>o/w: available for sale</i>	4,066	5,683	(1,617)	(28.5)
Other financial assets	1,602	1,667	(65)	(3.9)
Other assets	1,855	1,745	111	6.4
<b>Total assets</b>	<b>48,202</b>	<b>44,820</b>	<b>3,382</b>	<b>7.5</b>
Customer deposits	30,269	30,002	267	0.9
Central banks and credit institutions	8,452	6,743	1,710	25.4
Debt securities issued	4,477	3,805	672	17.7
Other financial liabilities	327	349	(22)	(6.2)
Other liabilities	1,008	590	418	70.9
<b>Total liabilities</b>	<b>44,534</b>	<b>41,489</b>	<b>3,045</b>	<b>7.3</b>
<b>Total equity</b>	<b>3,668</b>	<b>3,331</b>	<b>337</b>	<b>10.1</b>
<b>Other managed and marketed customer funds</b>	<b>3,423</b>	<b>2,770</b>	<b>652</b>	<b>23.6</b>
Mutual funds	1,944	1,435	508	35.4
Pension funds	998	933	64	6.9
Managed portfolios	482	402	80	19.9

# Income statement



EUR million			Variation	
	2017	2016	Amount	%
Net interest income	697	733	(36)	(4.9)
Net fees	341	314	27	8.7
Gains (losses) on financial transactions	84	112	(28)	(25.4)
Other operating income	24	51	(27)	(53.2)
<b>Gross income</b>	<b>1,145</b>	<b>1,209</b>	<b>(64)</b>	<b>(5.3)</b>
Operating expenses	(550)	(589)	39	(6.7)
General administrative expenses	(512)	(551)	39	(7.1)
<i>Personnel</i>	(326)	(339)	13	(3.9)
<i>Other general administrative expenses</i>	(186)	(212)	26	(12.3)
Depreciation and amortisation	(38)	(38)	(0)	0.3
<b>Net operating income</b>	<b>595</b>	<b>620</b>	<b>(25)</b>	<b>(4.0)</b>
Net loan-loss provisions	12	(54)	66	—
Other income	(35)	(34)	(1)	3.0
<b>Underlying profit before taxes</b>	<b>573</b>	<b>533</b>	<b>40</b>	<b>7.5</b>
Tax on profit	(130)	(131)	1	(0.4)
<b>Underlying profit from continuing operations</b>	<b>442</b>	<b>402</b>	<b>41</b>	<b>10.1</b>
Net profit from discontinued operations	—	—	—	—
<b>Underlying consolidated profit</b>	<b>442</b>	<b>402</b>	<b>41</b>	<b>10.1</b>
Minority interests	2	2	(0)	(5.0)
<b>Underlying attributable profit to the Group</b>	<b>440</b>	<b>399</b>	<b>41</b>	<b>10.2</b>
Net capital gains and provisions	—	—	—	—
<b>Attributable profit to the Group</b>	<b>440</b>	<b>399</b>	<b>41</b>	<b>10.2</b>



# Quarterly income statement



EUR million

	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17	4Q17
Net interest income	183	188	180	182	172	167	178	181
Net fees	90	74	80	69	89	83	85	84
Gains (losses) on financial transactions	54	15	4	39	34	10	32	8
Other operating income	10	4	23	14	(1)	6	11	8
<b>Gross income</b>	<b>337</b>	<b>281</b>	<b>287</b>	<b>304</b>	<b>294</b>	<b>265</b>	<b>305</b>	<b>281</b>
Operating expenses	(154)	(149)	(142)	(143)	(139)	(137)	(137)	(138)
General administrative expenses	(145)	(140)	(133)	(133)	(129)	(127)	(127)	(128)
<i>Personnel</i>	(88)	(88)	(80)	(83)	(83)	(82)	(81)	(80)
<i>Other general administrative expenses</i>	(57)	(52)	(52)	(50)	(46)	(45)	(46)	(49)
Depreciation and amortisation	(9)	(9)	(9)	(10)	(10)	(9)	(9)	(9)
<b>Net operating income</b>	<b>183</b>	<b>132</b>	<b>145</b>	<b>161</b>	<b>155</b>	<b>128</b>	<b>168</b>	<b>143</b>
Net loan-loss provisions	(22)	(6)	(16)	(9)	10	6	(16)	12
Other income	(2)	(21)	(5)	(5)	(14)	(9)	(11)	(1)
<b>Underlying profit before taxes</b>	<b>158</b>	<b>104</b>	<b>124</b>	<b>146</b>	<b>151</b>	<b>125</b>	<b>142</b>	<b>155</b>
Tax on profit	(37)	(24)	(31)	(40)	(25)	(17)	(38)	(50)
<b>Underlying profit from continuing operations</b>	<b>122</b>	<b>81</b>	<b>93</b>	<b>106</b>	<b>126</b>	<b>108</b>	<b>104</b>	<b>105</b>
Net profit from discontinued operations	—	—	—	—	—	—	—	—
<b>Underlying consolidated profit</b>	<b>122</b>	<b>81</b>	<b>93</b>	<b>106</b>	<b>126</b>	<b>108</b>	<b>104</b>	<b>105</b>
Minority interests	1	1	1	1	1	0	1	1
<b>Underlying attributable profit to the Group</b>	<b>121</b>	<b>80</b>	<b>92</b>	<b>106</b>	<b>125</b>	<b>107</b>	<b>103</b>	<b>104</b>
Net capital gains and provisions	—	—	—	—	—	—	—	—
<b>Attributable profit to the Group</b>	<b>121</b>	<b>80</b>	<b>92</b>	<b>106</b>	<b>125</b>	<b>107</b>	<b>103</b>	<b>104</b>

# 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**

