

30 January 2019



## 2018 Earnings Presentation



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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 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

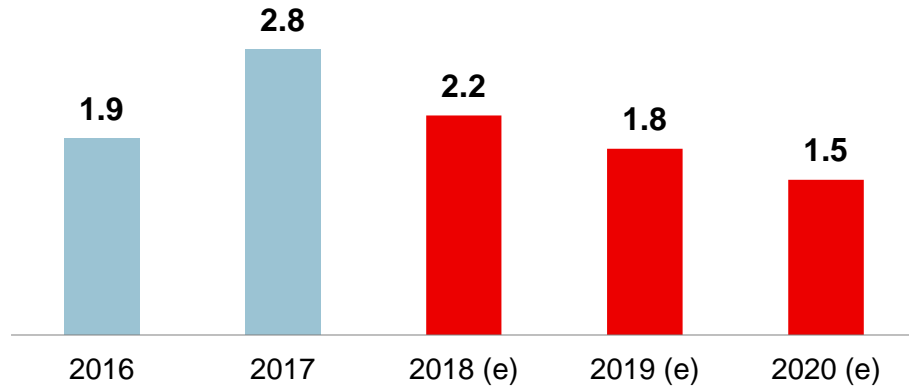


01

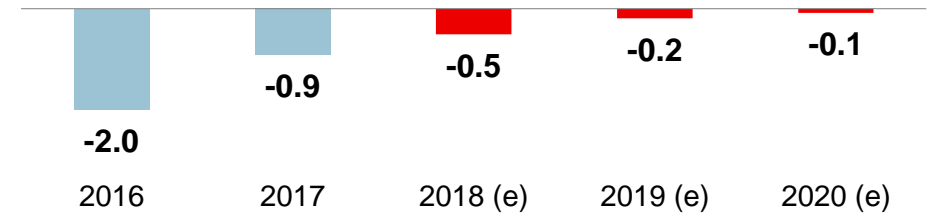


# Growth continues, with declining unemployment

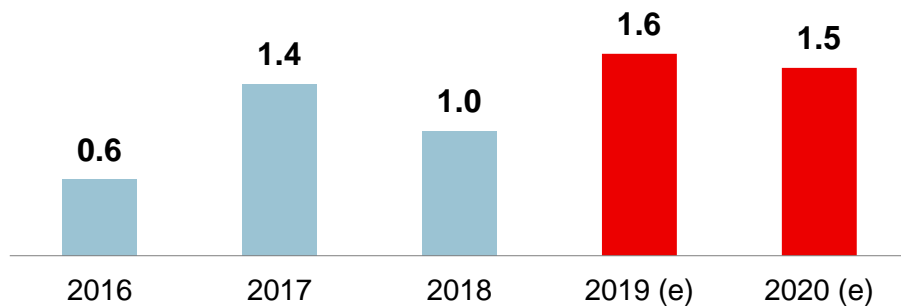
**Annual GDP Growth (real, %)**



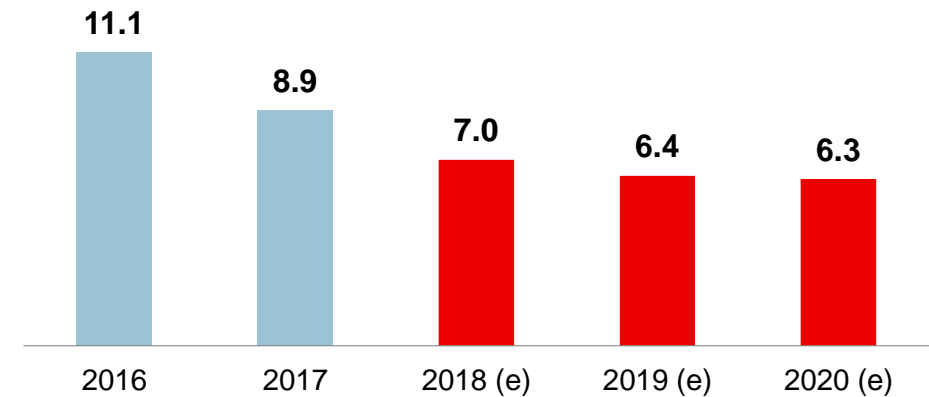
**Fiscal Balance (% of GDP)**



**Annual inflation rate (%)**



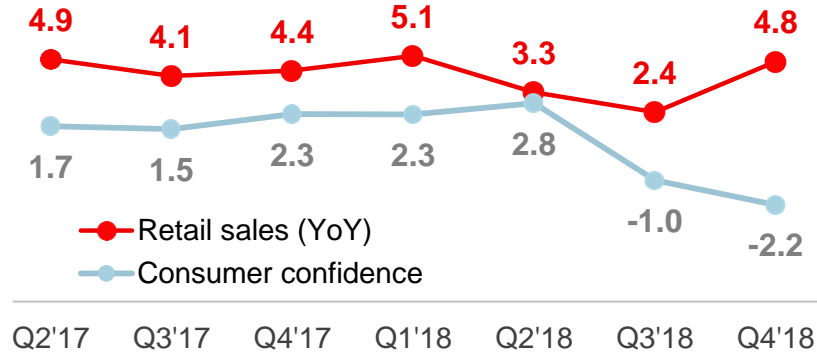
**Unemployment Rate (% , annual average)**



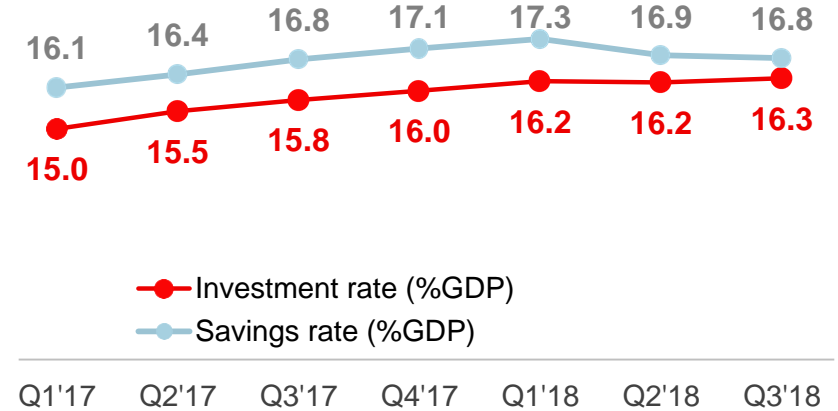


# Investments and exports continue to drive GDP expansion

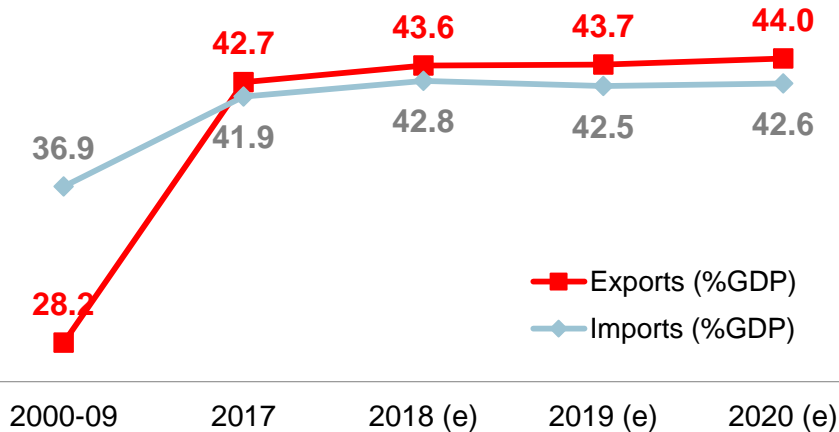
## Consumer dynamics



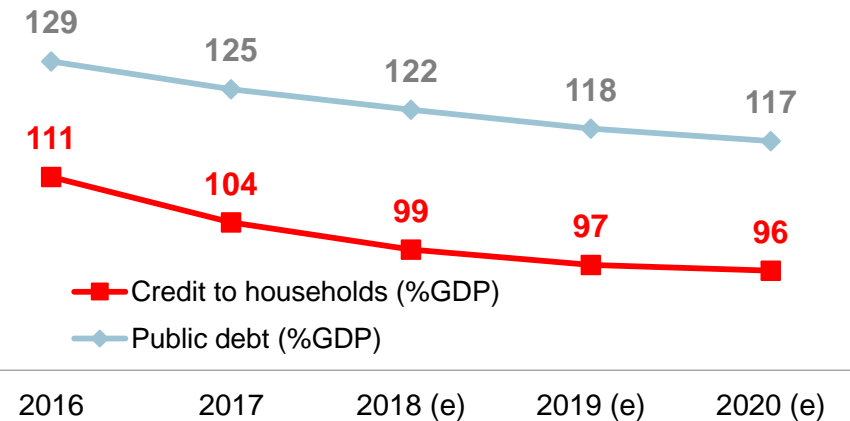
## Investment dynamics (total economy)



## Tradable sector dynamics



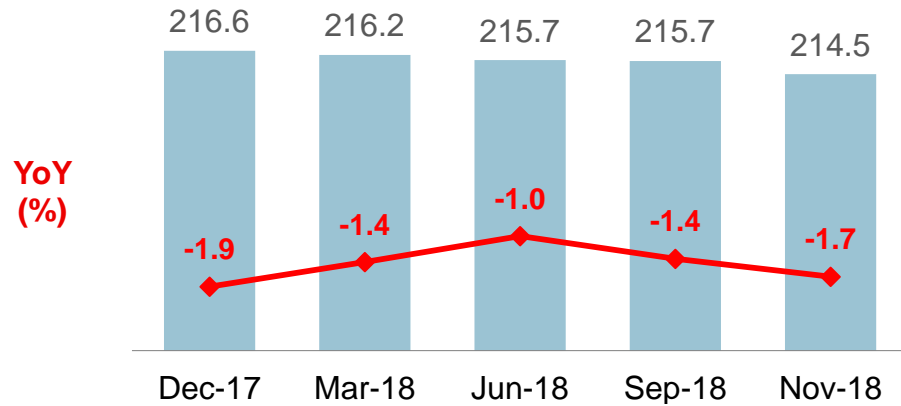
## Deleveraging dynamics





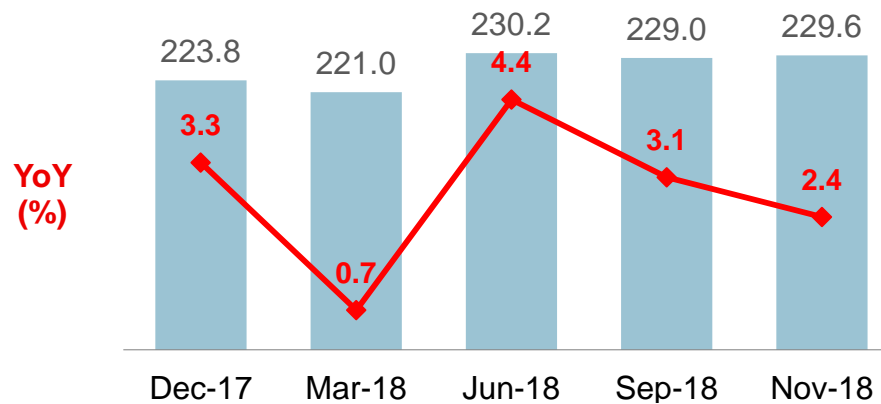
# Loans decline as banks reduce impaired assets

**Total loans** (EUR bn)



- ▶ The economy continues to deleverage but indebtedness is the main constraint for the private sector loan growth
- ▶ Banks continue “cleaning” their balance sheets from impaired assets

**Total deposits** (EUR bn)



- ▶ Deposits stabilise at high levels, as households also allocate resources into Government retail debt, and corporates finance their investments with own funds

# Strategy and business



02



# Santander Totta is the first privately owned bank in Portugal, by assets and loans



## STRATEGIC PRIORITIES

- ▶ 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, improving our position as leading private bank and leveraging our position in the corporate sector, especially in SMEs

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- ▶ Improve efficiency and maintain a low cost of credit

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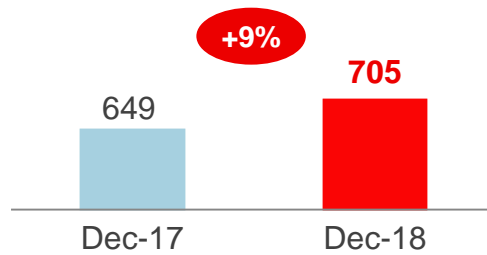
- ▶ Maintain a solid capital position, managing it in line with the new regulatory requirements

	KEY DATA	12M'18	YoY Var.
	Gross loans <sup>1</sup>	36,568	-2.5%
	Deposits <sup>1</sup>	37,217	+9.5%
	Attributable profit <sup>1</sup>	500	+14.9%
	RoTE <sup>2</sup>	12.1%	+41bps
	Efficiency ratio	47.8%	-158bps
	Loans' market share <sup>3</sup>	18.3%	+14bps
	Deposits' market share <sup>3</sup>	15.5%	+45bps
	Loyal customers <sup>4</sup>	752	+9.5%
	Digital customers <sup>4</sup>	734	+31.6%
	Branches	572	-16.0%
	Employees	6,705	-1.7%



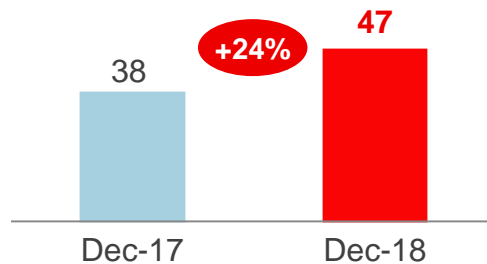
# Sustained growth in the most valuable customer segments

## Loyal individuals (k)



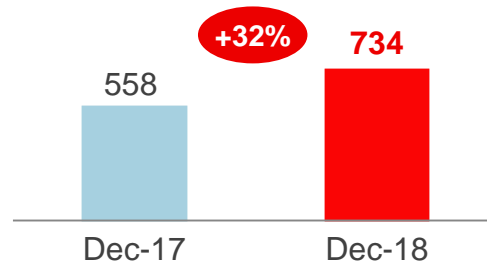
- ▶ Continued growth in the number of loyal customers, supported by the focus on the 1|2|3 strategy...

## Loyal companies (k)



- ▶ ... as well as in corporates, where the increase of customers is aligned with the strong market shares in new loans

## Digital customers (k)



- ▶ The improved availability of digital functionalities for both households and corporates is supporting the increase in the number of digital customers



# Market recognition in 2018

In financial performance...  
and in different areas of activity

In customer service...  
in different channels...

<p>“Best Bank in Portugal” Global Finance</p>	<p>“Best Bank in Portugal” Global Finance</p>	<p>“Best Private Banking Services Overall” Euromoney</p>	<p>“Best Trade Finance Provider” Global Finance</p>	<p>“Great Bank 5 Stars”, U-scoot</p>	
		<p>“Melhor Private Bank” Global Finance</p>		<p>“Best Contact Center”, APCC</p>	
				<p>“Best Retail Bank” World Finance</p>	

In investor confidence...

“Deal of The Year - Peripheral”, issuance of covered bonds, in the amount of EUR 1.0 bn in September 2017, **Covered Bond Report**.

“Market member - Most Active Trading House in Derivatives Market”, **Euronext Lisbon Awards**

The “Most Reputable Brand” and the Best Bank to Work for

“Most Reputable Brand”, 1<sup>st</sup> in **Ranking On Strategy 2018**

“Best Bank to work for”, **Great Place to Work Institute**



# Retail and digital services



## Happy account

With the objective of attracting young Customers and accompanying them in the growth of its relationship with the Bank, Santander launched the “Happy account”, targeting clients up to 20 years. The account provides several services, without maintenance costs.

## Christmas Campaign 2018 - Personal Credit

In order to support the commercialization of Personal Loans in a period of stronger consumption, the Bank provides promotional financing conditions for traditional products, also including its CrediSimples (digital) offer.



A group of about 100 Bank volunteers participated on November 30 in a joint action at the LIGA Foundation

## IFRRU 2020

Santander is the leading bank in the IFRRU 2020 (financial instrument for urban renewal), which supports investment in both commercial and residential construction. The IFRRU 2020 is a major lever supporting the Bank’s position of leadership in Protocol Credit



Mais fortes no apoio à reabilitação urbana

767 Milhões de euros para financiamento



Santander opened the first Work Café, in Lisbon, the new concept of relationship between the Bank and its customers. The Work Café has co-working spaces, where customers and non-customers can work, have meeting with partners or just relax and drink a coffee. Over the coming months, additional work cafés will be opened in other locations in the country

## Mais fortes no apoio às empresas e negócios

Solidez e confiança estão na base do nosso crescimento

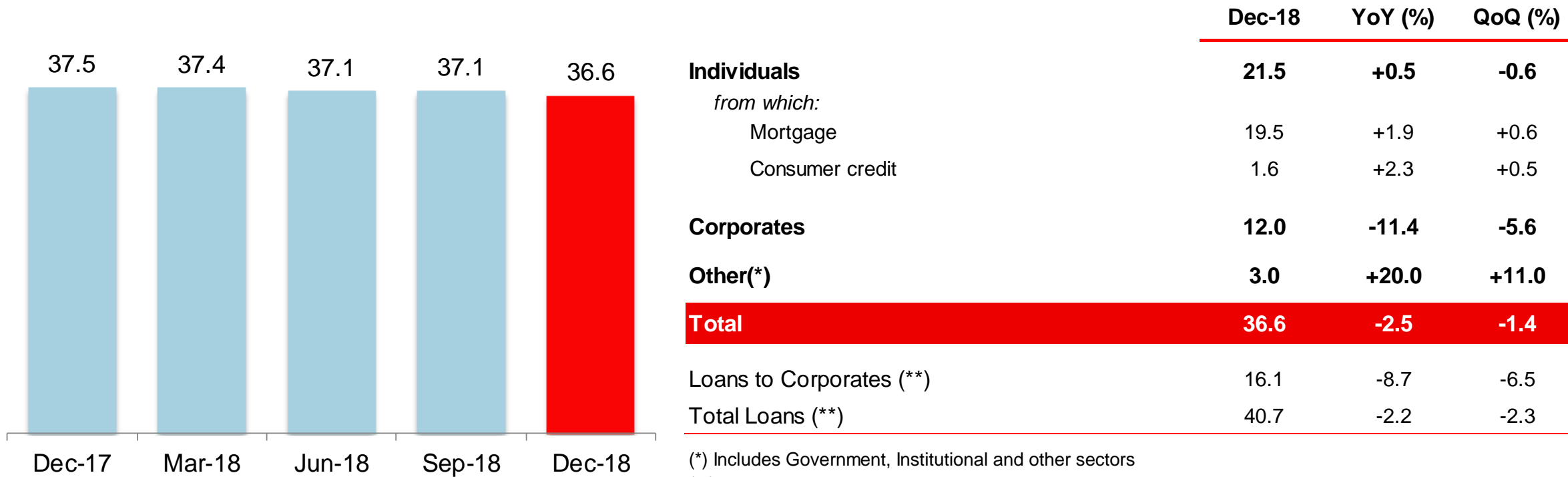


Santander has been a leader in the lines of credit filed with PME Investimentos since 2010, which reflects the Bank's commitment to the Business segment and the strong support given to the economy



# Increase in loans to individuals more than offset by sales of corporate loans

**Total loans** (EUR bn)



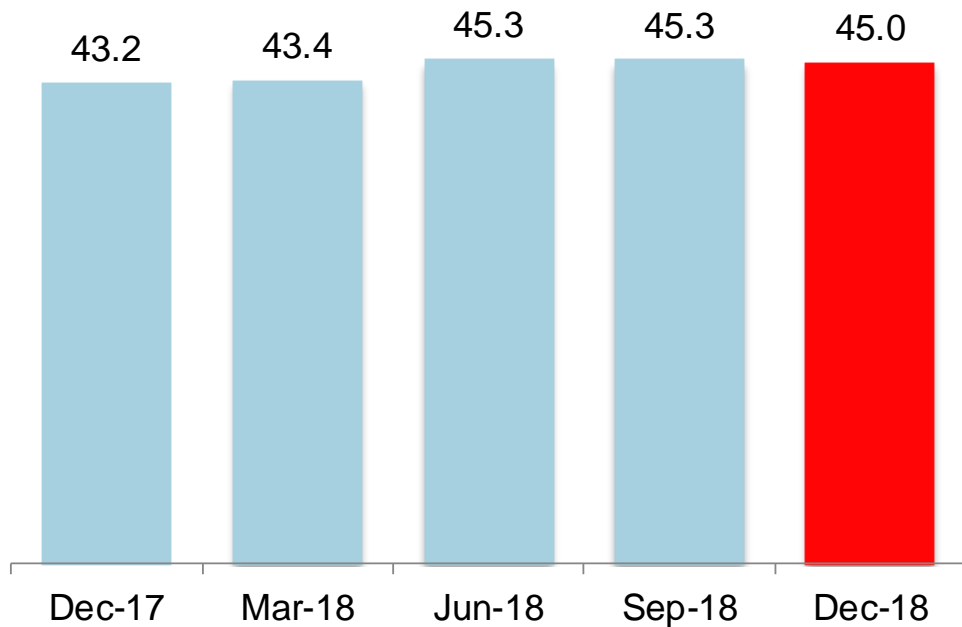
(\*) Includes Government, Institutional and other sectors

(\*\*) includes commercial paper

# Deposits increased while mutual funds were affected by market volatility in late 2018



**Total customer funds (EUR bn)**



	Dec-18	YoY (%)	QoQ (%)
Demand	15.2	+19.3	+2.9
Time and Savings	18.2	-1.3	-1.8
<b>Total Deposits</b>	<b>33.4</b>	<b>+7.1</b>	<b>+0.3</b>
Financial insurance	3.9	+36.0	-0.6
<b>Deposits &amp; financial insurance</b>	<b>37.2</b>	<b>+9.5</b>	<b>+0.2</b>
Securities placed	4.3	-21.3	-1.1
Investment funds and other	3.5	-6.4	-7.1
<b>Total Customer Funds</b>	<b>45.0</b>	<b>+4.2</b>	<b>-0.5</b>

Results

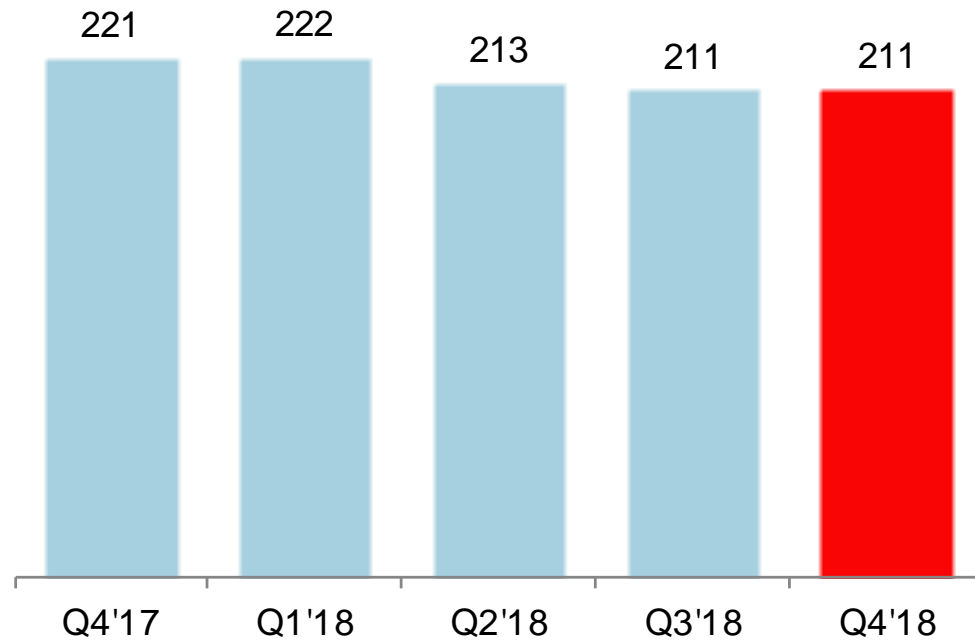


03

# NII stabilised with improvement in yield on loans



**Net interest income (EUR mn)**



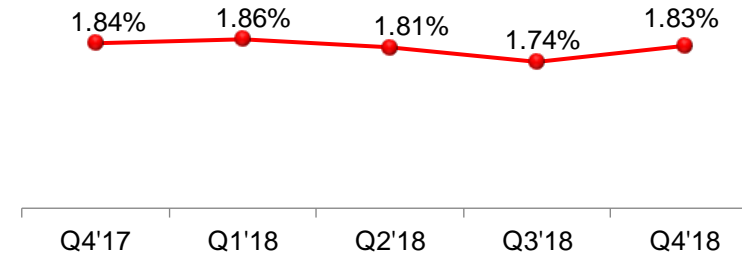
**NIM<sup>1</sup> (%)**

1.54	1.58	1.54	1.52	1.54
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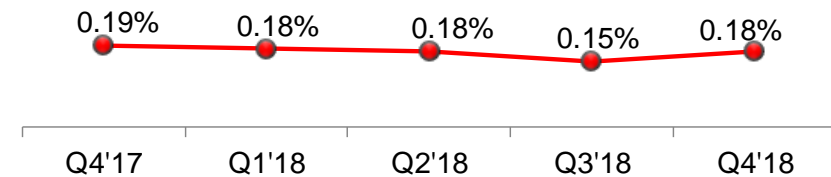
**Official interest rate<sup>2</sup> (%)**

0.00	0.00	0.00	0.00	0.00
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**Yield on loans (%)**



**Cost of deposits (%)**

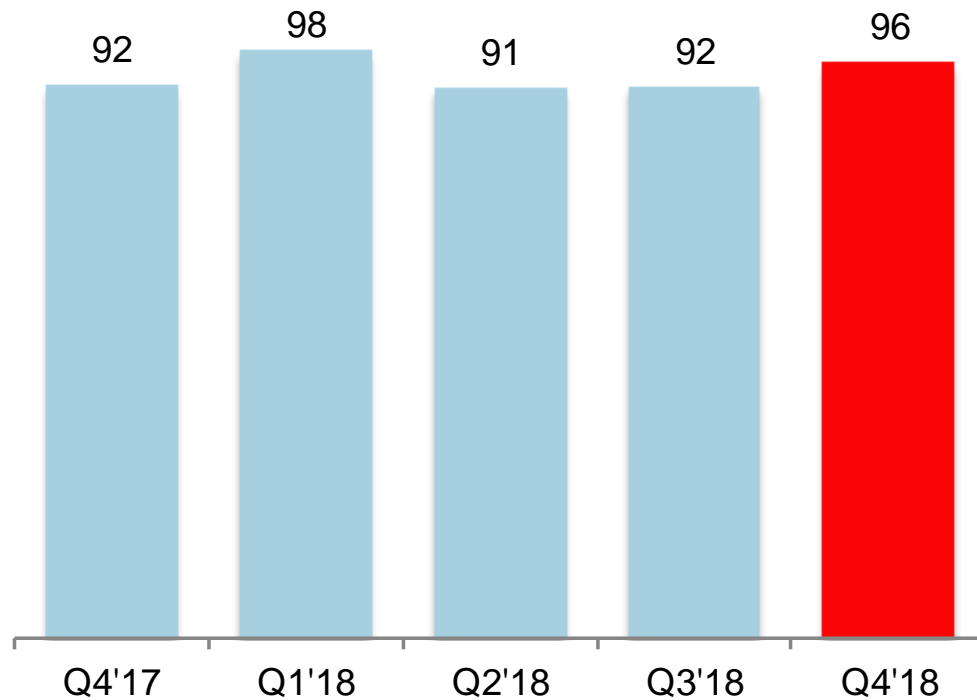




# Net fees improved, namely driven by mutual funds and insurance fees



Net fees (EUR mn)



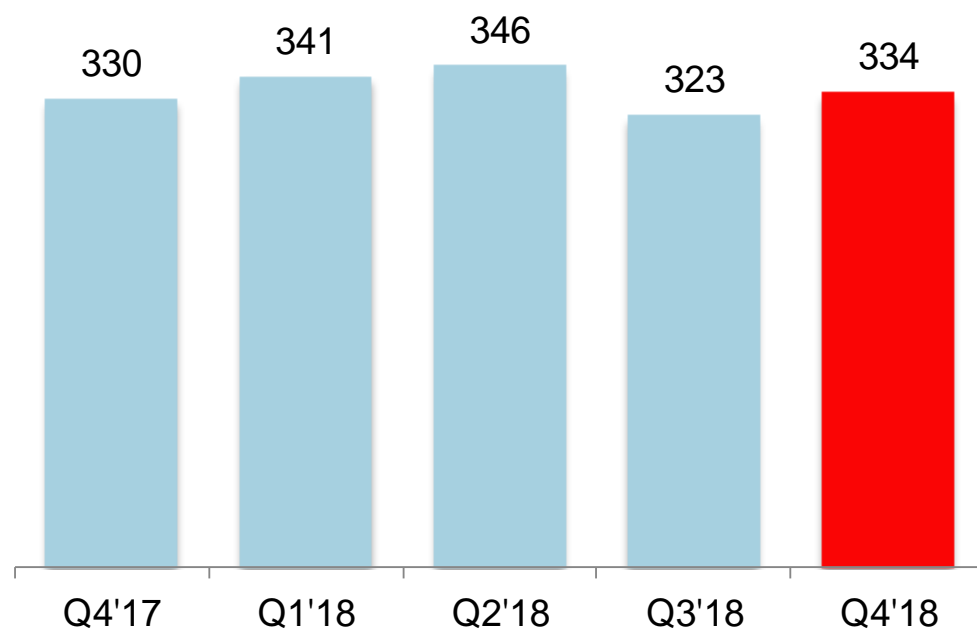
	12M'18	12M'17	YoY (%)	QoQ (%)
Credit	82	84	-1.3	-0.7
Credit cards	92	82	+12.1	+14.5
Mutual funds	24	21	+18.2	+0.2
Insurance	100	93	+8.2	+4.1
Other	77	81	-3.9	+0.6
<b>Total</b>	<b>377</b>	<b>360</b>	<b>+4.7</b>	<b>+4.5</b>

Note: "Other" includes BaPop commissions

# Higher gross income YoY largely driven by NII



## Gross income (EUR mn)

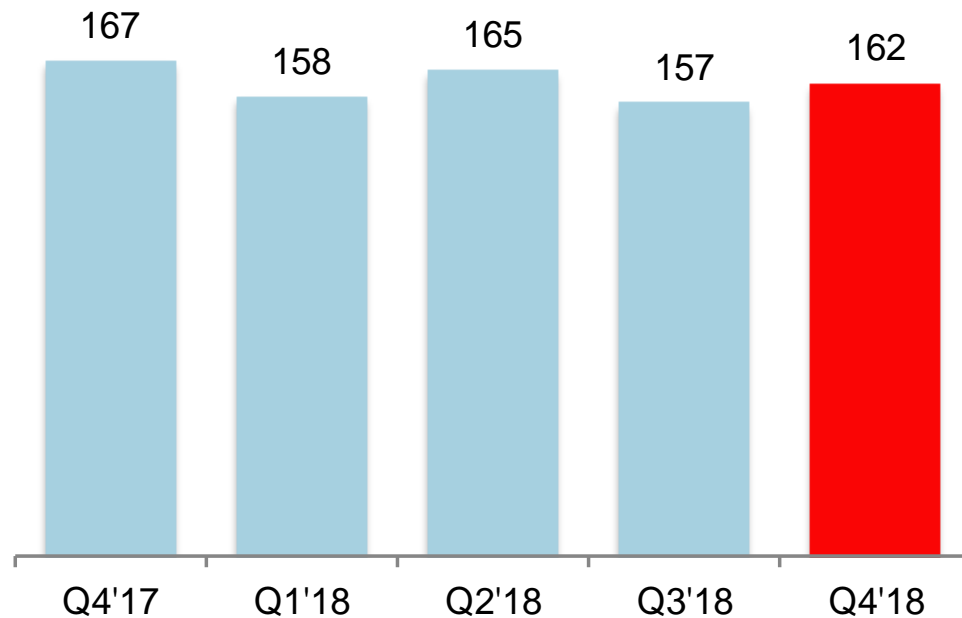


	12M'18	12M'17	YoY (%)	QoQ (%)
Net interest income	858	788	+8.9	+0.1
Net Fees	377	360	+4.7	+4.5
<b>Subtotal</b>	<b>1,234</b>	<b>1,147</b>	<b>+7.6</b>	<b>+1.5</b>
Gains/losses on financial transactions	75	76	-1.0	+112.8
Other	34	21	+61.4	+2.4
<b>Gross income</b>	<b>1,344</b>	<b>1,245</b>	<b>+8.0</b>	<b>+3.5</b>

# Improvement in efficiency as the retail branch network is optimised



## Operating expenses (EUR mn)



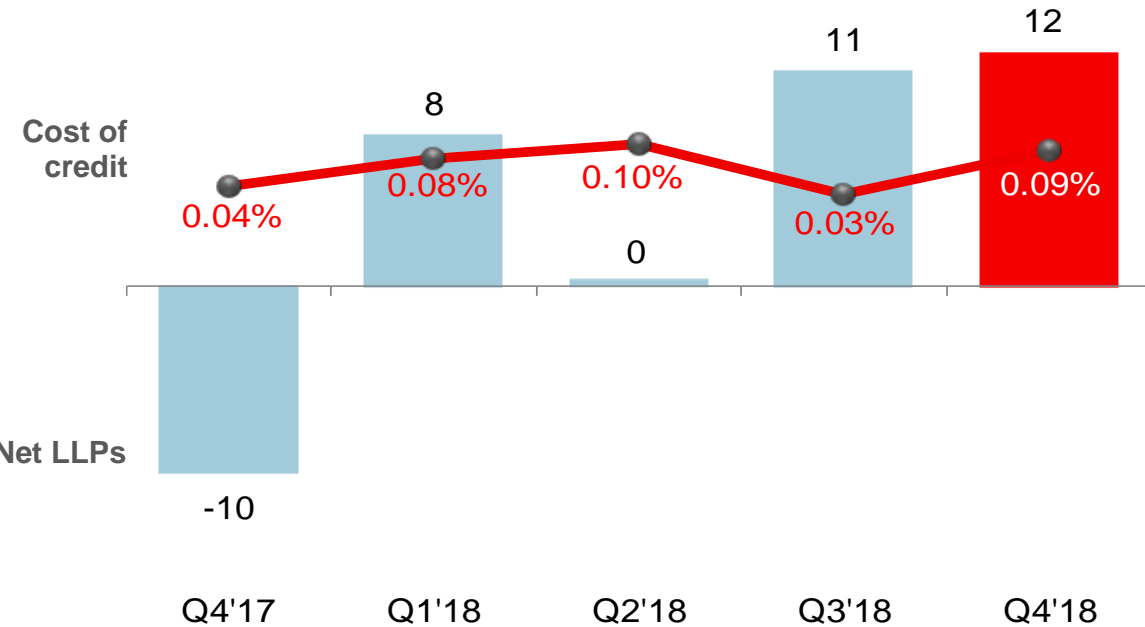
	12M'18	12M'17	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	600	575	+4.4	+2.8
Depreciation and amortisation	42	40	+5.5	+5.9
<b>Total</b>	<b>642</b>	<b>614</b>	<b>+4.5</b>	<b>+3.0</b>

Efficiency ratio <i>(with amortisations)</i>	47.8%	49.3%
Number of branches	572	681
Number of employees	6,705	6,822

# Subdued cost of credit



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

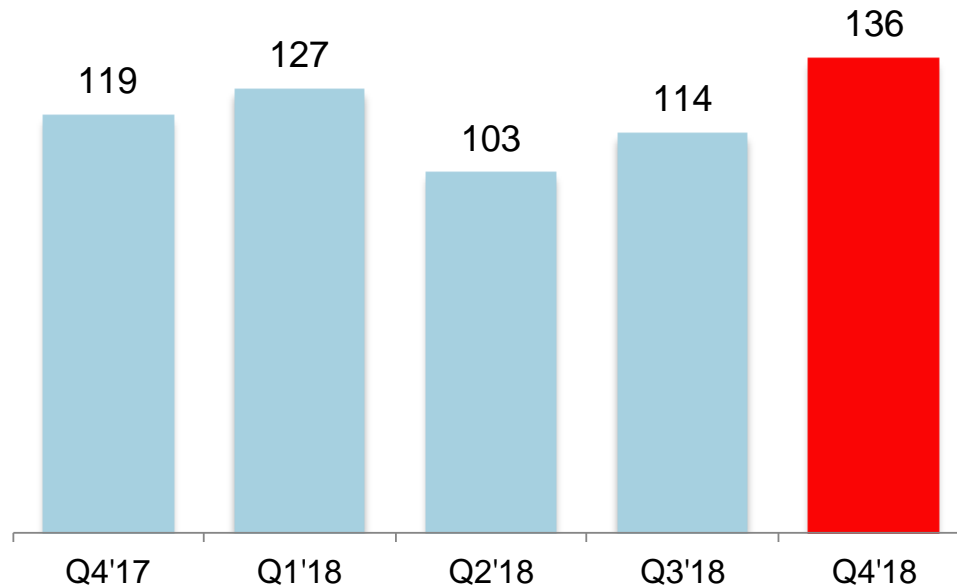


	12M'18	12M'17	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>702</b>	<b>630</b>	<b>+11.3</b>	<b>+3.9</b>
LLPs	32	12	+160.6	+7.9
<b>Net Op. Income after LLPs</b>	<b>670</b>	<b>618</b>	<b>+8.4</b>	<b>+3.6</b>
NPL ratio	5.9%	7.5%		
NPL coverage ratio	50.5%	62.1%		

# 2018 attributable profit increased 15% due to improved efficiency and lower provisions



## Underlying attributable profit (EUR mn)



## Attributable profit (EUR mn<sup>1</sup>)

119	127	123	114	136
-----	-----	-----	-----	-----

	12M'18	12M'17	YoY (%)	QoQ (%)
Underlying profit before taxes	688	574	+19.8	+17.3
Tax on profit	205	136	+50.5	+14.1
Underlying consolidated profit	483	438	+10.3	+18.8
<b>Underlying attributable profit to the Group</b>	<b>480</b>	<b>435</b>	<b>+10.3</b>	<b>+18.9</b>
Net capital gains and provisions (*)	20	0	-	-
<b>Attributable profit to the Group</b>	<b>500</b>	<b>435</b>	<b>+14.9</b>	<b>+18.9</b>
Effective tax rate	29.8%	23.8%		

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



## Market Environment & Financial System

- ▶ The economy continues to grow above potential, despite some deceleration. GDP is expected to grow around 2% in 2019, still led by investments and exports
- ▶ Fiscal deficit should narrow to around 0.5% of GDP, below target, in 2018
- ▶ The evolution of loans continues largely influenced by the management of impaired assets

## Strategy & Business

- ▶ We remain focused in leveraging our position as the largest private bank by loans, especially strengthening our position in the SME market
- ▶ We continue our digital transformation process at a sustained pace, with continuous deliveries on digital channels
- ▶ We maintain sound capital and liquidity bases, with organic capital generation

## Results

- ▶ Higher underlying profit, with improved efficiency and low cost of credit
- ▶ Banco Popular is now fully integrated (IT&OP integration concluded on Oct 14<sup>th</sup>), allowing for the extraction of synergies (retail network optimisation already under way)
- ▶ Stabilisation of the loan book, considering the management of credit from Banco Popular

# Appendix



04

# Balance sheet



EUR million	31-Dec-18	31-Dec-17	Variation	
			Amount	%
Loans and advances to customers	35,470	35,678	(207)	(0.6)
Cash, central banks and credit institutions	3,454	3,015	439	14.5
Debt securities	12,303	11,803	500	4.2
<i>o/w: designated at fair value through equity</i>	5,904	5,529	374	6.8
Other financial assets	1,877	1,828	48	2.6
Other assets	1,904	2,804	(900)	(32.1)
<b>Total assets</b>	<b>55,007</b>	<b>55,127</b>	<b>(120)</b>	<b>(0.2)</b>
Customer deposits	37,217	33,986	3,232	9.5
Central banks and credit institutions	8,007	10,024	(2,017)	(20.1)
Debt securities issued	4,259	5,413	(1,154)	(21.3)
Other financial liabilities	257	327	(71)	(21.6)
Other liabilities	1,197	1,257	(61)	(4.8)
<b>Total liabilities</b>	<b>50,937</b>	<b>51,008</b>	<b>(71)</b>	<b>(0.1)</b>
<b>Total equity</b>	<b>4,070</b>	<b>4,119</b>	<b>(49)</b>	<b>(1.2)</b>
<b>Other managed and marketed customer funds</b>	<b>3,541</b>	<b>3,785</b>	<b>(243)</b>	<b>(6.4)</b>
Mutual funds	1,926	2,130	(204)	(9.6)
Pension funds	1,154	1,173	(20)	(1.7)
Managed portfolios	462	482	(20)	(4.1)



# Income statement



EUR million	2018	2017	Variation	
			Amount	%
Net interest income	858	788	70	8.9
Net fees	377	360	17	4.7
Gains (losses) on financial transactions	75	76	(1)	(1.0)
Other operating income	34	21	13	61.4
<b>Gross income</b>	<b>1,344</b>	<b>1,245</b>	<b>99</b>	<b>8.0</b>
Operating expenses	(642)	(614)	(28)	4.5
General administrative expenses	(600)	(575)	(26)	4.4
<i>Personnel</i>	(372)	(350)	(21)	6.1
<i>Other general administrative expenses</i>	(228)	(224)	(4)	1.8
Depreciation and amortisation	(42)	(40)	(2)	5.5
<b>Net operating income</b>	<b>702</b>	<b>630</b>	<b>72</b>	<b>11.3</b>
Net loan-loss provisions	(32)	(12)	(20)	160.6
Other income	18	(44)	62	—
<b>Underlying profit before taxes</b>	<b>688</b>	<b>574</b>	<b>114</b>	<b>19.8</b>
Tax on profit	(205)	(136)	(69)	50.5
<b>Underlying profit from continuing operations</b>	<b>483</b>	<b>438</b>	<b>45</b>	<b>10.3</b>
Net profit from discontinued operations	—	—	—	—
<b>Underlying consolidated profit</b>	<b>483</b>	<b>438</b>	<b>45</b>	<b>10.3</b>
Minority interests	2	2	0	9.5
<b>Underlying attributable profit to the Group</b>	<b>480</b>	<b>435</b>	<b>45</b>	<b>10.3</b>
Net capital gains and provisions	20	—	20	—
<b>Attributable profit to the Group</b>	<b>500</b>	<b>435</b>	<b>65</b>	<b>14.9</b>

# Income statement



EUR million

	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18	Q4'18
Net interest income	172	177	218	221	222	213	211	211
Net fees	89	85	93	92	98	91	92	96
Gains (losses) on financial transactions	34	9	31	2	22	36	6	12
Other operating income	(1)	4	3	15	(0)	6	14	14
<b>Gross income</b>	<b>294</b>	<b>275</b>	<b>345</b>	<b>330</b>	<b>341</b>	<b>346</b>	<b>323</b>	<b>334</b>
Operating expenses	(139)	(142)	(166)	(167)	(158)	(165)	(157)	(162)
General administrative expenses	(129)	(133)	(156)	(157)	(148)	(154)	(147)	(151)
<i>Personnel</i>	(83)	(84)	(92)	(91)	(91)	(95)	(91)	(94)
<i>Other general administrative expenses</i>	(46)	(49)	(64)	(66)	(57)	(59)	(55)	(57)
Depreciation and amortisation	(10)	(10)	(10)	(10)	(11)	(10)	(10)	(11)
<b>Net operating income</b>	<b>155</b>	<b>133</b>	<b>179</b>	<b>163</b>	<b>183</b>	<b>182</b>	<b>166</b>	<b>172</b>
Net loan-loss provisions	10	5	(37)	10	(8)	(0)	(11)	(12)
Other income	(14)	(9)	(16)	(5)	(9)	(22)	13	36
<b>Underlying profit before taxes</b>	<b>151</b>	<b>129</b>	<b>126</b>	<b>168</b>	<b>166</b>	<b>159</b>	<b>167</b>	<b>196</b>
Tax on profit	(25)	(19)	(45)	(47)	(39)	(56)	(52)	(59)
<b>Underlying profit from continuing operations</b>	<b>126</b>	<b>111</b>	<b>81</b>	<b>120</b>	<b>128</b>	<b>104</b>	<b>115</b>	<b>137</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>	<b>104</b>	<b>115</b>	<b>137</b>
Minority interests	1	0	1	1	1	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>	<b>103</b>	<b>114</b>	<b>136</b>
Net capital gains and provisions	—	—	—	—	—	20	—	—
<b>Attributable profit to the Group</b>	<b>125</b>	<b>110</b>	<b>80</b>	<b>119</b>	<b>127</b>	<b>123</b>	<b>114</b>	<b>136</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



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