

25 July 2018

Portugal

H1'18 Earnings Presentation



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Note: Statements as to historical performance or financial accretion are not intended to mean that future performance, share price or future earnings (including earnings per share) for any period will necessarily match or exceed those of any prior year. Nothing in this presentation should be construed as a profit forecast.

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- 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).

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

Macroeconomic environment and financial system

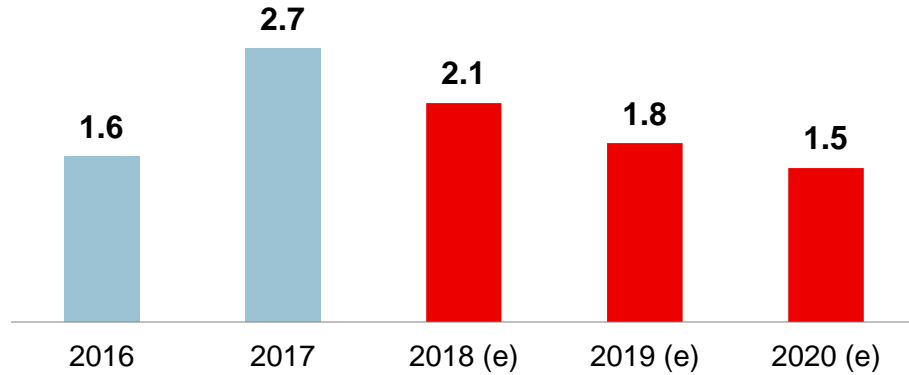


01

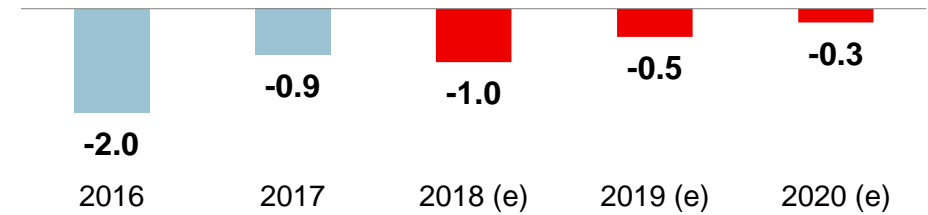


Sustained growth dynamics with declining unemployment...

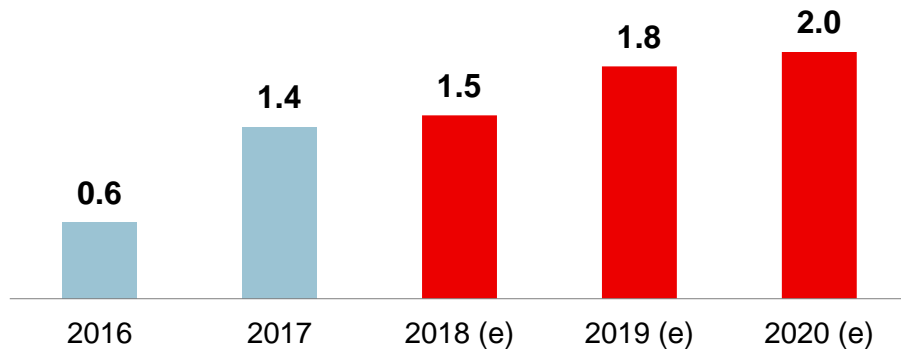
Annual GDP Growth (real, %)



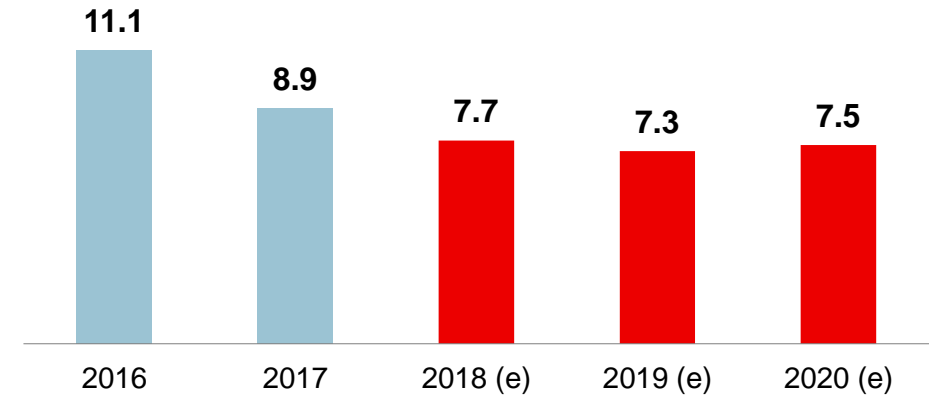
Fiscal Balance (% of GDP)



Annual inflation rate (%)



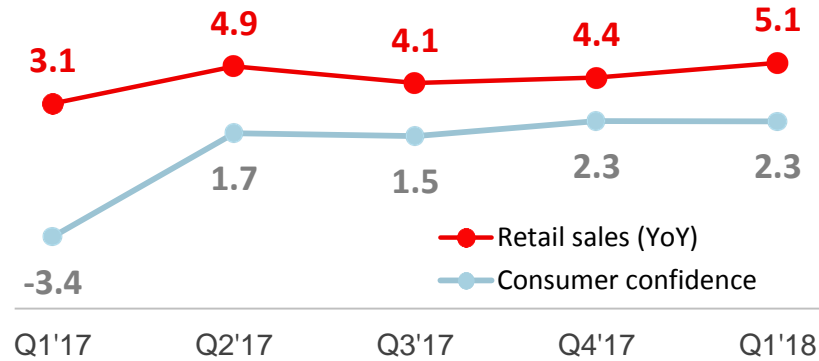
Unemployment Rate (% , annual average)



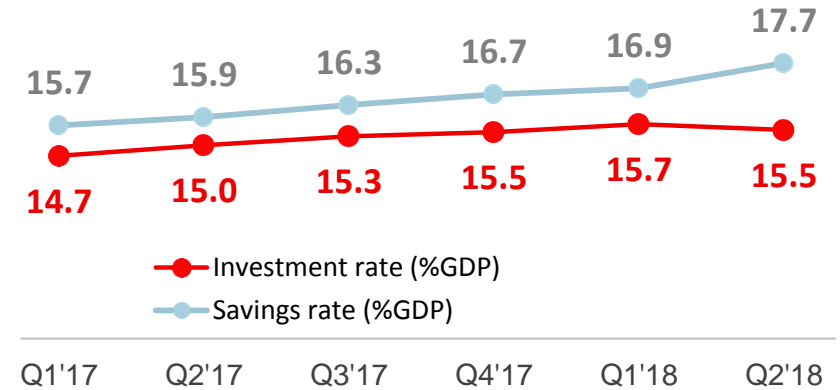


...based on improved competitiveness and deleveraging

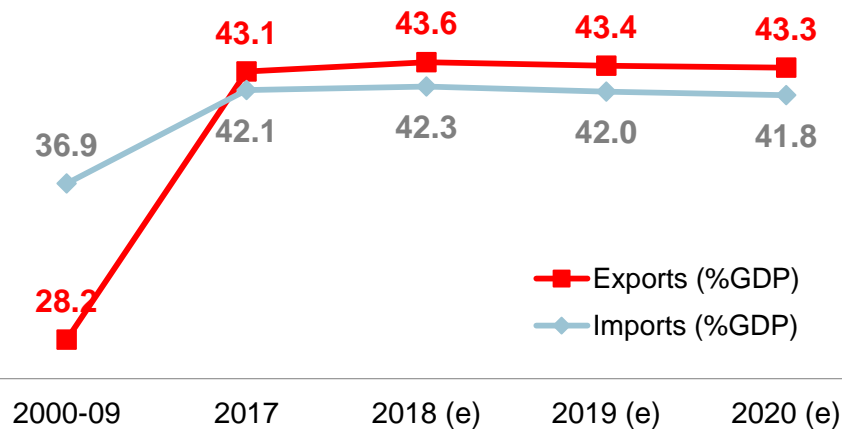
Consumer dynamics



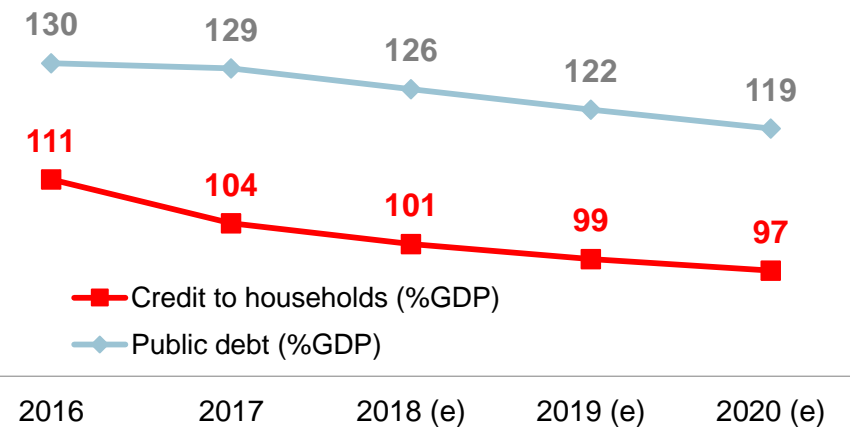
Investment dynamics (total economy)



Tradable sector dynamics



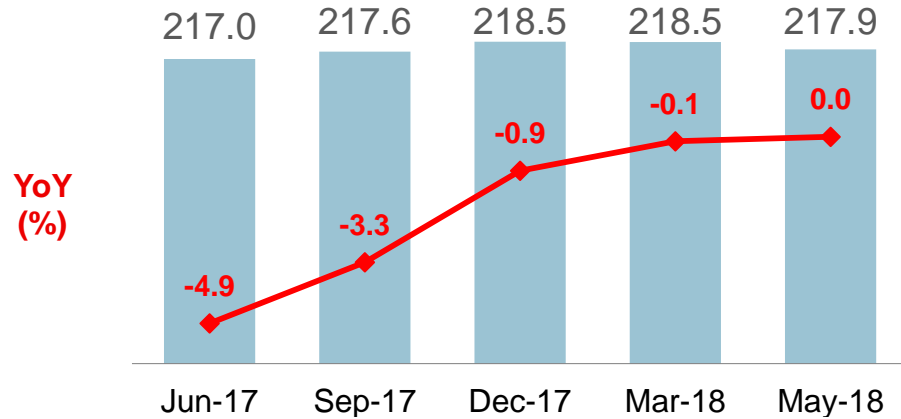
Deleveraging dynamics





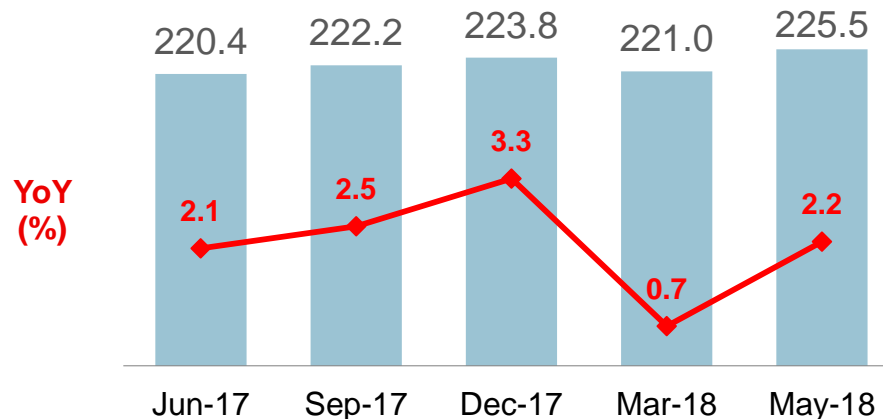
The pace of loan decline is moderating

Total loans (EUR bn)



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

Total deposits (EUR bn)



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

Strategy and business



02

Santander Totta is the largest privately owned bank in Portugal in loans














STRATEGIC PRIORITIES

- ▶ Operational and technology integration of Banco Popular Portugal

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

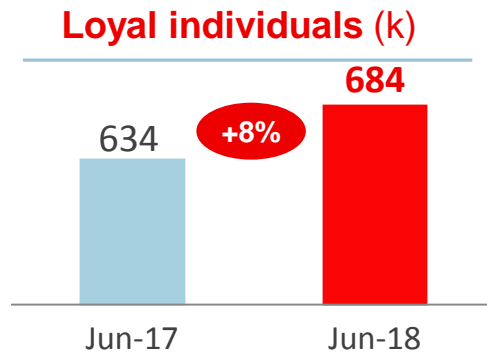
- ▶ Continue gaining profitable market share

- ▶ Improve efficiency and cost of credit

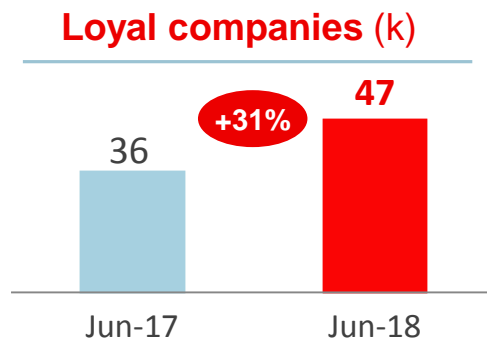
	KEY DATA	H1'18	YoY Var.
	Gross loans ¹	37,057	+4.7%
	Deposits ¹	37,066	+4.3%
	Attributable profit ¹	250.0	+6.0%
	RoTE ²	11.6%	-220 bps
	Efficiency ratio	47.0%	-240 bps
	Loans' market share ³	18.3%	+4.0 pp
	Deposits' market share ³	15.5%	+1.8 pp
	Loyal customers ⁴	731	+9.1%
	Digital customers ⁴	672	+23.6%
	Branches	672	-6.4%
	Employees	6,940	-1.7%



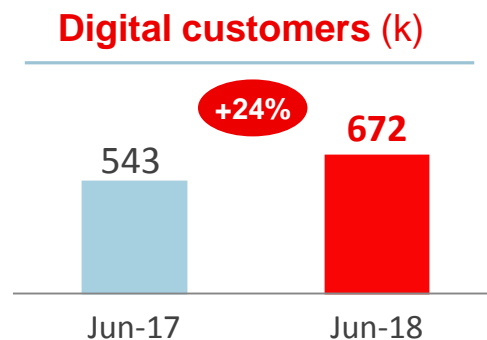
Dynamic growth in the most valuable customer segments



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



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



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



Retail and digital services and market recognition

Retail and digital services



Solution Connect Your Business

Partnership between Santander and Upplication in which the customers can expand their digital presence by advertising their products / services through a personalised mobile app.



Leader with a 23% market share, in SMEs new lending (*PME Investe, Crescimento, Capitalizar e Capitalizar Mais Lines*)

The **Santander Totta Companies app** provides a very useful push notifications service. Whenever there are pending signature in operations, the customer receives a notification



Resources campaign

EUR 171 million of new resources



Residentes no Estrangeiro

Mais Portugal no Coração

New functionalities were implemented following the proximity and multichannel accessibility commercial strategy with customers residing abroad

Market recognition



onstrategy

Financial Brand with the Best Reputation in Portugal in 2018, in the ranking of Onstrategy

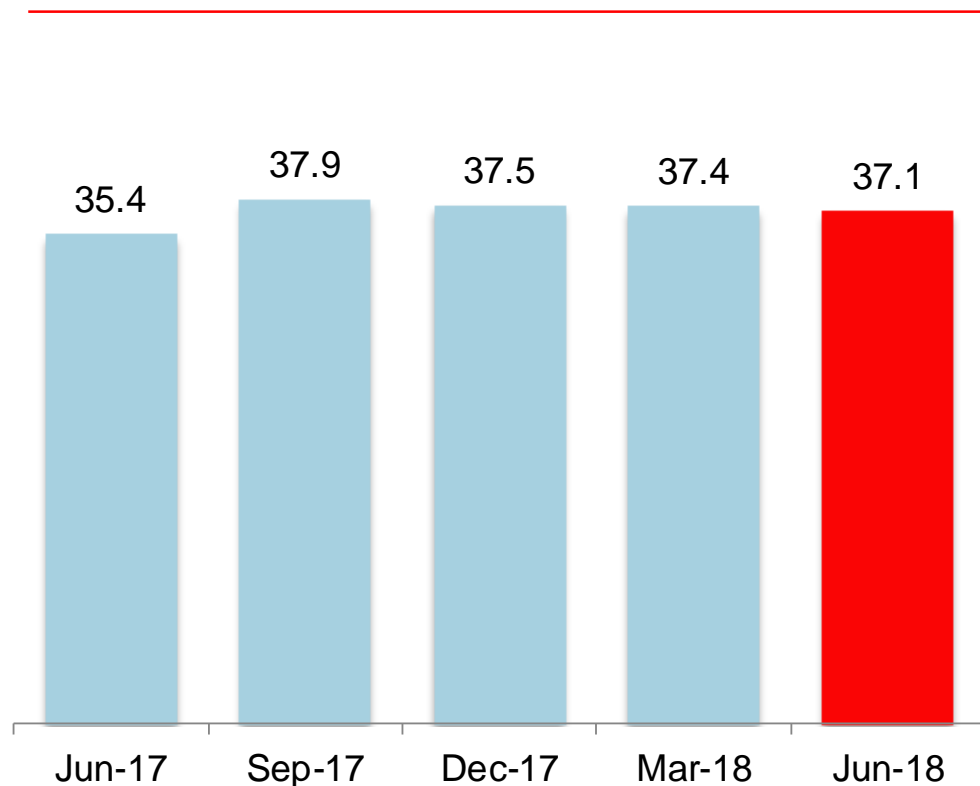


Santander Advance Empresas – “Conversas soltas” is a new communication concept, unique and innovative, which aims to bring the Bank closer to the Business and Companies customers

Higher loans to individuals QoQ, while total loans declined due to loan sales



Total loans (EUR bn)



	Jun-18	YoY (%)	QoQ (%)
Individuals	21.5	+1.4	+0.3
<i>from which:</i>			
Mortgage	19.3	+1.8	+0.6
Consumer credit	1.6	+4.5	+1.2
Corporates	12.8	-8.2	-3.1
Other(*)	2.7	>200	-0.8
Total	37.1	+4.7	-1.0
Loans to Corporates (**)	17.3	-5.1	-1.6
Total Loans (**)	41.6	+4.7	-0.6

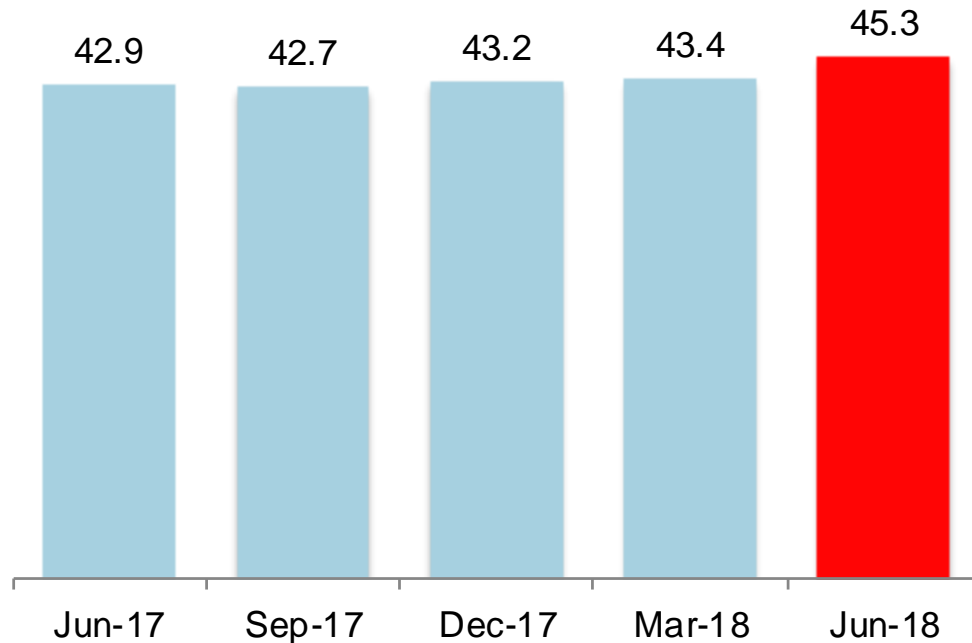
(*) Includes Government, Institutional and other sectors

(**) includes commercial paper



Total customer funds increase, namely at the deposit level

Total customer funds (EUR bn)



	Jun-18	YoY (%)	QoQ (%)
Demand	14.9	+4.4	+12.1
Time and Savings	18.5	-0.8	+2.2
Total Deposits	33.3	+1.4	+6.4
Financial insurance	3.7	+39.1	-1.1
Deposits & financial insurance	37.1	+4.3	+5.6
Securities placed	4.3	+10.9	-1.1
Investment funds and other	3.9	+14.2	-0.1
Total Customer Funds	45.3	+5.7	+4.4

Results

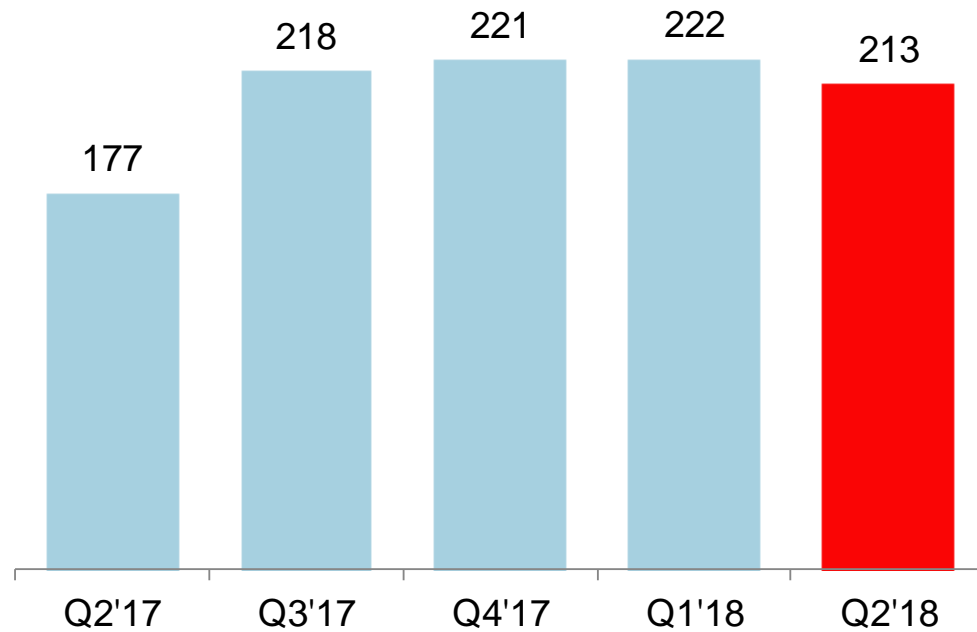


03

NII impacted by higher deposits and a lower yield on loans



Net interest income (EUR mn)



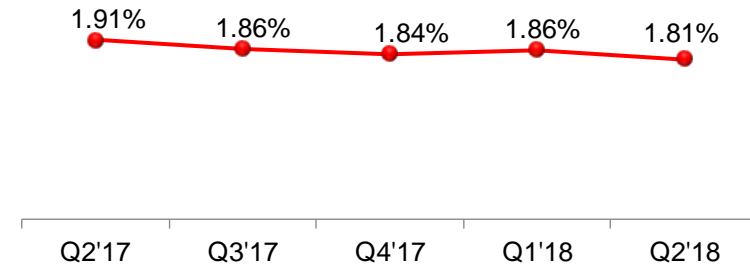
NIM¹ (%)

Q2'17	1.46	Q3'17	1.52	Q4'17	1.54	Q1'18	1.58	Q2'18	1.54
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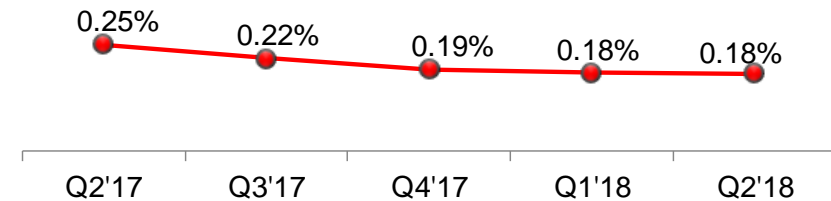
Official interest rate² (%)

Q2'17	0.00	Q3'17	0.00	Q4'17	0.00	Q1'18	0.00	Q2'18	0.00
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Yield on loans (%)



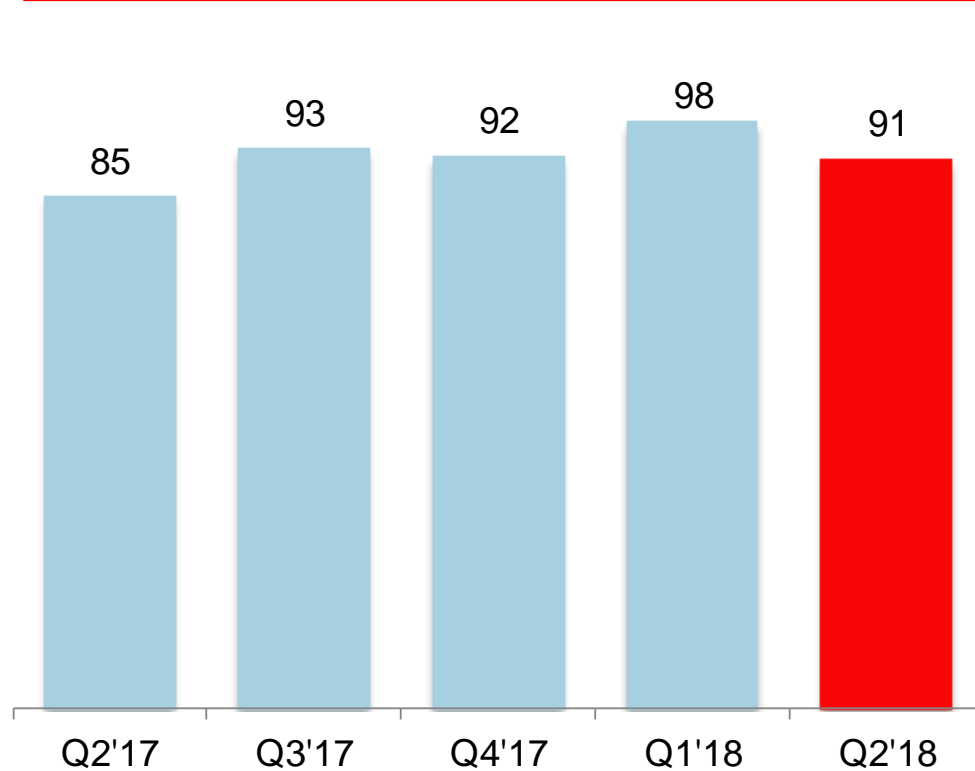
Cost of deposits (%)



Fee income in line with recent levels, despite the QoQ decline in financial advisory revenues



Net fees (EUR mn)



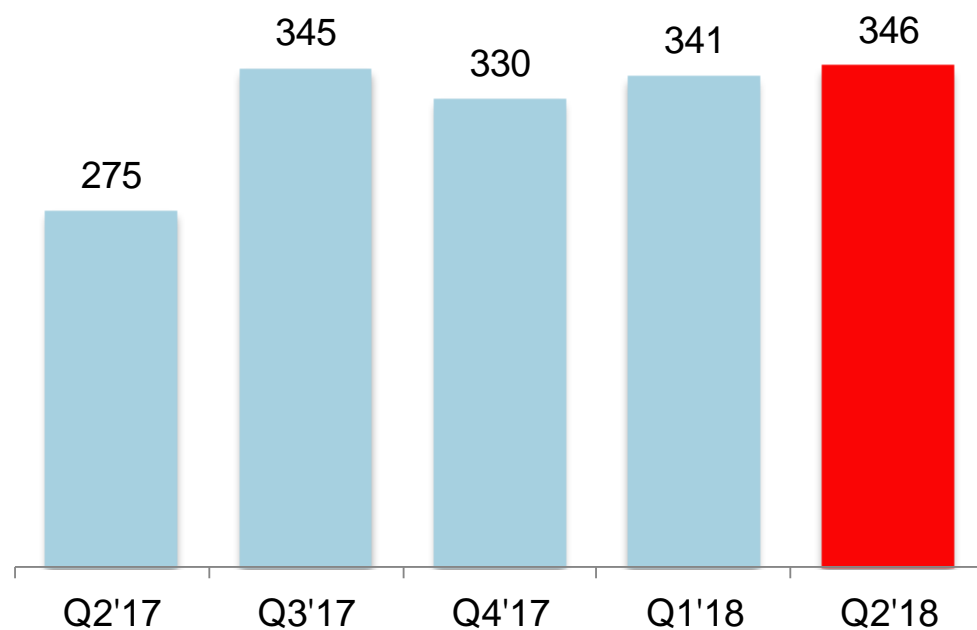
	H1'18	H1'17	YoY (%)	QoQ (%)
Credit	42	44	-3.4	+2.2
Credit cards	44	41	+5.2	+3.7
Mutual funds	12	9	+27.3	+2.6
Insurance	49	48	+1.5	-1.6
Other	42	32	+33.4	-29.6
Total	189	175	+8.4	-6.5

Note: "Other" includes BaPop commissions

Gross income increased YoY largely driven by NII



Gross income (EUR mn)

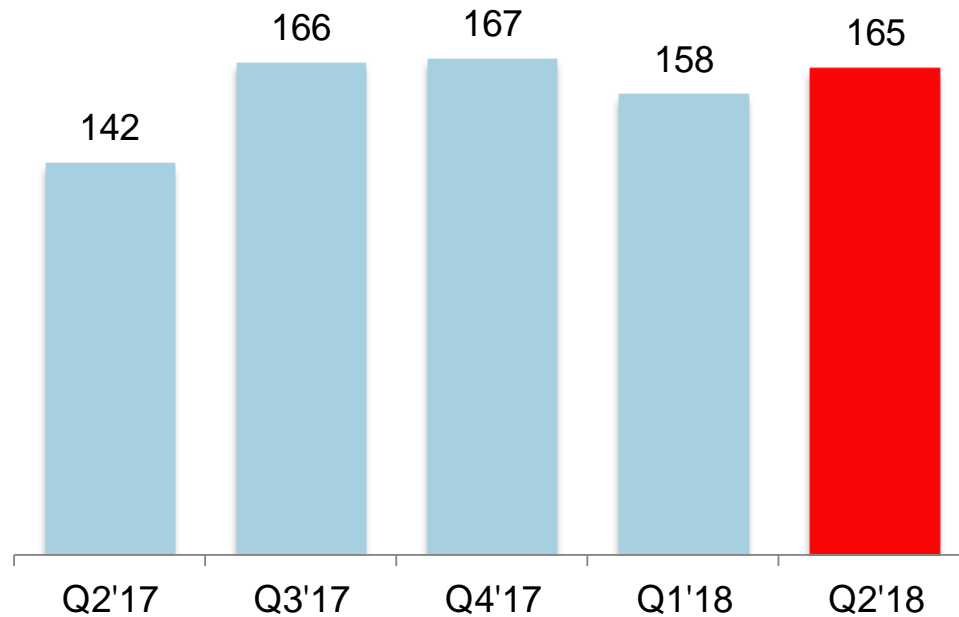


	H1'18	H1'17	YoY (%)	QoQ (%)
Net interest income	435	348	+25.0	-3.8
Net Fees	189	175	+8.4	-6.5
Subtotal	624	523	+19.4	-4.6
Gains/losses on financial transactions	58	43	+33.1	+61.0
Other	6	3	+104.4	-
Gross income	688	569	+20.9	+1.5

Efficiency continues to improve, despite higher expenses in the quarter



Operating expenses (EUR mn)



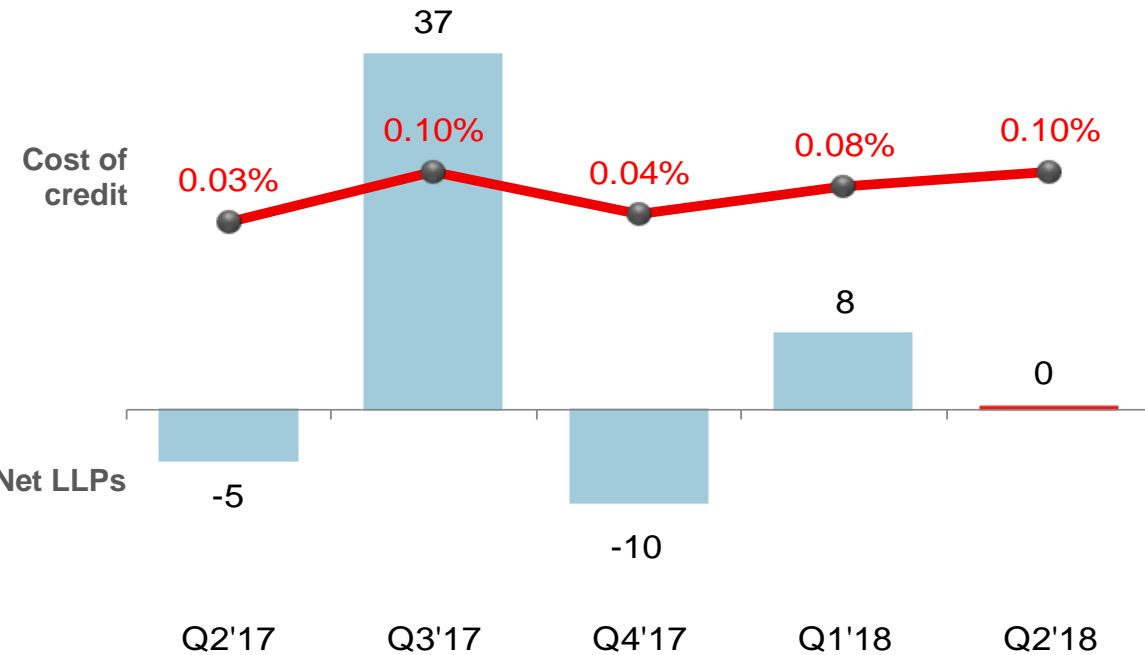
	H1'18	H1'17	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	302	262	+15.5	+4.4
Depreciation and amortisation	21	19	+9.1	-2.4
Total	323	281	+15.0	+4.0

Efficiency ratio <i>(with amortisations)</i>	47.0%	49.4%
Number of branches	672	718
Number of employees	6,940	7,060

The cost of credit continues at low levels



LLPs and cost of credit (EUR mn, %)

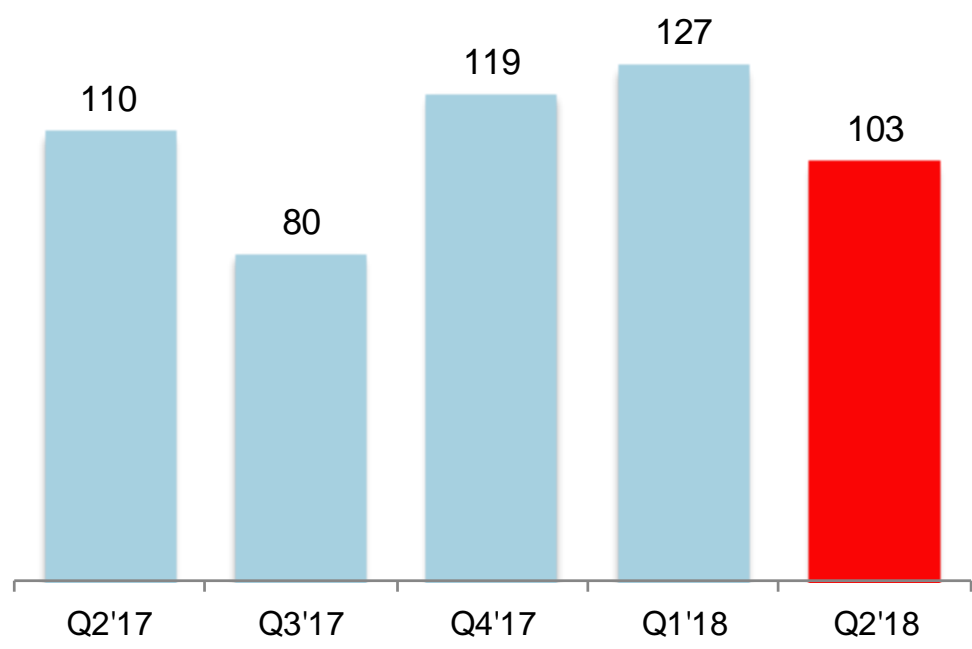


	H1'18	H1'17	YoY (%)	QoQ (%)
Net Operating Income	364	288	+26.6	-0.6
LLPs	8	-15	-	-95.5
Net Op. Income after LLPs	356	303	+17.4	+3.7
NPL ratio	7.6%	9.1%		
NPL coverage ratio	52.7%	55.6%		

Underlying profit declined QoQ, with higher integration costs and tax charge



Underlying attributable profit (EUR mn)



Attributable profit (EUR mn ¹)				
110	80	119	127	123

	H1'18	H1'17	YoY (%)	QoQ (%)
Underlying profit before taxes	325	280	+16.1	-4.2
Tax on profit	94	44	+116.6	+43.5
Underlying consolidated profit	231	237	-2.4	-18.7
Underlying attributable profit to the Group	230	236	-2.5	-18.8
Net capital gains and provisions ^(*)	20	0	-	-
Attributable profit to the Group	250	236	+6.0	-3.0
Effective tax rate	29.0%	15.5%		

Improving business and results in the context of sustained economic growth



Market Environment & Financial System

- ▶ Economic activity continued to evolve at a positive pace, led by exports and investment. GDP should grow around 2% in 2018
- ▶ The fiscal deficit narrowed to 0.9% of GDP in Q1'18, aligned with the annual target of 0.7%
- ▶ The pace of loan decline moderates, but credit dynamics continue 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 Popular Portugal

Results

- ▶ Lower underlying profitability, with higher integration costs and tax charge
- ▶ The integration of Popular continues, with the merger of branches
- ▶ Stabilisation of the loan book, considering the management of credit from Popular

Appendix



04

Balance sheet



EUR million	Variation			
	30-Jun-18	30-Jun-17	Amount	%
Loans and advances to customers	35,567	33,533	2,034	6.1
Cash, central banks and credit institutions	4,362	4,961	(599)	(12.1)
Debt securities	11,794	12,564	(770)	(6.1)
<i>o/w: designated at fair value through equity</i>	5,202	5,952	(751)	(12.6)
Other financial assets	1,936	1,811	125	6.9
Other assets	2,454	2,902	(448)	(15.4)
Total assets	56,112	55,770	342	0.6
Customer deposits	37,066	35,551	1,516	4.3
Central banks and credit institutions	9,040	10,266	(1,226)	(11.9)
Debt securities issued	4,329	3,902	427	11.0
Other financial liabilities	262	330	(68)	(20.6)
Other liabilities	1,489	1,738	(249)	(14.3)
Total liabilities	52,186	51,786	400	0.8
Total equity	3,927	3,985	(58)	(1.4)
Other managed and marketed customer funds	3,900	3,417	484	14.2
Mutual funds	2,128	1,850	279	15.1
Pension funds	1,149	1,112	36	3.3
Managed portfolios	623	454	169	37.2

Income statement



EUR million	H1'18	H1'17	Variation	
			Amount	%
Net interest income	435	348	87	25.0
Net fees	189	175	15	8.4
Gains (losses) on financial transactions	58	43	14	33.1
Other operating income	6	3	3	104.4
Gross income	688	569	119	20.9
Operating expenses	(323)	(281)	(42)	15.0
General administrative expenses	(302)	(262)	(40)	15.5
<i>Personnel</i>	(187)	(167)	(19)	11.6
<i>Other general administrative expenses</i>	(116)	(94)	(21)	22.3
Depreciation and amortisation	(21)	(19)	(2)	9.1
Net operating income	364	288	77	26.6
Net loan-loss provisions	(8)	15	(24)	—
Other income	(31)	(23)	(8)	33.7
Underlying profit before taxes	325	280	45	16.1
Tax on profit	(94)	(44)	(51)	116.6
Underlying profit from continuing operations	231	237	(6)	(2.4)
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	231	237	(6)	(2.4)
Minority interests	1	1	0	25.0
Underlying attributable profit to the Group	230	236	(6)	(2.5)
Net capital gains and provisions	20	—	20	—
Attributable profit to the Group	250	236	14	6.0

Income statement



EUR million

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

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