

30 April 2019

Portugal

Q1'19 Earnings Presentation



Important information

Non-IFRS and alternative performance measures

In addition to the financial information prepared in accordance with International Financial Reporting Standards (“IFRS”), this presentation contains certain financial measures that constitute alternative performance measures (“APMs”) as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015 (ESMA/2015/1415en) and other non-IFRS measures (“Non-IFRS Measures”). The financial measures contained in this presentation that qualify as APMs and non-IFRS measures have been calculated using the financial information from Santander Group but are not defined or detailed in the applicable financial reporting framework and have neither been audited nor reviewed by our auditors. We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While we believe that these APMs and non-IFRS measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute of IFRS measures. In addition, other companies, including companies in our industry, may calculate or use such measures differently, which reduces their usefulness as comparative measures. 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 IFRS, please see 2018 Annual Financial Report, published as Relevant Fact on 28 February 2019, as well as the section “Alternative performance measures” of the annex to the Banco Santander, S.A. (“Santander”) 2019 1Q Financial Report, published as Relevant Fact on 30 April 2019. These documents are available on Santander’s website (www.santander.com).

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

Forward-looking statements

Santander cautions that this presentation contains statements that constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as “expect”, “project”, “anticipate”, “should”, “intend”, “probability”, “risk”, “VaR”, “RoRAC”, “RoRWA”, “TNAV”, “target”, “goal”, “objective”, “estimate”, “future” and similar expressions. These forward-looking statements are found in various places throughout this presentation and include, without limitation, statements concerning our future business development and economic performance and our shareholder remuneration policy. While these forward-looking statements represent our judgment and future expectations concerning the development of our business, a number of risks, uncertainties and other important factors could cause actual developments and results to differ materially from our expectations. The following important factors, in addition to those discussed elsewhere in this presentation and in our annual report on Form 20-F for the year ended December 31, 2018, filed with the U.S. Securities and Exchange Commission, could affect our future results and could cause outcomes to differ materially from those anticipated in any forward-looking statement: (1) general economic or industry conditions in areas in which we have significant business activities or investments, including a worsening of the economic environment, increasing in the volatility of the capital markets, inflation or deflation, and changes in demographics, consumer spending, investment or saving habits; (2) exposure to various types of market risks, principally including interest rate risk, foreign exchange rate risk, equity price risk and risks associated with the replacement of benchmark indices; (3) potential losses associated with prepayment of our loan and investment portfolio, declines in the value of collateral securing our loan portfolio, and counterparty risk; (4) political stability in Spain, the UK, other European countries, Latin America and the US (5) changes in laws, regulations or taxes, including changes in regulatory capital and liquidity requirements, including as a result of the UK exiting the European Union and increased regulation in light of the global financial crisis; (6) our ability to integrate successfully our acquisitions and the challenges inherent in diverting management’s focus and resources from other strategic opportunities and from operational matters while we integrate these acquisitions; and (7) changes in our ability to access liquidity and funding on acceptable terms, including as a result of changes in our credit spreads or a downgrade in our credit ratings or those of our more significant subsidiaries. Numerous factors could affect the future results of Santander and could result in those results deviating materially from those anticipated in the forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

Important information

Forward-looking statements speak only as of the date of this presentation and are based on the knowledge, information available and views taken on such date; such knowledge, information and views may change at any time. Santander does not undertake any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

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Historical performance is not indicative of future results

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 period. Nothing in this presentation should be construed as a profit forecast.

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

Macroeconomic environment and financial system

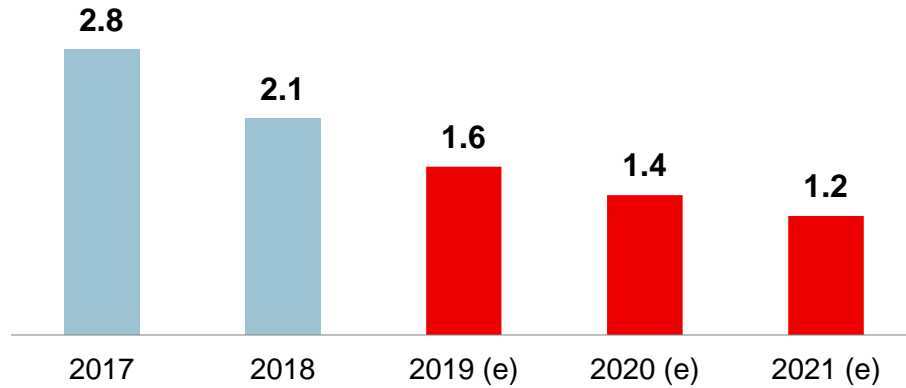


01

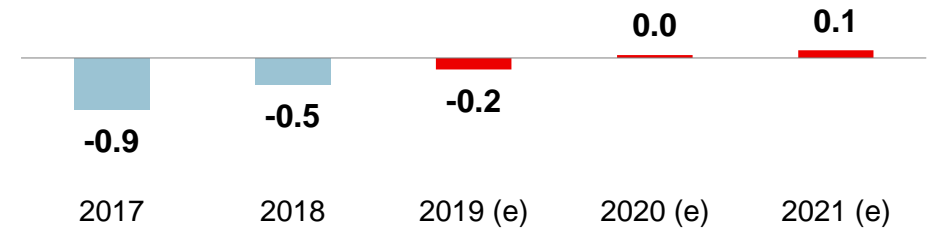


GDP growing around potential, with stable unemployment

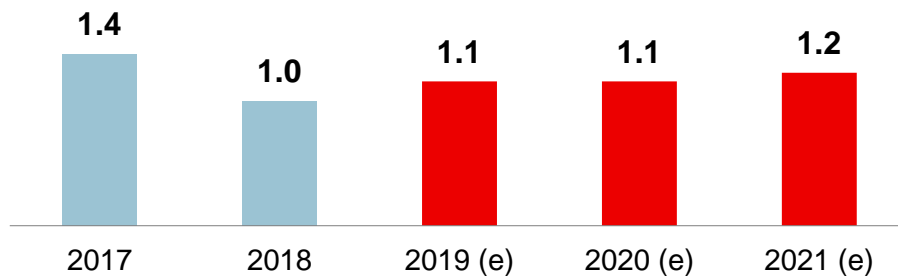
Annual GDP Growth (real, %)



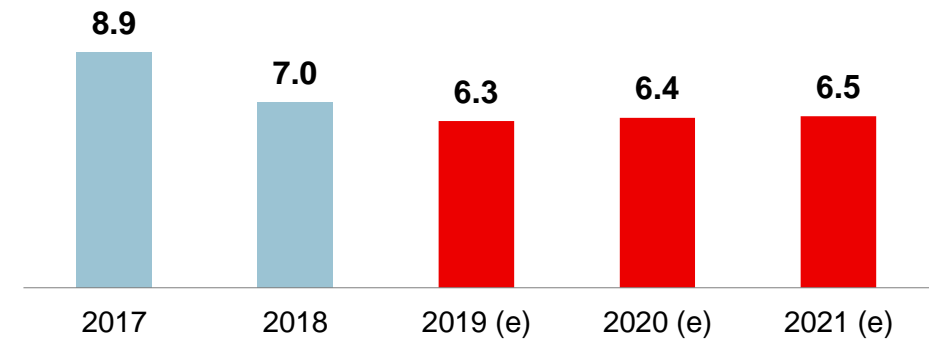
Fiscal Balance (% of GDP)



Annual inflation rate (%)



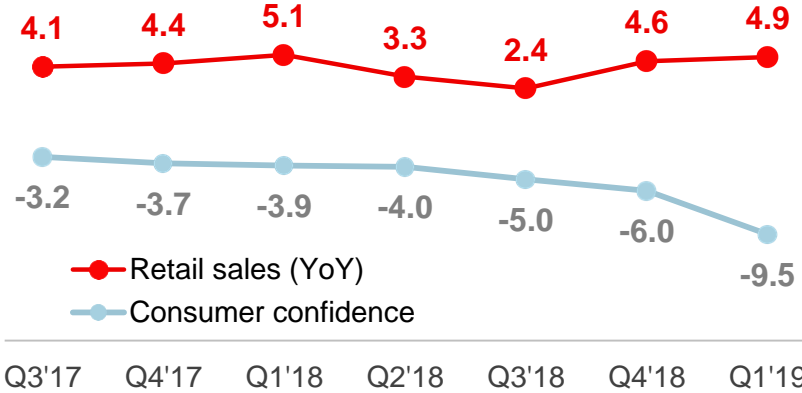
Unemployment Rate (% , annual average)



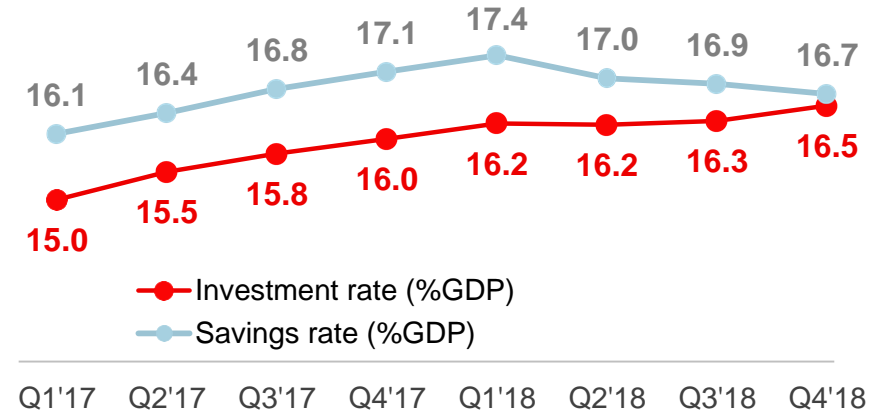


GDP continues to be driven by exports and investment

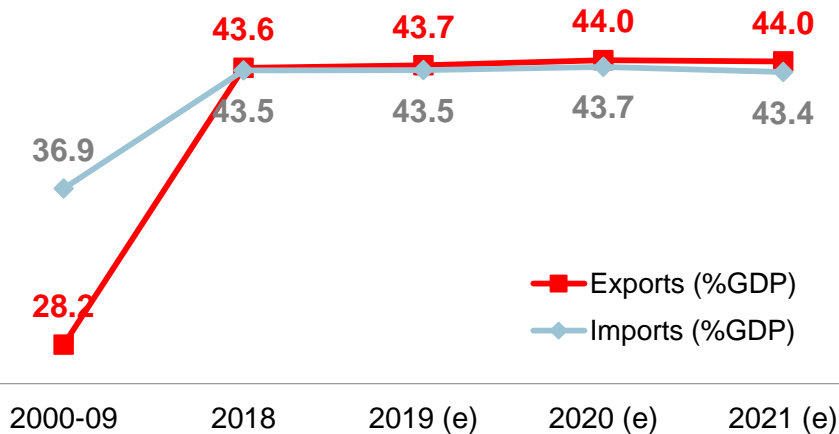
Consumer dynamics



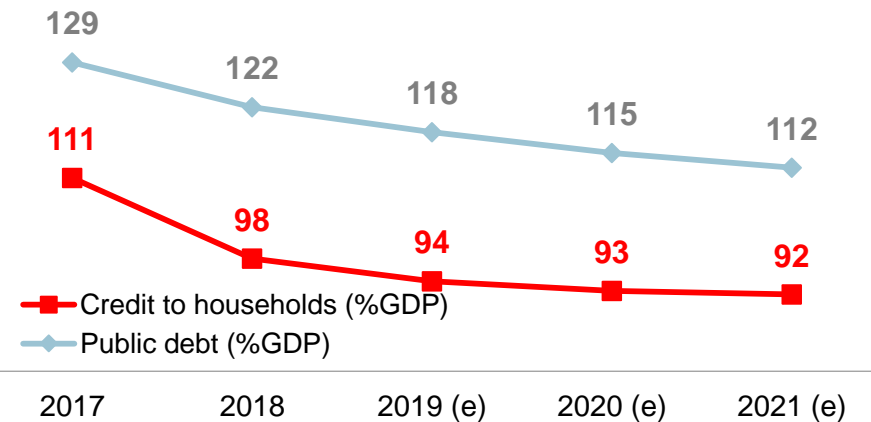
Investment dynamics (total economy)



Tradable sector dynamics



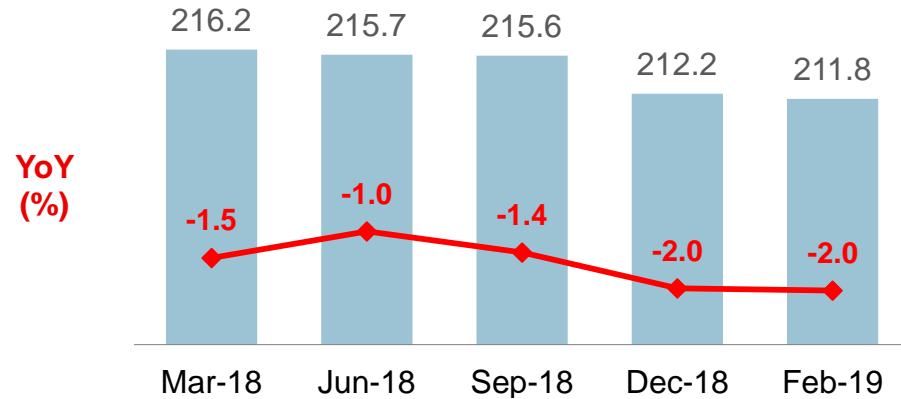
Deleveraging dynamics





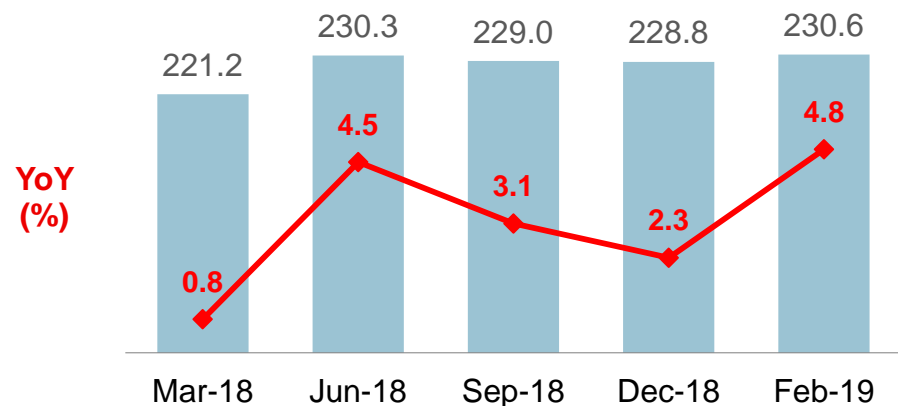
Steeper decline of NPLs in late 2018 affecting short term dynamics of loans

Total loans (EUR bn)



- ▶ Faster pace of NPL reduction in late 2018 impacting the dynamics. In Q4'18, the NPL ratio declined to 9.4%
- ▶ The economy continues to deleverage but indebtedness remains a constraint for the private sector credit growth

Total deposits (EUR bn)



- ▶ Deposits continue to increase, despite low interest rates and competition from Government retail debt, and corporates continue financing their investments with own funds

Strategy and business



02

Santander Totta is the largest 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

- ▶ Continue gaining profitable market share, improving our position as the leading private bank and leveraging our position in the corporate sector, especially in SMEs

- ▶ Improve efficiency and maintain a low cost of credit

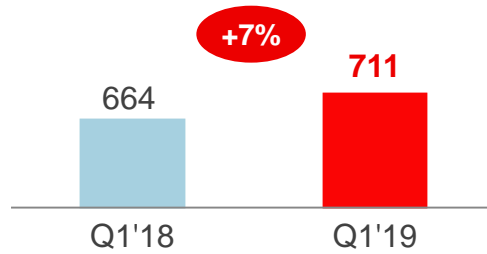
- ▶ Maintain a solid capital position, managing it in line with the new regulatory requirements

	KEY DATA	Q1'19	YoY Var.
	Gross loans ¹	36,478	-2.5%
	Deposits ¹	38,242	+8.9%
	Attributable profit ¹	135	+6.7%
	RoTE ²	13.1%	+39bps
	Efficiency ratio	43.9%	-258bps
	Loans' market share ³	18.3%	-2bps
	Deposits' market share ³	15.6%	+43bps
	Loyal customers ⁴	760	+6.8%
	Digital customers ⁴	757	+15.9%
	Branches	561	-17.0%
	Employees	6,735	-4.0%



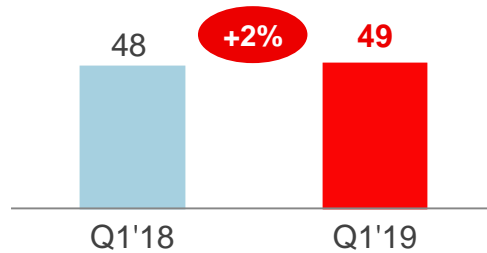
Growth in the most valuable customer segments

Loyal individuals (k)



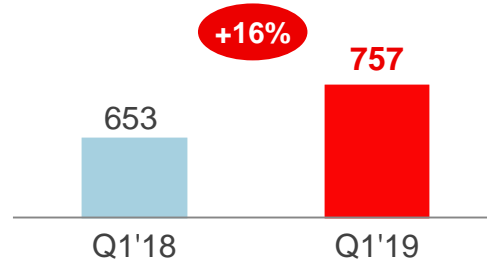
- ▶ Continued growth in the number of loyal customers, supported by the focus on the 1|2|3 strategy...

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



Retail and digital services



Linha de Crédito Capitalizar Mais
**Empresas inovadoras
 são o nosso maior capital**



Protocol Credit Lines

New campaign focused on the “Capitalizar Mais” line of credit, reflecting the Bank’s commitment to the Business segment and the strong support given to the economy

Best Private Banking 2019

Santander Portugal Private Banking was considered Best Private Banking in 2019, by Euromoney
 It is the 8th consecutive time that Santander Portugal receives this award, reflecting the customers’ perception of the quality of service



Social Responsibility and Environment

Santander volunteers help reforest with 2,000 pine trees the Pinhal de Leiria, which was deeply devastated in the 2017 wild fires



Work Café – Coimbra

Santander opened its second work café in Coimbra, its new concept of relationship between the Bank and its customers
 The network will be expanded in coming quarters, with new openings across the country

Eliminate single use plastic

Santander is also committed to the reduction of single use plastic, providing its workers with glass bottles



S&P Global Ratings

S&P upgraded the rating of Santander in Portugal to BBB, aligned with that of the Republic
 Santander holds the best ratings of the Portuguese banking system, in line with the Republic for S&P and Moodys, and above it for Fitch and DBRS

Best Bank 2019 – Global Finance

Santander has been awarded ‘Best Bank in Portugal’ by Global Finance



Santander Advance Portugal

The Santander Advance Box was in Leiria, in March, with various presentations and debates with local authorities and companies, discussing the economic potential of the region





CrediSimples Negócios

Crédito online de um clique para o outro



A More Digital Bank

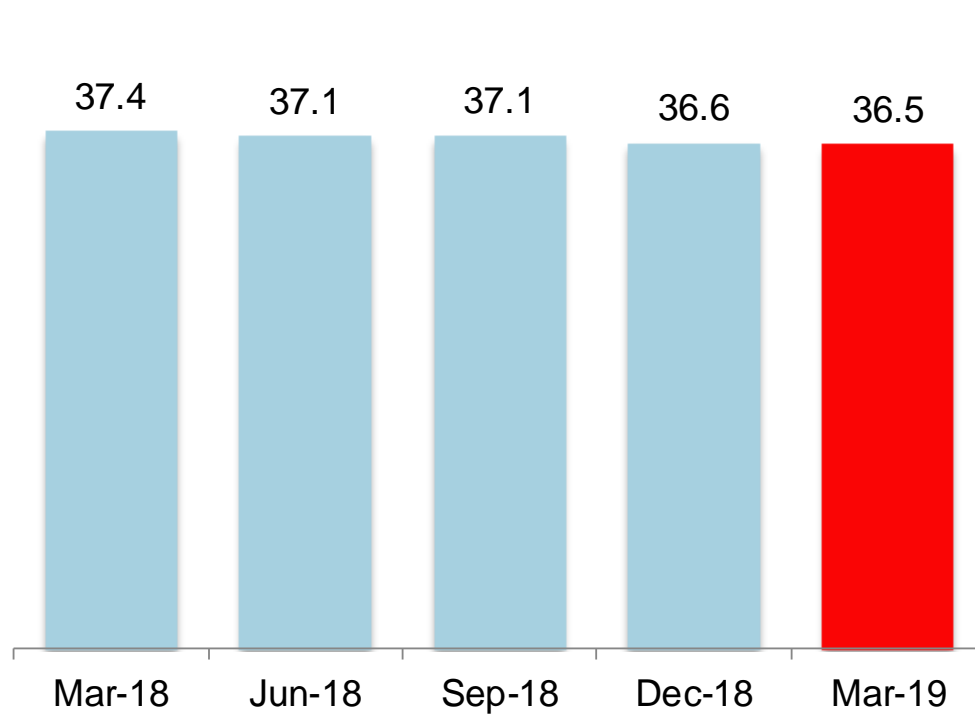
Santander launched a new digital offer to its business customers – “CrediSimples Empresas”, but which they can negotiate and take out a loan through online banking

Santander has made available its first APIs in SIBS API Market, contributing to the full implementation of PSD2



The loan book stabilised QoQ. YoY fall due to the sale of portfolios in 2018

Total loans (EUR bn)



	Mar-19	YoY (%)	QoQ (%)
Individuals	21.5	+0.4	-0.1
<i>from which:</i>			
Mortgage	19.5	+1.7	+0.1
Consumer credit	1.6	+0.6	-1.7
Corporates	11.8	-10.2	-1.2
Other(*)	3.2	+10.8	+2.3
Total	36.5	-2.5	-0.2
Loans to Corporates (**)	16.1	-8.4	+0.4
Total Loans (**)	40.8	-2.6	+0.3

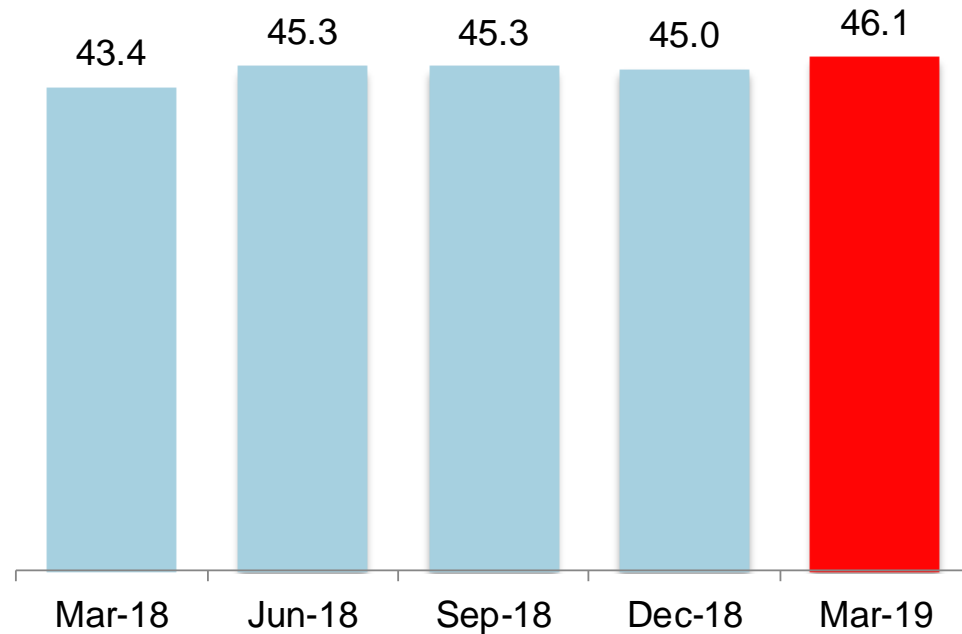
(*) Includes Government, Institutional and other sectors

(**) includes commercial paper



Continued increase in customer funds

Total customer funds (EUR bn)



	Mar-19	YoY (%)	QoQ (%)
Demand	15.1	+13.7	-0.5
Time and Savings	19.1	+5.6	+4.9
Total Deposits	34.2	+9.0	+2.4
Financial insurance	4.1	+7.8	+5.5
Deposits & financial insurance	38.2	+8.9	+2.8
Securities placed	4.2	-3.4	-0.6
Investment funds and other	3.7	-6.2	+3.4
Total Customer Funds	46.1	+6.3	+2.5

Results

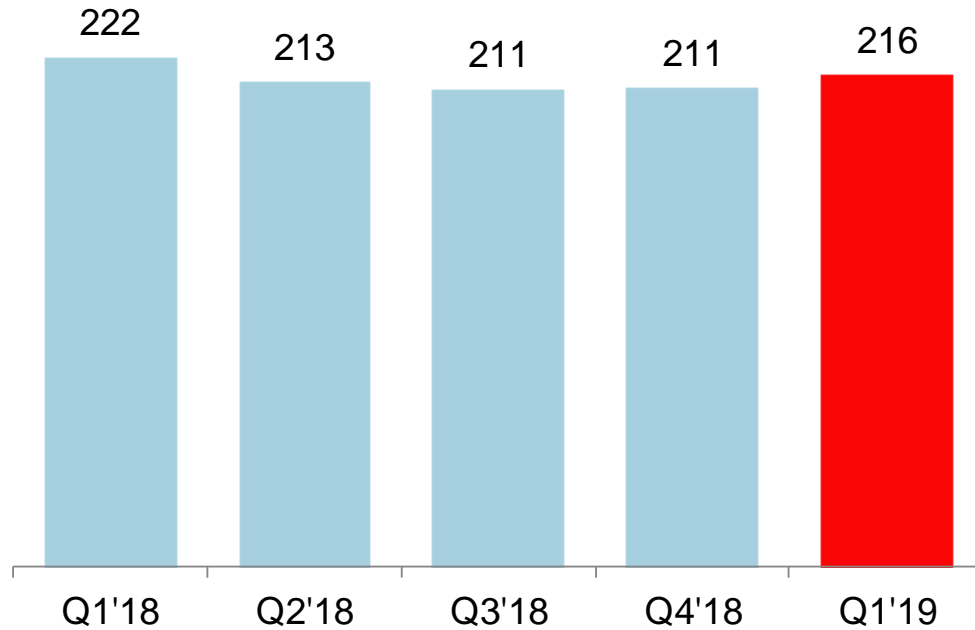


03



NII increased QoQ. YoY evolution was in line with that of the stock of credit

Net interest income (EUR mn)



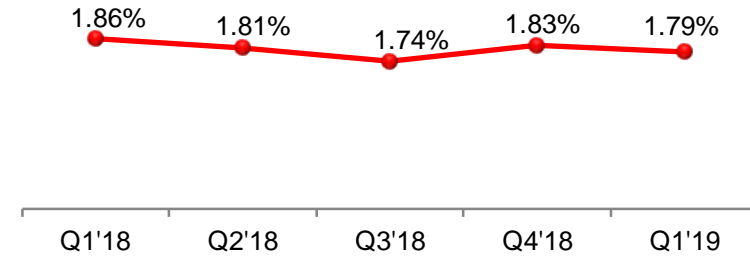
NIM¹ (%)

Q1'18	1.58	Q2'18	1.54	Q3'18	1.52	Q4'18	1.54	Q1'19	1.54
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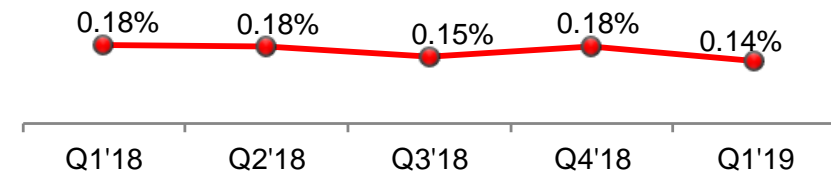
Official interest rate² (%)

Q1'18	0.00	Q2'18	0.00	Q3'18	0.00	Q4'18	0.00	Q1'19	0.00
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Yield on loans (%)



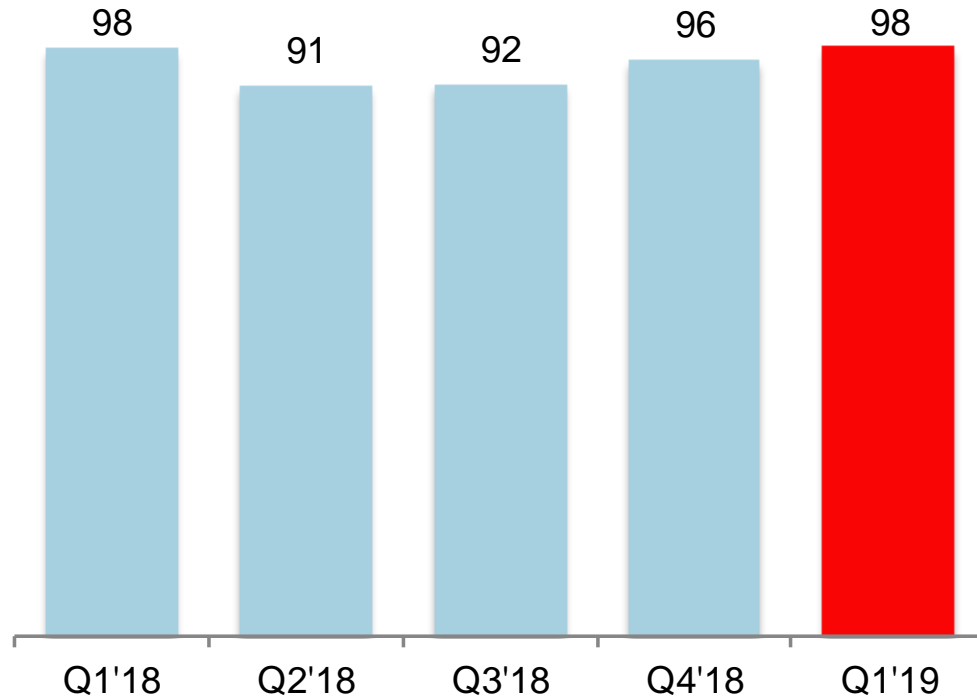
Cost of deposits (%)





Net fee income improved YoY boosted by credit cards

Net fees (EUR mn)

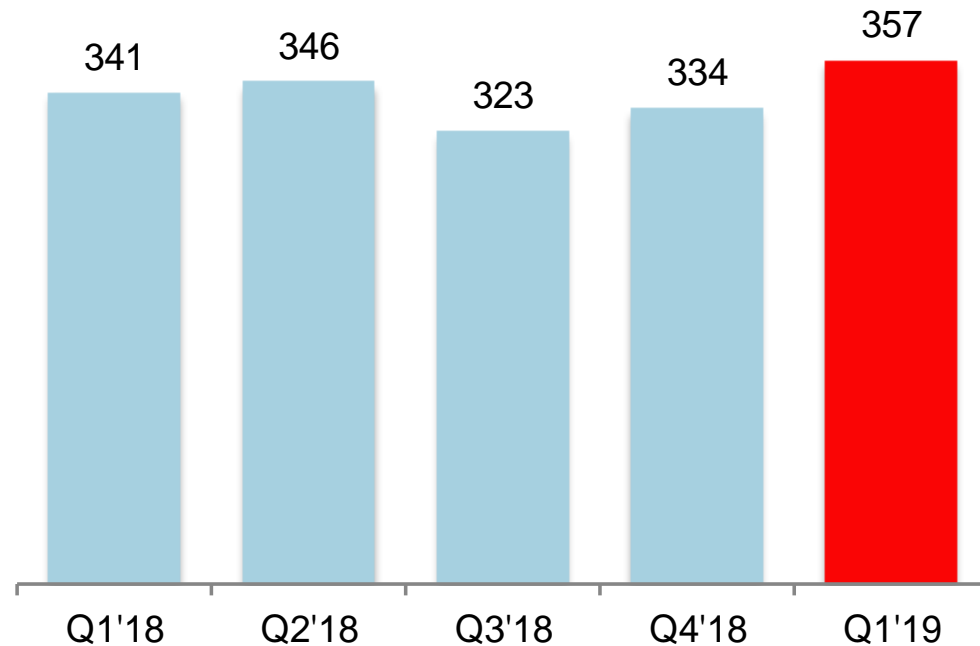


	Q1'19	Q1'18	YoY (%)	QoQ (%)
Credit	23	23	+1.3	-0.8
Credit cards	25	21	+14.8	-5.4
Mutual funds	6	6	+2.4	-1.2
Insurance	26	25	+5.3	-0.5
Other	18	23	-20.3	+28.7
Total	98	98	+0.3	+2.3

Gross income improved, driven by gains on financial transactions from ALCO portfolio sales



Gross income (EUR mn)

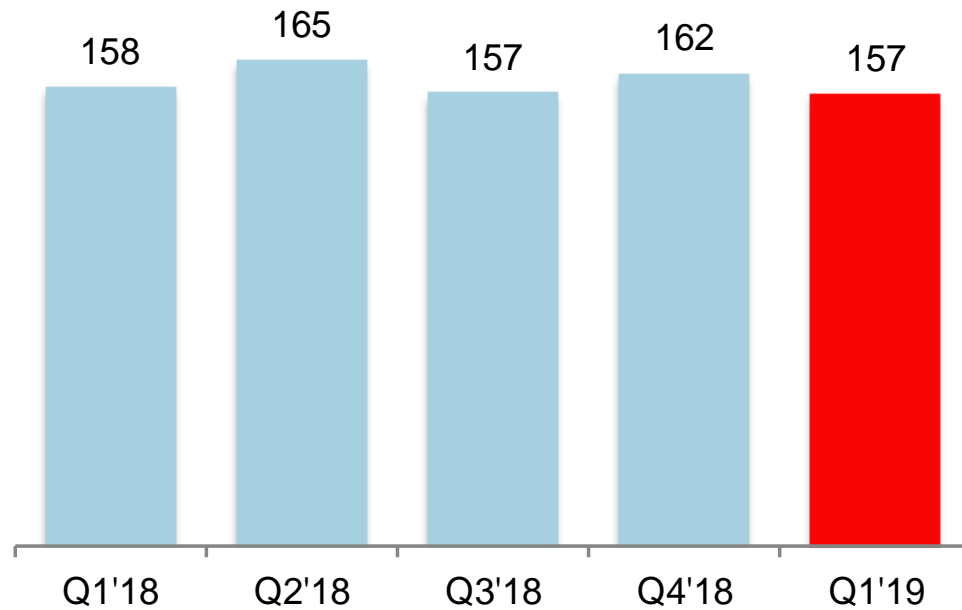


	Q1'19	Q1'18	YoY (%)	QoQ (%)
Net interest income	216	222	-2.7	+2.1
Net Fees	98	98	+0.3	+2.3
Subtotal	314	320	-1.8	+2.1
Gains/losses on financial transactions	50	22	+124.3	+311.6
Other	-6	0	-	-
Gross income	357	341	+4.8	+7.1



Costs declined, as the commercial structure continues to be optimised

Operating expenses (EUR mn)

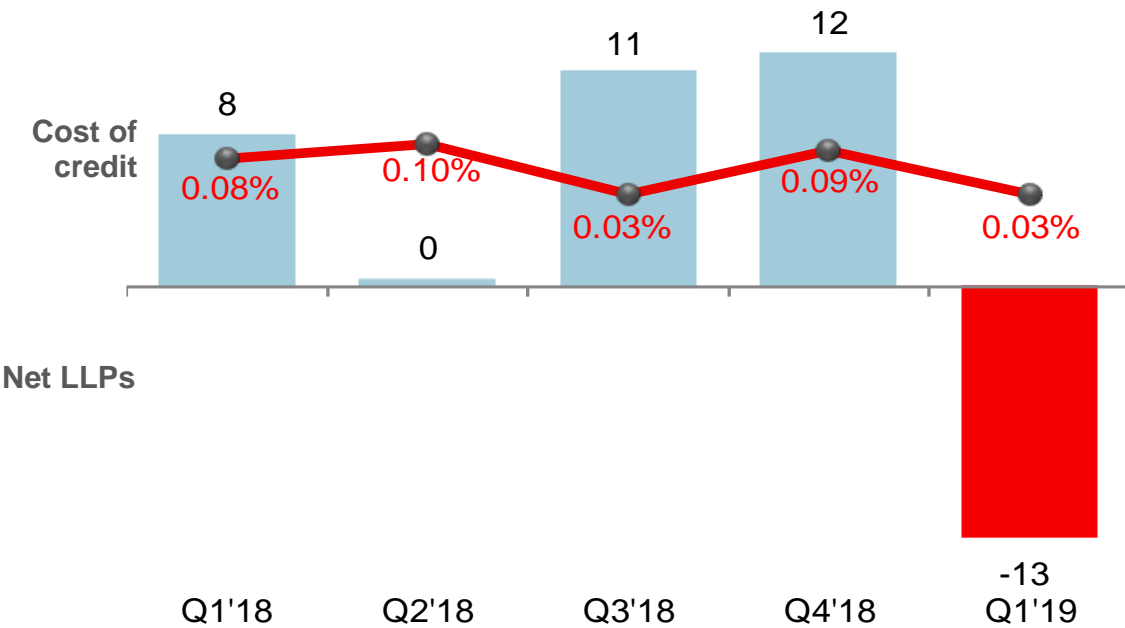


	Q1'19	Q1'18	YoY (%)	QoQ (%)
Operating Expenses	157	158	-1.1	-3.0
Efficiency ratio (with amortisations)	43.9%	46.4%		
Number of branches	561	676		
Number of employees	6,735	7,018		



Low cost of credit, and provisions were slightly positive due to recoveries

LLPs and cost of credit (EUR mn, %)

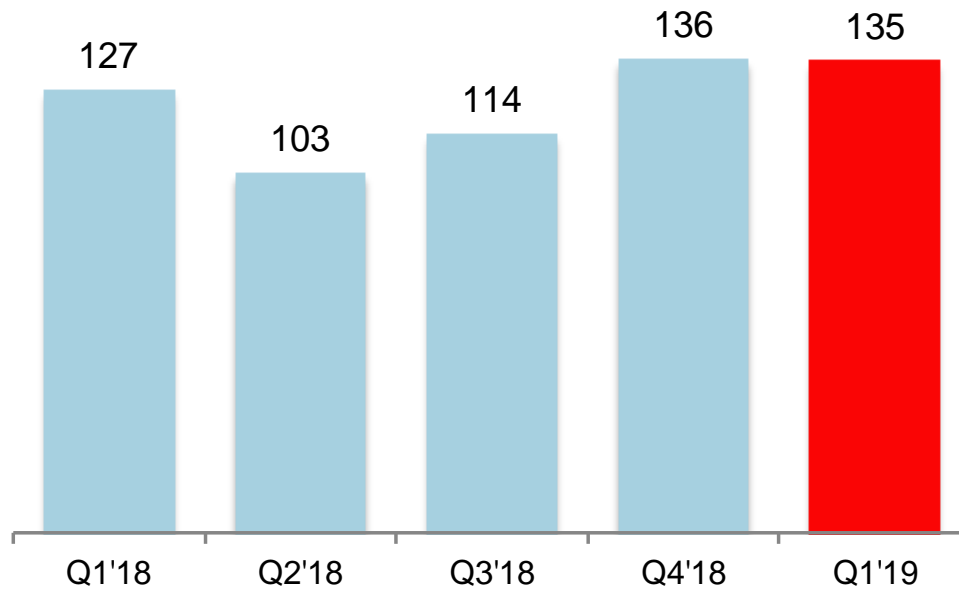


	Q1'19	Q1'18	YoY (%)	QoQ (%)
Net Operating Income	201	183	+9.8	+16.7
LLPs	13	-8	-	-
Net Op. Income after LLPs	214	175	+22.3	+33.8
NPL ratio	5.8%	8.3%		
NPL coverage ratio	50.7%	53.9%		

Attributable profit increased 7%, reflecting revenue growth, lower costs and reduced cost of credit



Underlying attributable profit (EUR mn)



Attributable profit (EUR mn ¹)				
127	123	114	136	135

	Q1'19	Q1'18	YoY (%)	QoQ (%)
Underlying profit before taxes	194	166	+16.8	-0.9
Tax on profit	-58	-39	+50.7	-1.6
Underlying consolidated profit	136	128	+6.5	-0.6
Underlying attributable profit to the Group	135	127	+6.7	-0.4
Net capital gains and provisions	0	0	-	-
Attributable profit to the Group	135	127	+6.7	-0.4
Effective tax rate	30.0%	23.3%		



Strong results and stable business

Market Environment & Financial System

- ▶ Economic growth continues, with activity expanding around potential. GDP is expected to grow around 1.6% in 2019, still led by investment and exports
- ▶ The fiscal deficit should narrow to around 0.2% of GDP, in 2019
- ▶ Deleveraging by the private sector and disposal of non-productive assets by banks continue to drive loan evolution

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

- ▶ Improving profitability, with growth in revenue and lower cost base
- ▶ Low cost of credit, in favourable economic conditions, and dynamic recovery policy
- ▶ Stabilisation of the loan book

Appendix



04

Balance sheet



EUR million			Variation	
	31-Mar-19	31-Mar-18	Amount	%
Loans and advances to customers	35,417	35,722	(305)	(0.9)
Cash, central banks and credit institutions	4,193	2,410	1,783	74.0
Debt instruments	13,198	12,058	1,140	9.5
Other financial assets	1,841	1,991	(151)	(7.6)
Other asset accounts	1,971	2,257	(286)	(12.7)
Total assets	56,620	54,438	2,182	4.0
Customer deposits	38,242	35,114	3,128	8.9
Central banks and credit institutions	8,155	9,364	(1,209)	(12.9)
Marketable debt securities	4,232	4,379	(147)	(3.4)
Other financial liabilities	285	235	50	21.4
Other liabilities accounts	1,418	1,238	180	14.5
Total liabilities	52,332	50,330	2,002	4.0
Total equity	4,287	4,107	180	4.4
Other managed and marketed customer funds	3,662	3,904	(243)	(6.2)
Mutual funds	2,000	2,127	(127)	(6.0)
Pension funds	1,176	1,159	17	1.5
Managed portfolios	486	619	(133)	(21.5)

Income statement



EUR million	Q1'19	Q1'18	Variation	
			Amount	%
Net interest income	216	222	(6)	(2.7)
Net fee income	98	98	0	0.3
Gains (losses) on financial transactions	50	22	27	124.3
Other operating income	(6)	(0)	(5)	—
Total income	357	341	16	4.8
Operating expenses	(157)	(158)	2	(1.1)
Net operating income	201	183	18	9.8
Net loan-loss provisions	13	(8)	21	—
Other gains (losses) and provisions	(20)	(9)	(11)	129.7
Underlying profit before tax	194	166	28	16.8
Tax on profit	(58)	(39)	(20)	50.7
Underlying profit from continuing operations	136	128	8	6.5
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	136	128	8	6.5
Non-controlling interests	(0)	(1)	0	(30.5)
Underlying attributable profit to the parent	135	127	8	6.7
Net capital gains and provisions	—	—	—	—
Attributable profit to the parent	135	127	8	6.7

Income statement



EUR million

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19
Net interest income	222	213	211	211	216
Net fee income	98	91	92	96	98
Gains (losses) on financial transactions	22	36	6	12	50
Other operating income	(0)	6	14	14	(6)
Total income	341	346	323	334	357
Operating expenses	(158)	(165)	(157)	(162)	(157)
Net operating income	183	182	166	172	201
Net loan-loss provisions	(8)	(0)	(11)	(12)	13
Other gains (losses) and provisions	(9)	(22)	13	36	(20)
Underlying profit before tax	166	159	167	196	194
Tax on profit	(39)	(56)	(52)	(59)	(58)
Underlying profit from continuing operations	128	104	115	137	136
Net profit from discontinued operations	—	—	—	—	—
Underlying consolidated profit	128	104	115	137	136
Non-controlling interests	(1)	(1)	(1)	(1)	(0)
Underlying attributable profit to the parent	127	103	114	136	135
Net capital gains and provisions	—	20	—	—	—
Attributable profit to the parent	127	123	114	136	135

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