

30 October 2019

Portugal

9M'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”) and derived from our financial statements, 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 the 2018 Annual Financial Report, filed with the Comisión Nacional del Mercado de Valores of Spain (CNMV) on 28 February 2019, as well as the section “Alternative performance measures” of the annex to the Banco Santander, S.A. (“Santander”) 2019 3Q Financial Report, published as Relevant Fact on 30 October 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, 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

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

Macroeconomic environment and financial system

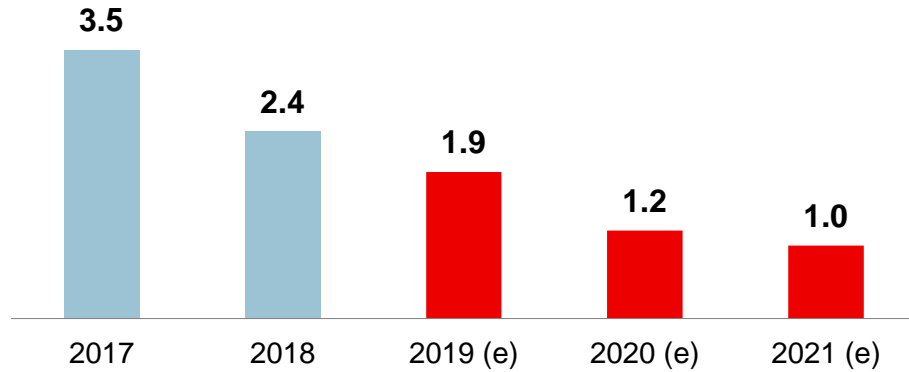


01

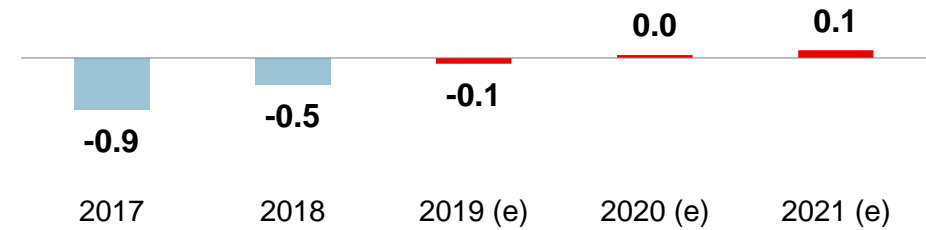


The weaker external demand may contribute to economic deceleration...

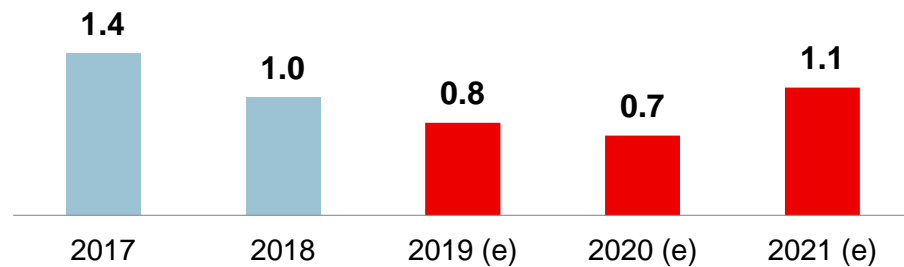
Annual GDP Growth (real, %)



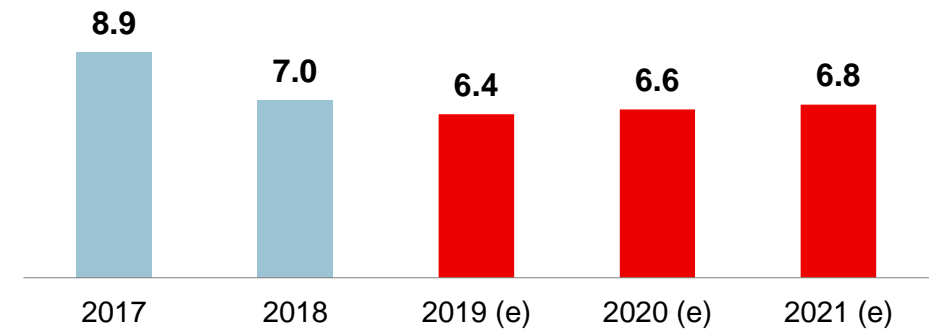
Fiscal Balance (% of GDP)



Annual inflation rate (%)



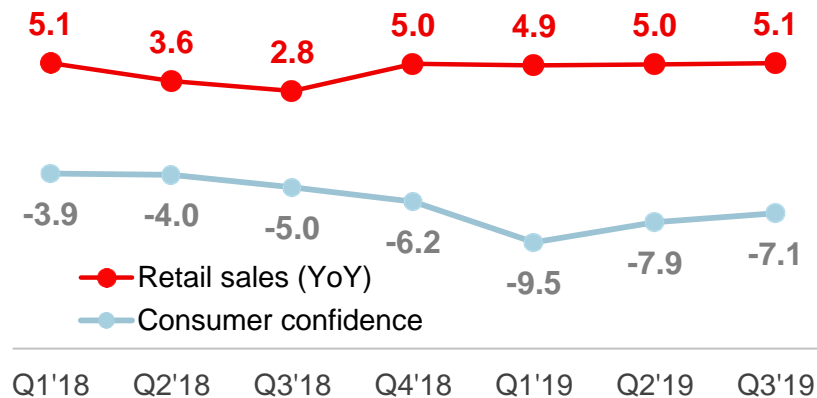
Unemployment Rate (% , annual average)



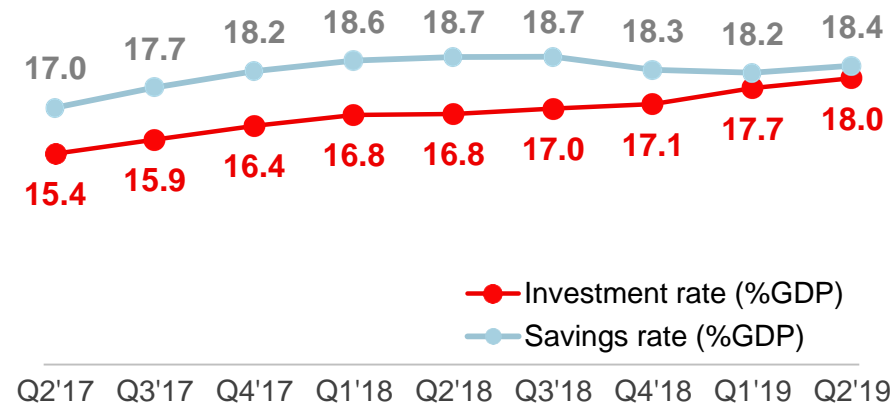


...but the economic fundamentals and the deleveraging process remain on track

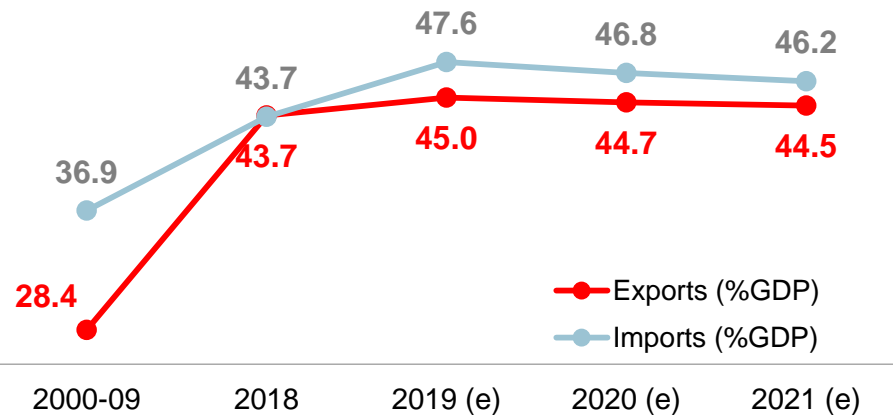
Consumer dynamics



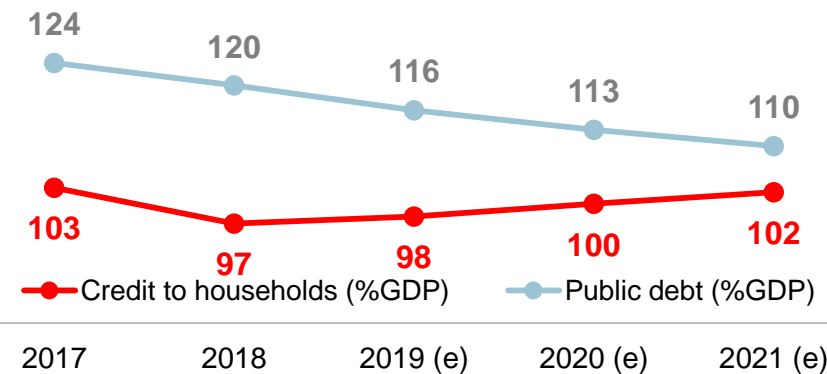
Investment dynamics (total economy)



Tradable sector dynamics



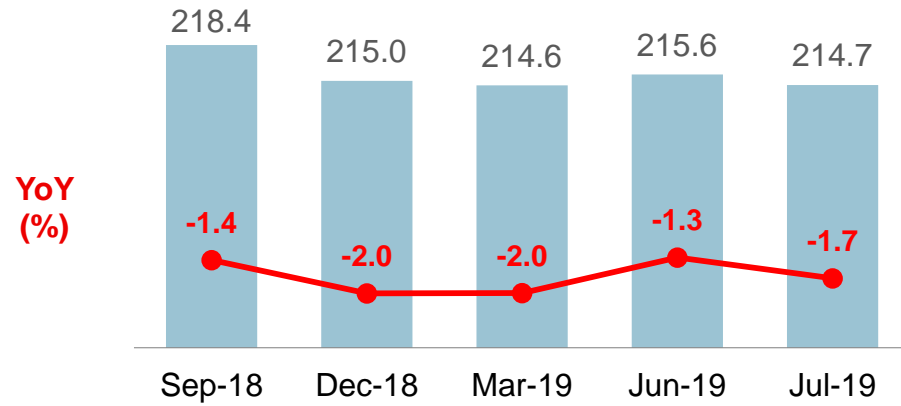
Deleveraging dynamics



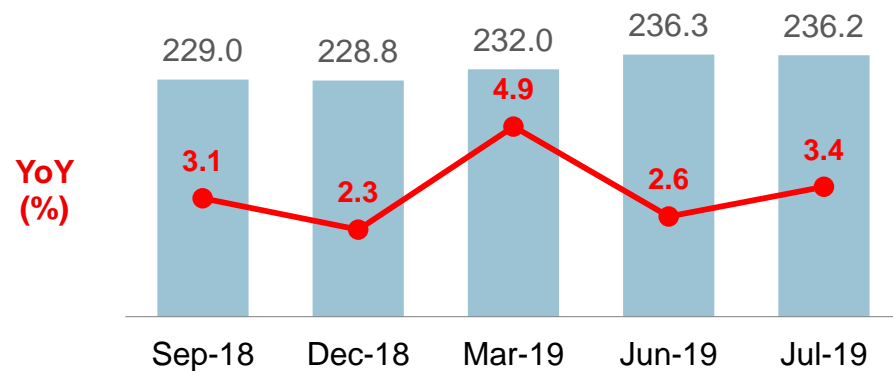


Ongoing deleveraging, with resilient growth in deposits

Total loans (EUR bn)



Total deposits (EUR bn)



- ▶ The Financial System continues reducing its NPL ratio, mainly driven by corporate NPL exposures, while demand for new loans remains subdued despite the low rate environment
- ▶ The economy continues to deleverage but indebtedness still remains a constraint for the private sector credit growth
- ▶ Deposits continue to increase, driven both by corporates' excess liquidity and households deposits, though evolve at smoother pace, as deposit rates remain at minimum levels.

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 leading private sector bank and leveraging our position in the corporate sector, especially in SMEs

- ▶ Improve efficiency and maintain a low cost of credit

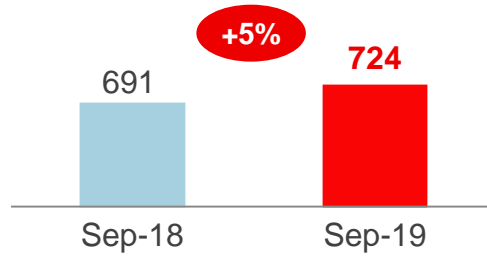
- ▶ Maintain a solid capital position, managing it in line with the new regulatory requirements

	KEY DATA	9M'19	YoY Var.
	Gross loans ¹	36,536	-1.5%
	Deposits ¹	39,048	+5.1%
	Underlying att. profit ¹	385	+12.2%
	Underlying RoTE ²	12.2%	+66 bps
	Efficiency ratio	44.8%	-292 bps
	Loans market share ²	17.9%	-34 bps
	Deposits market share ²	15.7%	+6 bps
	Loyal customers ³	775	+5.1%
	Digital customers ³	773	+12.0%
	Branches	549	-17.7%
	Employees	6,678	-3.4%



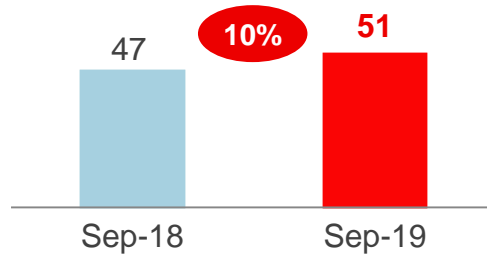
We continue to grow in the most valuable customer segments

Loyal individuals (k)



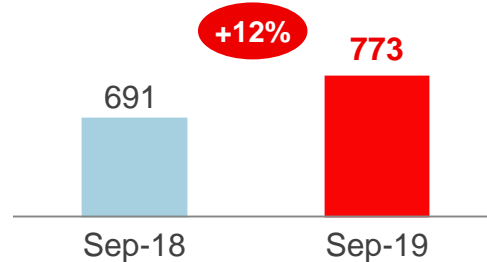
- ▶ Sustained growth in the number of loyal customers, not only backed by the focus on the 1|2|3 strategy...

Loyal companies (k)



- ▶ ... but also on the corporate segment, where the evolution of loyal customers is aligned with the strong market shares in new loan originations

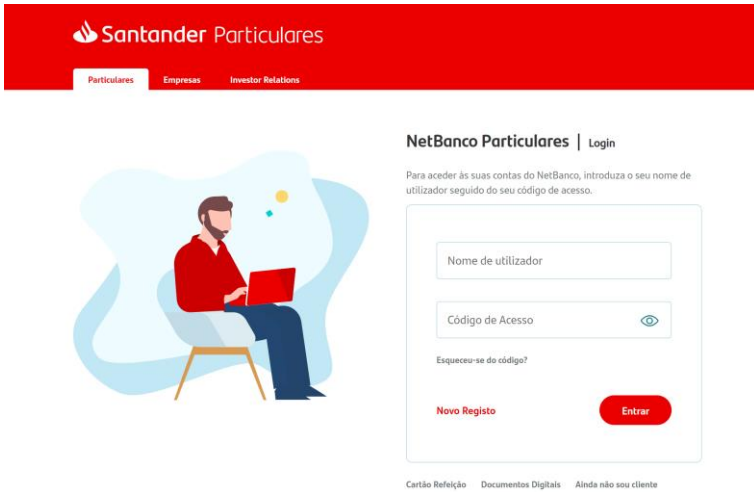
Digital customers (k)



- ▶ The commercial and digital transformation allows for continued availability of digital functionalities for both households and corporates and is supporting the increase in the number of digital customers



Retail and digital services



New design and functionalities for the Santander website



Improved digital offer

- **45%** of loyal customers are digital
- **19%** of new personal loans through digital channels



Bolsas Santander +Perto

Ajudamos-te a levar os estudos a bom Porto

Santander Universities is the main partner of Portuguese Universities

The Bank is providing scholarships to cover part of the accommodation costs of university students in the city of Oporto



Improved commercial offer to small businesses, extending to this segment the offer of *Mundo 1 | 2 | 3*



Santander has a leading position in “intermediated loans” to the small and medium sized businesses



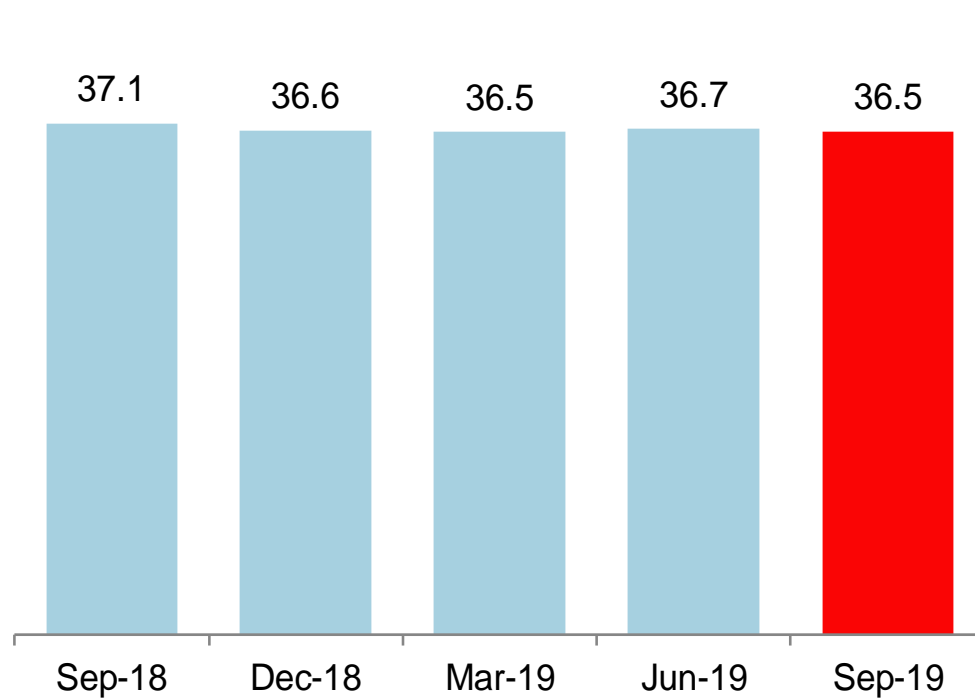
Santander is the lead sponsor of the main cycling event – “Volta a Portugal em Bicicleta”

The visibility of the event and of the Bank are key drivers of the commercial activity with residents abroad



Stable loans to individuals and lower corporate loans

Total loans (EUR bn)



	Sep-19	YoY (%)	QoQ (%)
Individuals	21.6	-0.1	+0.2
<i>of which:</i>			
Mortgage	19.5	+1.0	+0.1
Consumer credit	1.7	+1.9	+2.0
Corporates	12.0	-5.3	-1.1
Other(*)	2.8	+4.9	-2.3
Total	36.5	-1.5	-0.4
Loans to Corporates (**)	16.1	-6.9	-1.7
Total Loans (**)	40.5	-2.6	-0.7

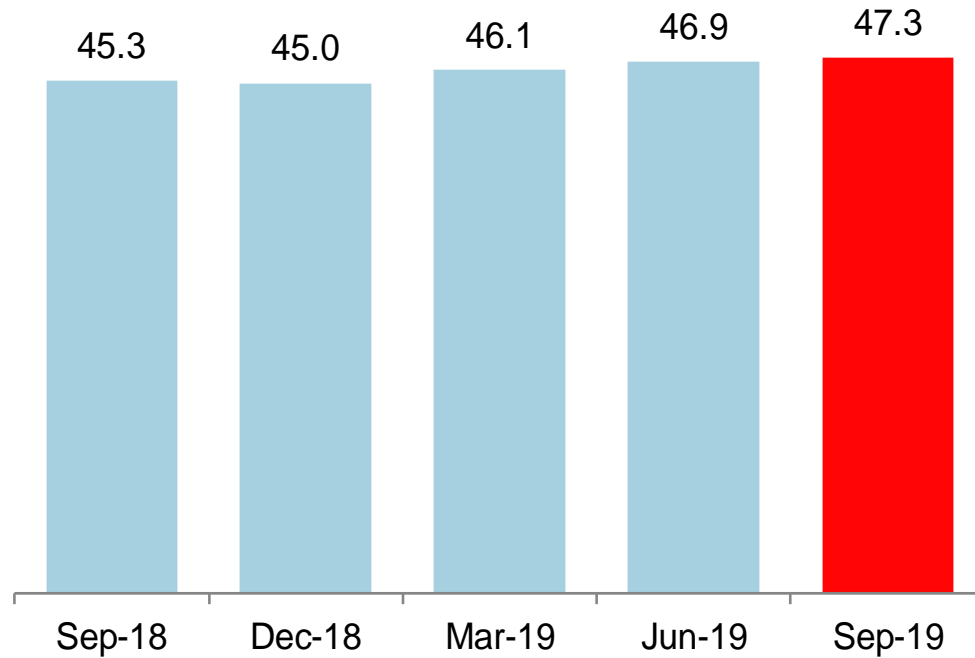
(*) Includes Government, Institutional and other sectors

(**) includes commercial paper



Growth in customer funds, namely in off-balance sheet investment funds

Total customer funds (EUR bn)



	Sep-19	YoY (%)	QoQ (%)
Demand	17.1	+16.2	+4.0
Time and Savings	17.8	-4.1	-3.5
Total Deposits	34.9	+4.8	+0.0
Financial insurance	4.2	+7.6	+1.4
Deposits & financial insurance	39.0	+5.1	+0.2
Securities placed	3.4	-20.8	-0.4
Investment funds and other	4.8	+26.0	+7.3
Total Customer Funds	47.3	+4.4	+0.8

Results

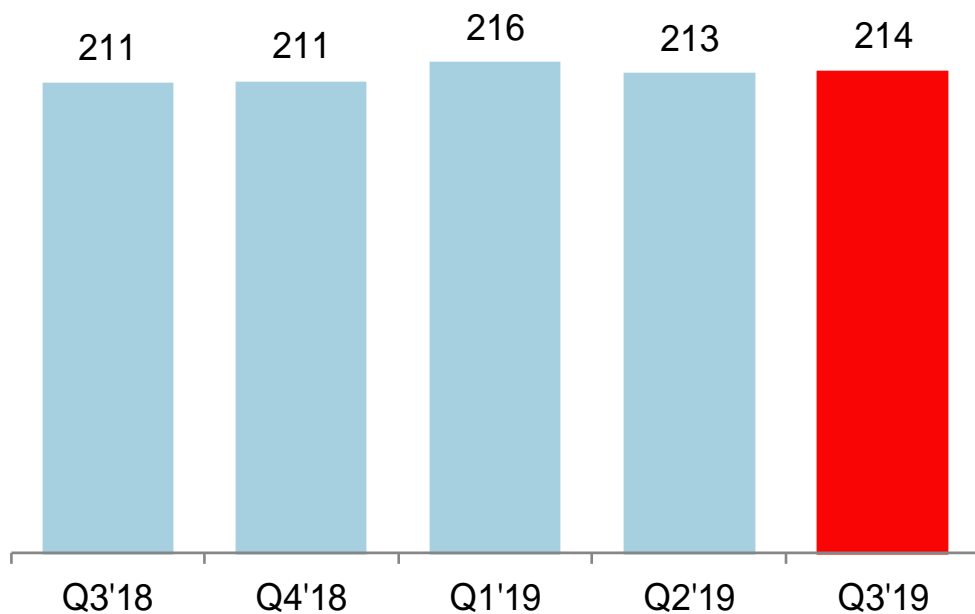


03

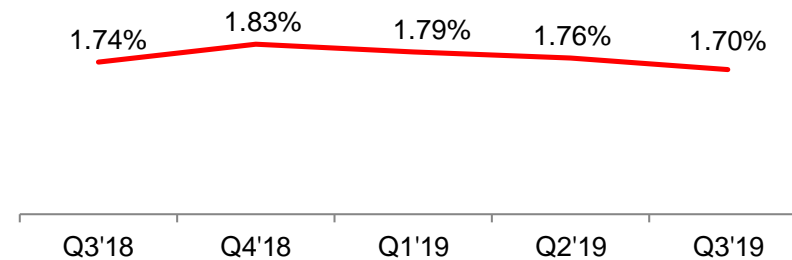
NII improved YoY, even though the low interest rate environment continues to weigh negatively



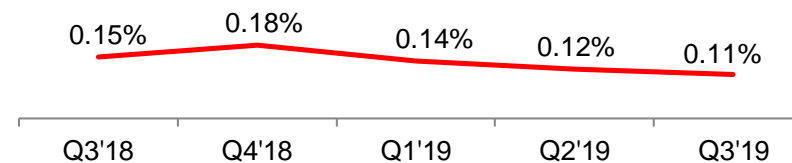
Net interest income (EUR mn)



Yield on loans (%)



Cost of deposits (%)



NIM¹ (%)

1.52	1.54	1.54	1.51	1.50
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Official interest rate² (%)

0.00	0.00	0.00	0.00	0.00
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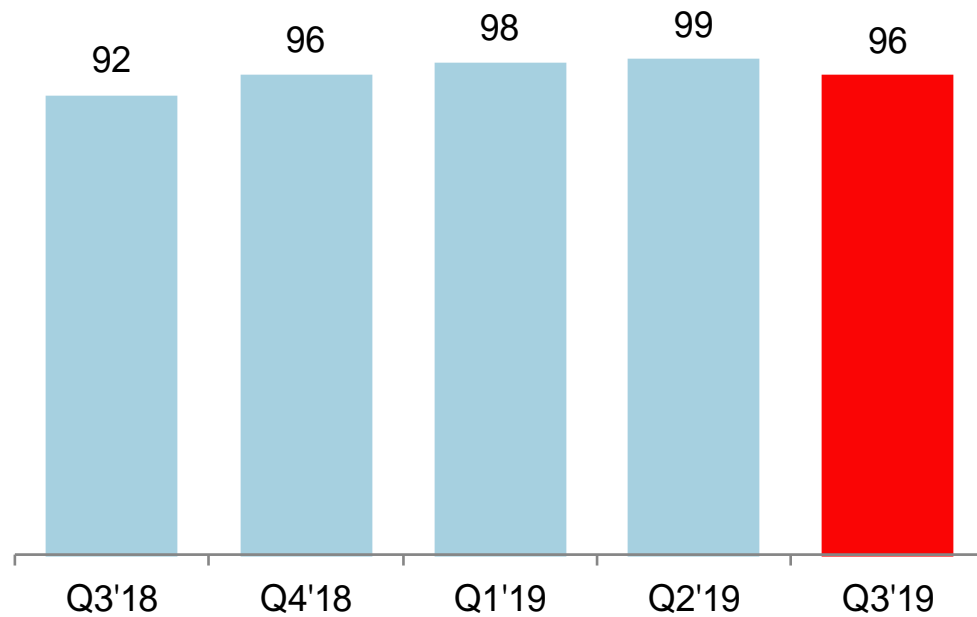


(1) Group criteria
(2) Quarterly average



Sustained YoY growth in net fee income. QoQ affected by lower credit dynamics

Net fee income (EUR mn)

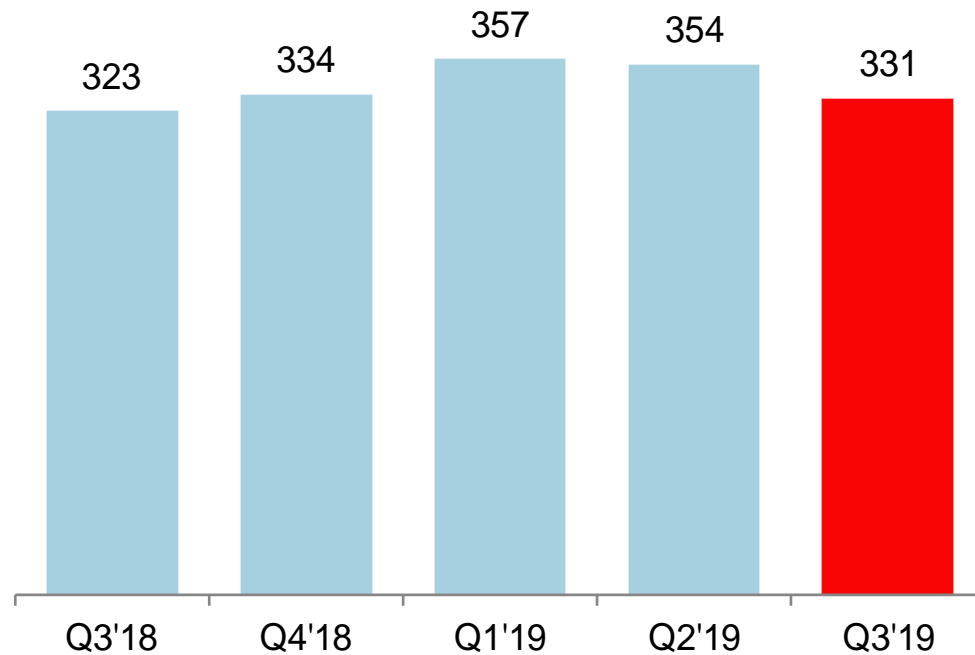


	9M'19	9M'18	YoY (%)	QoQ (%)
Credit	77	87	-11.6	-4.4
Credit cards	74	66	+11.6	+1.7
Mutual funds	19	20	-1.3	+11.8
Insurance	78	76	+2.8	-1.8
Other	44	32	+38.6	-18.4
Total	292	281	+4.1	-3.3



Gross income improved YoY, driven by fee income

Gross income (EUR mn)

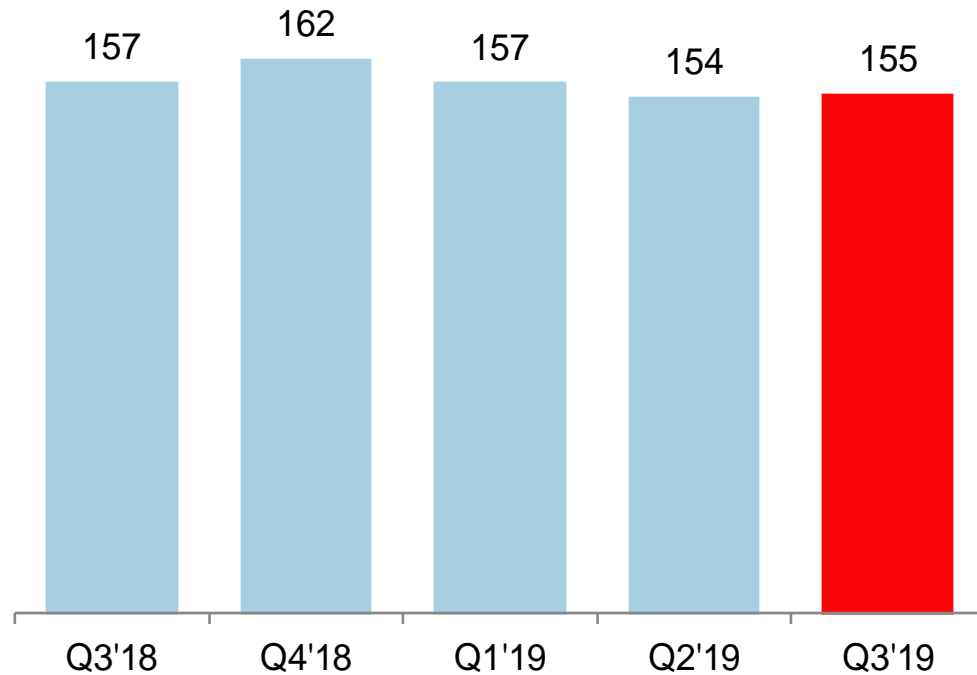


	9M'19	9M'18	YoY (%)	QoQ (%)
Net interest income	643	646	-0.5	+0.3
Net Fees	292	281	+4.1	-3.3
Subtotal	935	927	+0.9	-0.8
Other ¹	108	83	+29.9	-47.8
Gross income	1,043	1,010	+3.3	-6.4

Costs continue to decline, with further streamlining of the commercial structure



Operating expenses (EUR mn)

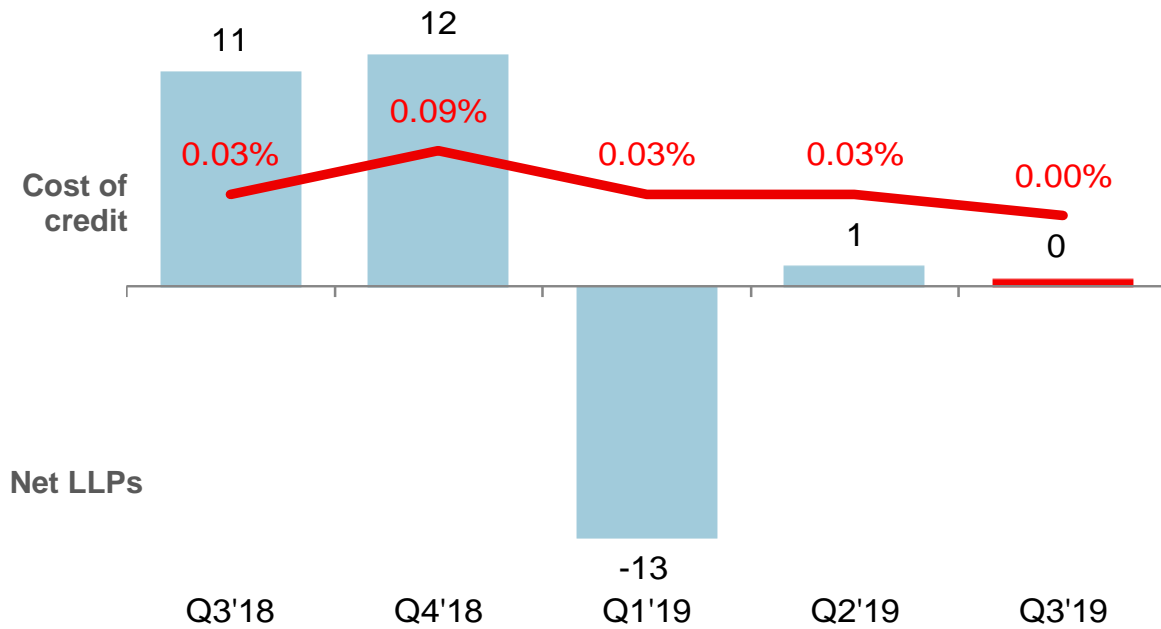


	9M'19	9M'18	YoY (%)	QoQ (%)
Operating Expenses	467	482	-3.1	+0.5
Efficiency ratio (with amortisations)	44.8%	47.7%		
Number of branches	549	667		
Number of employees	6,678	6,910		



The cost of credit remained at minimum levels

LLPs and cost of credit (EUR mn, %)

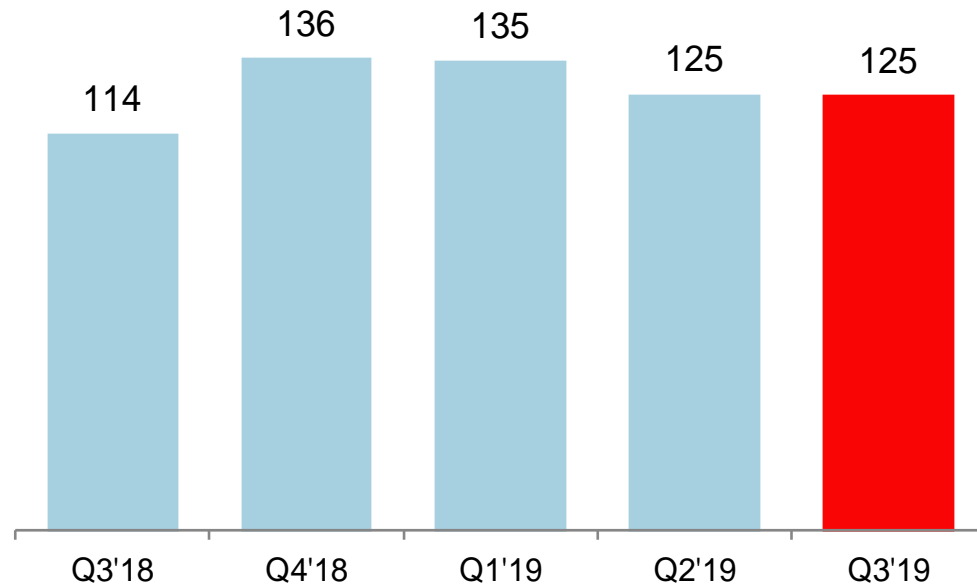


	9M'19	9M'18	YoY (%)	QoQ (%)
Net Operating Income	576	528	+9.0	-11.7
LLPs	12	-20	-	-66.3
Net Op. Income after LLPs	588	509	+15.5	-11.5
NPL ratio	4.9%	7.4%		
NPL coverage ratio	51.5%	53.4%		

Underlying attributable profit increased 12.2%, reflecting lower operating costs and cost of credit practically at zero



Underlying attributable profit (EUR mn)



	9M'19	9M'18	YoY (%)	QoQ (%)
Underlying profit before taxes	557	491	+13.6	-4.2
Tax on profit	-171	-146	+17.4	-12.2
Underlying consolidated profit	386	345	+12.0	-0.4
Underlying attributable profit to the Group	385	343	+12.2	-0.3
Effective tax rate	30.7%	29.7%		



Strong results and stable business

Market Environment & Financial System

- ▶ GDP continues to expand, gradually converging towards potential (1.5%), while unemployment is stable around its natural level (6-7% range)
- ▶ The fiscal deficit expected to be 0.1% of GDP by end 2019 and despite the weakening economic prospects the Government is resilient to continue reaching fiscal targets
- ▶ The evolution of loans continues to reflect the reduction of the exposure to non-performing assets

Strategy & Business

- ▶ Santander Totta continues its digital transformation process, which continues to deliver on digital channels and changes in its internal processes
- ▶ This will contribute to our aim to leverage our position as the largest privately owned bank by loans, with a specific focus on strengthening our position in the SME market
- ▶ We maintain sound capital and liquidity bases, with organic capital generation

Results

- ▶ Improving profitability, with growth in revenue and lower cost base
- ▶ The cost of credit remained at minimum levels
- ▶ Gradual stabilisation of the loan book and continued increase in customer funds

Appendix



04

Balance sheet



EUR million	30-Sep-19	30-Sep-18	Variation	
			Amount	%
Loans and advances to customers	35,631	35,612	19	0.1
Cash, central banks and credit institutions	4,257	3,191	1,066	33.4
Debt instruments	13,236	11,861	1,375	11.6
Other financial assets	1,781	1,941	(160)	(8.3)
Other asset accounts	1,934	2,298	(365)	(15.9)
Total assets	56,838	54,904	1,934	3.5
Customer deposits	39,048	37,141	1,907	5.1
Central banks and credit institutions	7,816	7,817	(1)	(0.0)
Marketable debt securities	3,411	4,309	(897)	(20.8)
Other financial liabilities	302	243	59	24.4
Other liabilities accounts	1,848	1,382	466	33.7
Total liabilities	52,425	50,890	1,535	3.0
Total equity	4,413	4,013	400	10.0
Other managed customer funds	4,799	3,810	989	26.0
Mutual funds	3,119	2,045	1,074	52.5
Pension funds	1,192	1,145	46	4.0
Managed portfolios	488	620	(132)	(21.3)

Income statement



EUR million	9M'19	9M'18	Variation	
			Amount	%
Net interest income	643	646	(4)	(0.5)
Net fee income	292	281	12	4.1
Gains (losses) on financial transactions	101	63	38	59.3
Other operating income	7	20	(13)	(64.2)
Total income	1,043	1,010	33	3.3
Operating expenses	(467)	(482)	15	(3.1)
Net operating income	576	528	48	9.0
Net loan-loss provisions	12	(20)	31	—
Other gains (losses) and provisions	(30)	(18)	(12)	67.9
Underlying profit before tax	557	491	67	13.6
Tax on profit	(171)	(146)	(25)	17.4
Underlying profit from continuing operations	386	345	41	12.0
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	386	345	41	12.0
Non-controlling interests	(1)	(2)	1	(30.9)
Underlying attributable profit to the parent	385	343	42	12.2

Income statement



EUR million

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19
Net interest income	222	213	211	211	216	213	214
Net fee income	98	91	92	96	98	99	96
Gains (losses) on financial transactions	22	36	6	12	50	42	9
Other operating income	(0)	6	14	14	(6)	0	13
Total income	341	346	323	334	357	354	331
Operating expenses	(159)	(165)	(157)	(162)	(157)	(154)	(155)
Net operating income	182	181	165	171	200	200	176
Net loan-loss provisions	(8)	(0)	(11)	(12)	13	(1)	(0)
Other gains (losses) and provisions	(9)	(22)	13	36	(20)	(13)	2
Underlying profit before tax	166	159	166	195	193	186	178
Tax on profit	(39)	(55)	(52)	(59)	(58)	(60)	(53)
Underlying profit from continuing operations	127	103	115	136	135	126	125
Net profit from discontinued operations	—	—	—	—	—	—	—
Underlying consolidated profit	127	103	115	136	135	126	125
Non-controlling interests	(1)	(1)	(1)	(1)	(0)	(1)	(0)
Underlying attributable profit to the parent	127	103	114	136	135	125	125

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