

23 July 2019

Portugal

H1'19 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 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 2Q Financial Report, published as Relevant Fact on 23 July 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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The information contained in this presentation is subject to, and must be read in conjunction with, all other publicly available information, including, where relevant any fuller disclosure document published by Santander. Any person at any time acquiring securities must do so only on the basis of such person's own judgment as to the merits or the suitability of the securities for its purpose and only on such information as is contained in such public information having taken all such professional or other advice as it considers necessary or appropriate in the circumstances and not in reliance on the information contained in this presentation. No investment activity should be undertaken on the basis of the information contained in this presentation. In making this presentation available Santander gives no advice and makes no recommendation to buy, sell or otherwise deal in shares in Santander or in any other securities or investments whatsoever.

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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

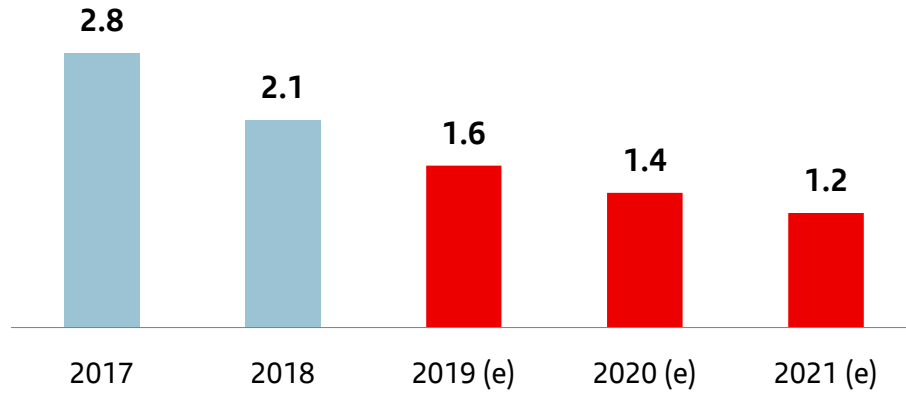


01

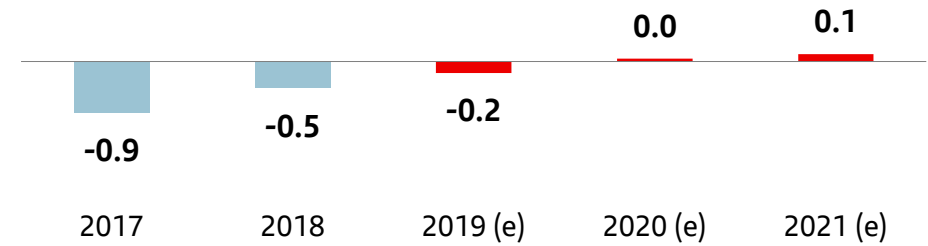


As the business cycle matures, labour and prices developments should stabilise

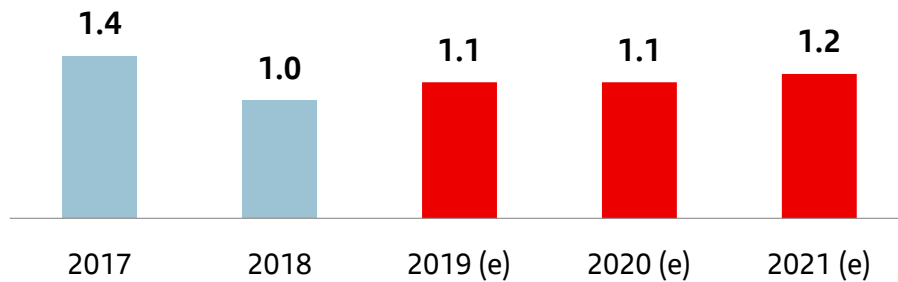
Annual GDP Growth (real, %)



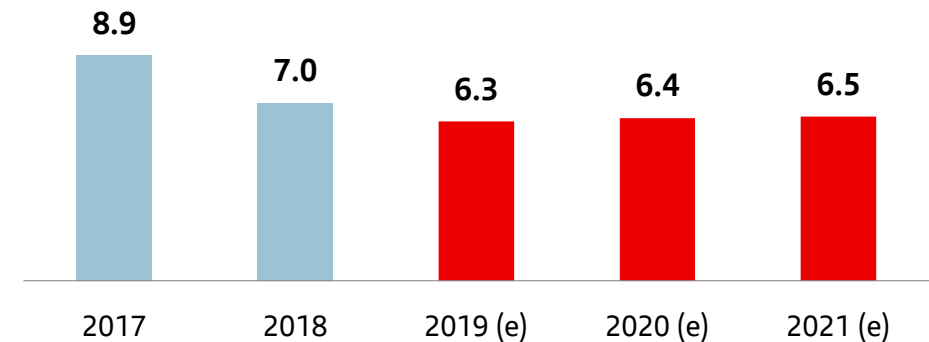
Fiscal Balance (% of GDP)



Annual inflation rate (%)



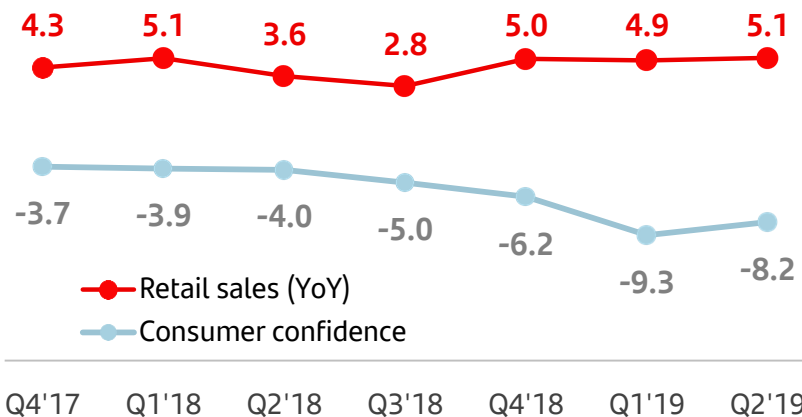
Unemployment Rate (% , annual average)



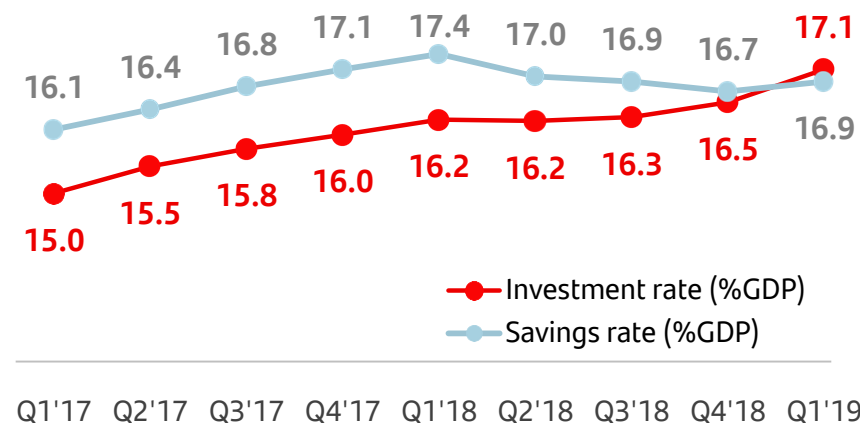


Deleveraging continues, with investment impulse aligned with savings dynamics

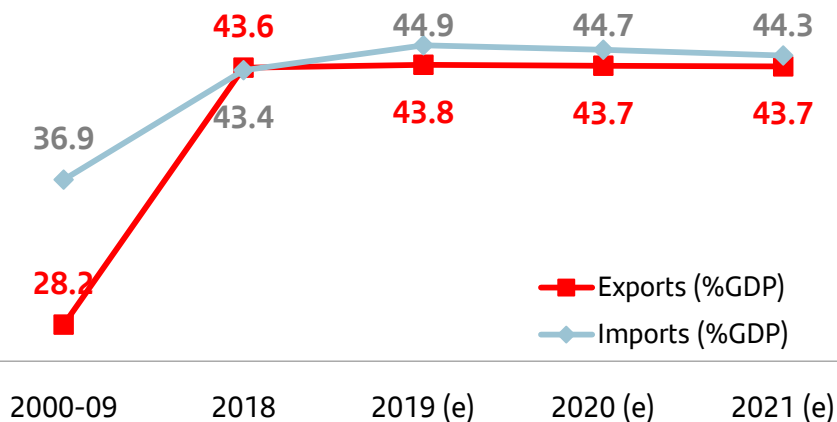
Consumer dynamics



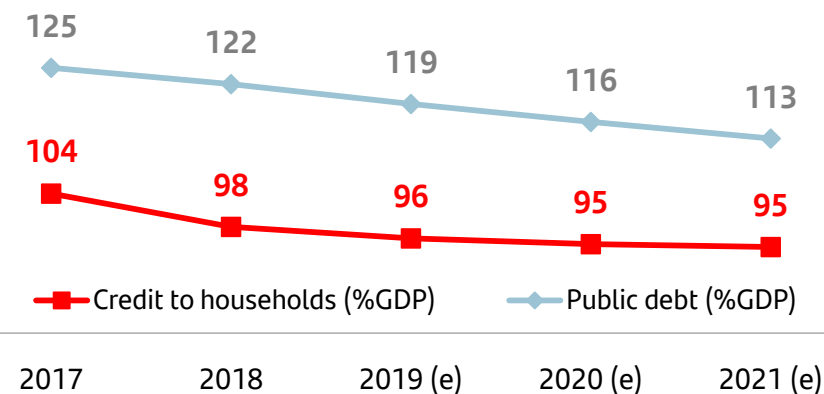
Investment dynamics (total economy)



Tradable sector dynamics



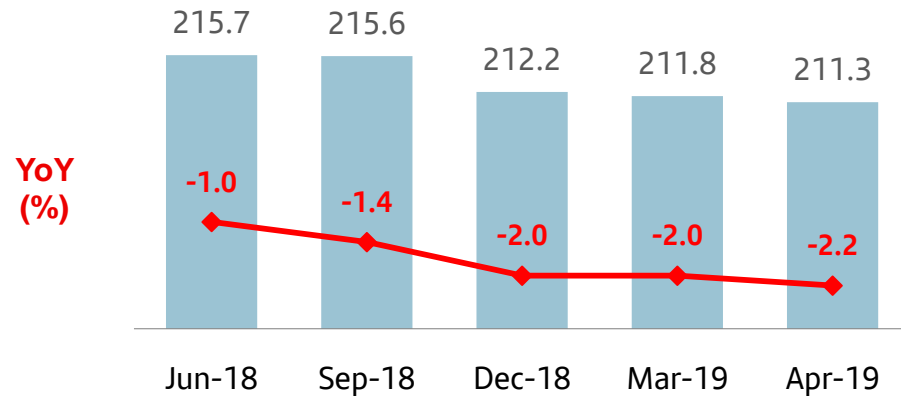
Deleveraging dynamics



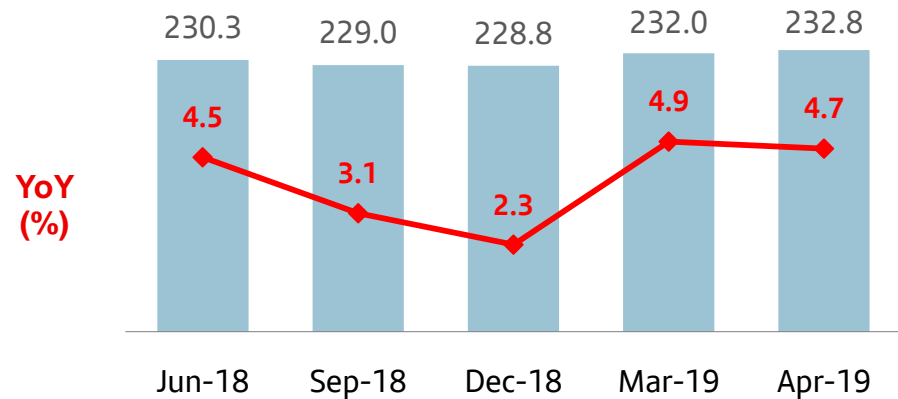


Deleveraging continues, but at a slower pace in H1'19

Total loans (EUR bn)



Total deposits (EUR bn)



- ▶ The Financial System continues reducing its NPL ratio, mainly driven by NPL corporate exposure, 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 by corporates' excess liquidity, while household deposits evolved at a smoother pace, even as deposit rates remained 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

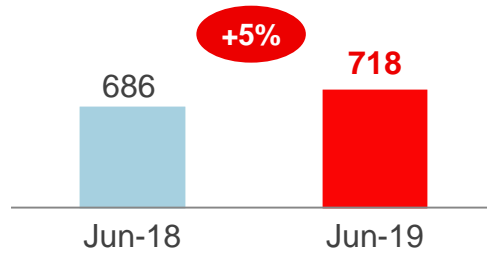
- ▶ Maintain a solid capital position, managing it in line with the new regulatory requirements

	KEY DATA	Jun'19	YoY Var.
	Gross loans ¹	36,691	-1.0%
	Deposits ¹	38,975	+5.1%
	Underlying att. profit ¹	260	+13.5%
	RoTE ²	12.5%	+98bps
	Efficiency ratio	43.8%	-334bps
	Loans' market share ³	18.2%	-7bps
	Deposits' market share ³	15.8%	+61bps
	Loyal customers ⁴	768	+4.9%
	Digital customers ⁴	756	+12.6%
	Branches	553	-17.7%
	Employees	6,736	-2.9%



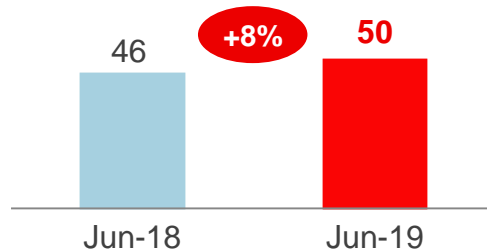
We continue to grow in the most valuable customer segments

Loyal individuals (k)



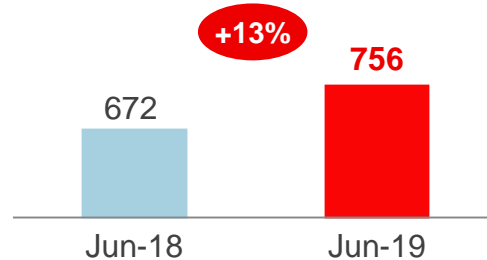
- ▶ Sustained growth in the number of loyal customers, not only backed by the focus on the 1|2|3 strategy...

Loyal companies (k)



- ▶ ... but also by the corporate segment, where the evolution of loyal customers is aligned with the strong market shares in new loans origination

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



Consumer Loans

The Bank launched a campaign focusing on personal loans for travel, car purchase or house improvements. The offer is also available through digital channels, under CrediSimples.



Corporate Reputation

Santander is the bank with the best corporate reputation in 2019, according to Merco Empresas. The Bank is also the best ranked in terms of More Responsible Companies and Best Corporate Governance.

Residents Abroad

Seasonal campaign reinforcing the bond with customers residing abroad, at the time they return to Portugal for the Summer Break.



FUNCHAL | 25, 27 e 28 de Junho | Praça do Município



Best Bank in Portugal

Santander was awarded Best Bank in Portugal, in 2019, for the 17th time, in view of its strong franchise, profitability and sound capital position.



Há um país que espera por si e um banco que o acompanha

Santander Advance Portugal

The Santander Advance Box was in Funchal (Madeira), in June, reinforcing its commitment to the Region, where the Bank has a leading position. As usual, there were various presentations and debates with local authorities and companies, discussing the economic potential of the region.



Personal insurance

Santander is committed to providing products that protect our customers and their families everyday and in every aspect of their lives, including healthcare, auto and home.



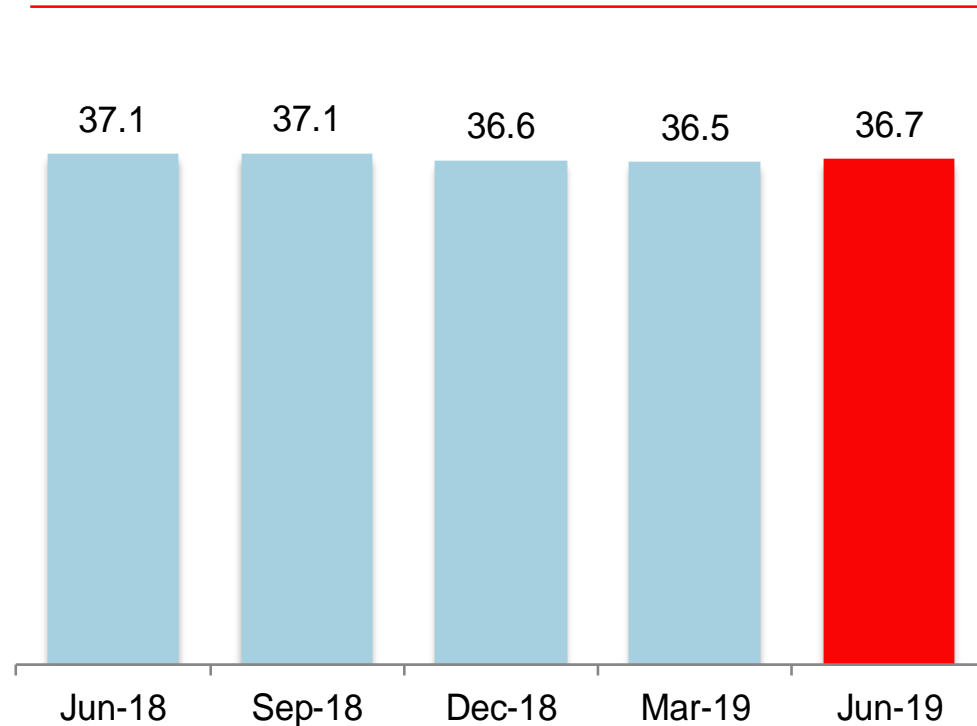
Santander Universities

The Bank has simplified its commercial offer for college students, including a debit card with competitive conditions for this segment, especially for those who travel or go on Erasmus.



The loan book improved QoQ, led by corporate loans. YoY decline reflects the sale of non-productive portfolios

Total loans (EUR bn)



	Jun-19	YoY (%)	QoQ (%)
Individuals	21.6	+0.3	-0.0
<i>of which:</i>			
Mortgage	19.5	+1.4	-0.1
Consumer credit	1.6	+0.5	+1.1
Corporates	12.2	-5.0	+3.3
Other(*)	2.9	+7.3	-5.5
Total	36.7	-1.0	+0.6
Loans to Corporates (**)	16.3	-6.0	+1.5
Total Loans (**)	40.8	-1.8	+0.2

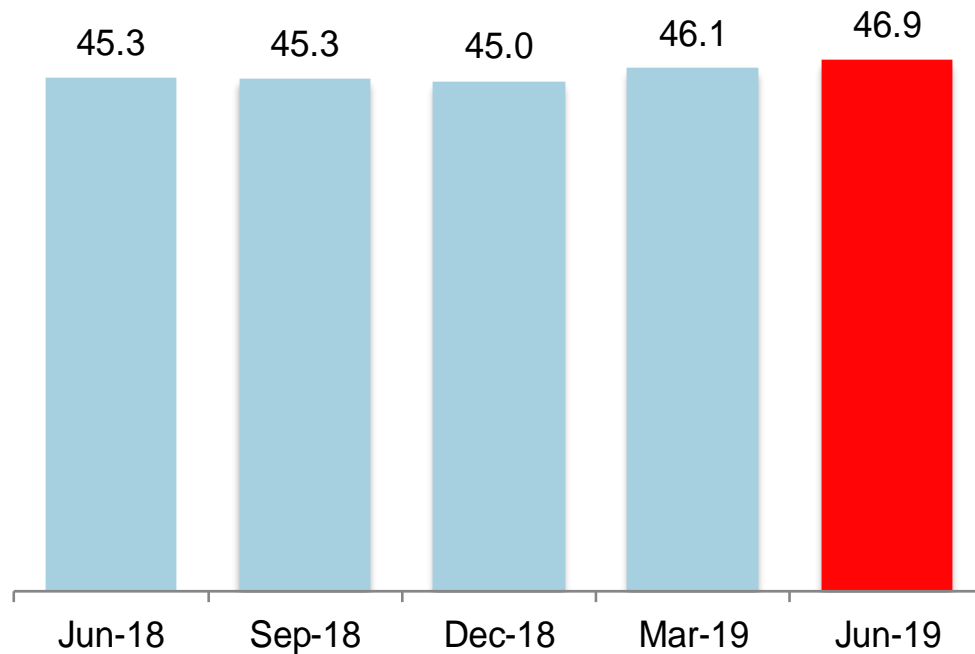
(*) Includes Government, Institutional and other sectors

(**) includes commercial paper



Customer funds continue to evolve at sustained pace

Total customer funds (EUR bn)



	Jun-19	YoY (%)	QoQ (%)
Demand	16.5	+10.6	+9.1
Time and Savings	18.4	-0.2	-3.4
Total Deposits	34.9	+4.6	+2.1
Financial insurance	4.1	+10.0	+0.5
Deposits & financial insurance	39.0	+5.1	+1.9
Securities placed	3.4	-20.9	-19.0
Investment funds and other	4.5	+14.7	+22.2
Total Customer Funds	46.9	+3.5	+1.6

Results

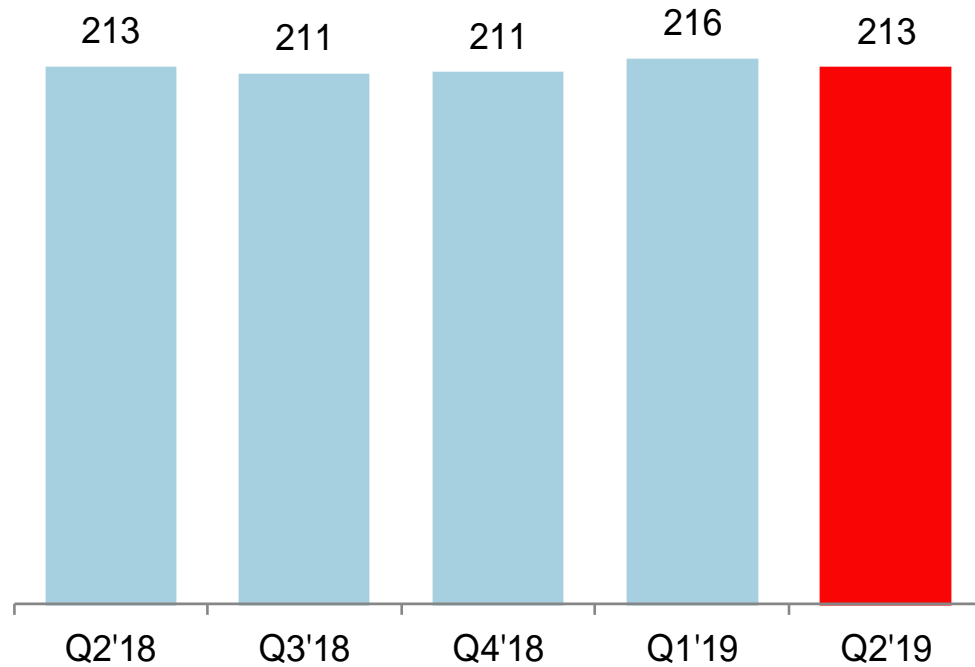


03



NII was flat YoY, in line with the YoY dynamic of the stock of credit

Net interest income (EUR mn)



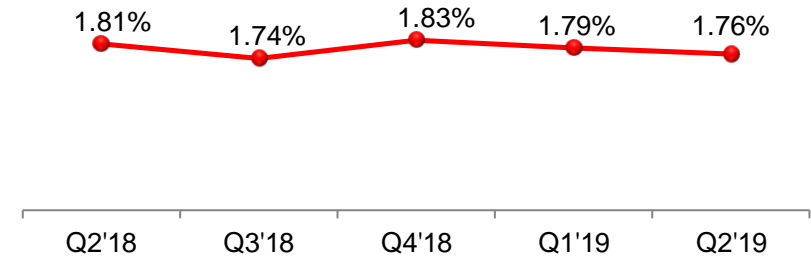
NIM¹ (%)

Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
1.54	1.52	1.54	1.54	1.51

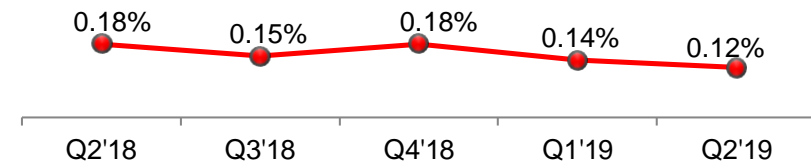
Official interest rate² (%)

Q2'18	Q3'18	Q4'18	Q1'19	Q2'19
0.00	0.00	0.00	0.00	0.00

Yield on loans (%)



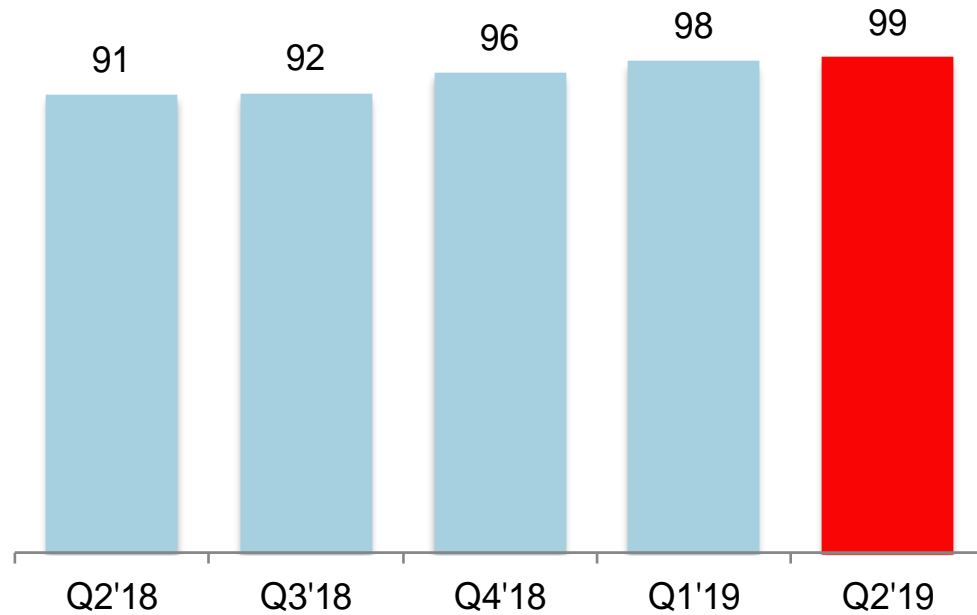
Cost of deposits (%)





Sustained growth in net fee income, especially in means of payment

Net fee income (EUR mn)

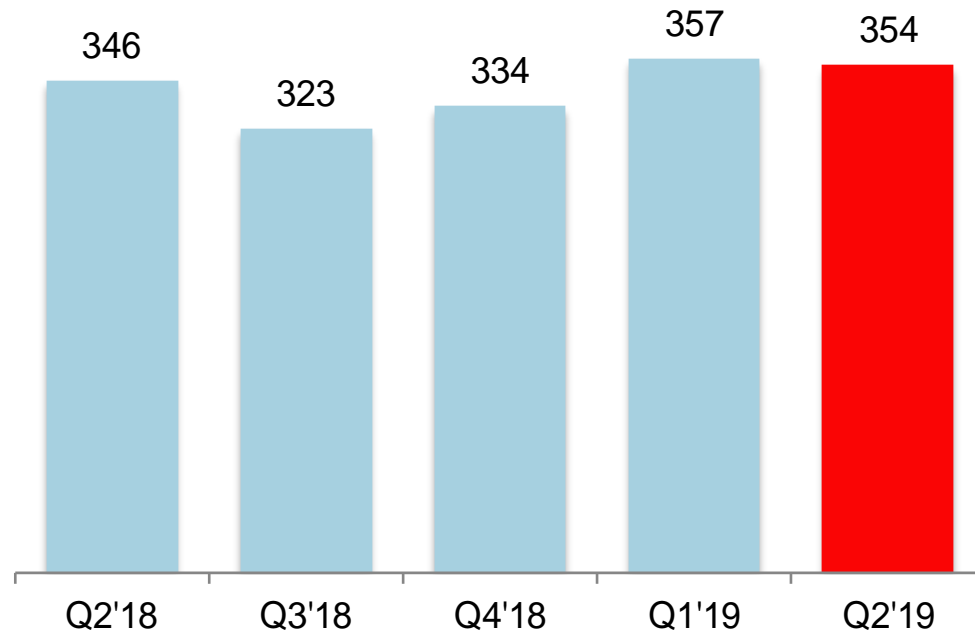


	H1'19	H1'18	YoY (%)	QoQ (%)
Credit	49	47	+5.8	+12.6
Credit cards	49	44	+12.6	-0.2
Mutual funds	12	12	+2.2	+2.3
Insurance	52	49	+6.7	+1.2
Other	34	38	-10.8	-13.9
Total	197	189	+4.1	+0.8

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



Gross income (EUR mn)

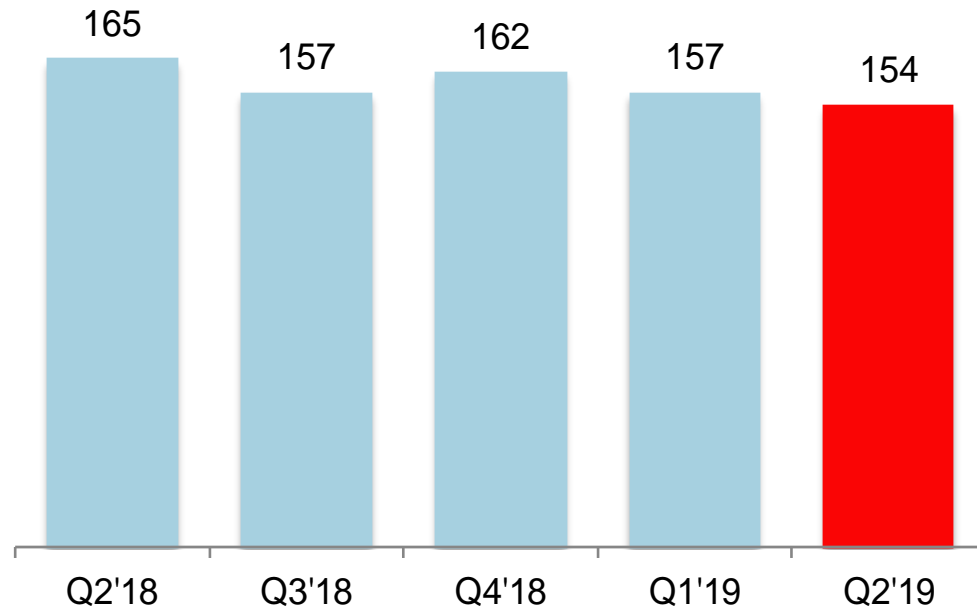


	H1'19	H1'18	YoY (%)	QoQ (%)
Net interest income	429	435	-1.4	-1.2
Net Fees	197	189	+4.1	+0.8
Subtotal	626	624	+0.2	-0.6
Gains/losses on financial transactions	91	58	+58.6	-15.4
Other	-6	6	-	-
Gross income	712	688	+3.5	-0.9

Sustained decline in costs, in line with the optimisation of the commercial structure



Operating expenses (EUR mn)

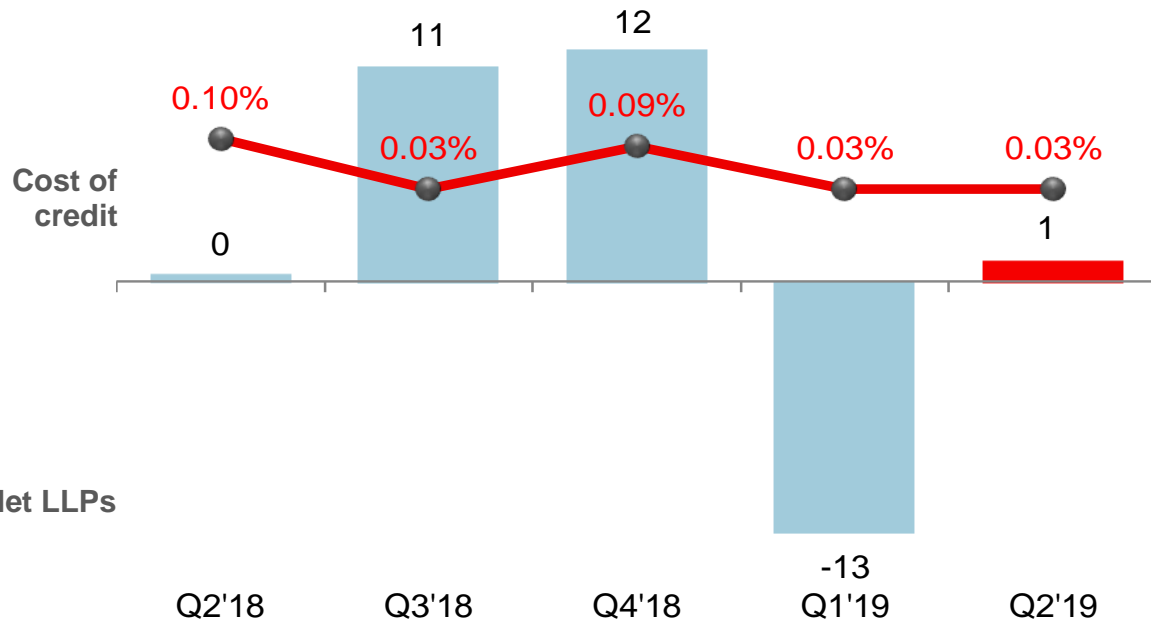


	H1'19	H1'18	YoY (%)	QoQ (%)
Operating Expenses	312	324	-3.8	-1.9
Efficiency ratio <i>(with amortisations)</i>	43.8%	47.2%		
Number of branches	553	672		
Number of employees	6,736	6,940		



The cost of credit remained at minimum levels

LLPs and cost of credit (EUR mn, %)

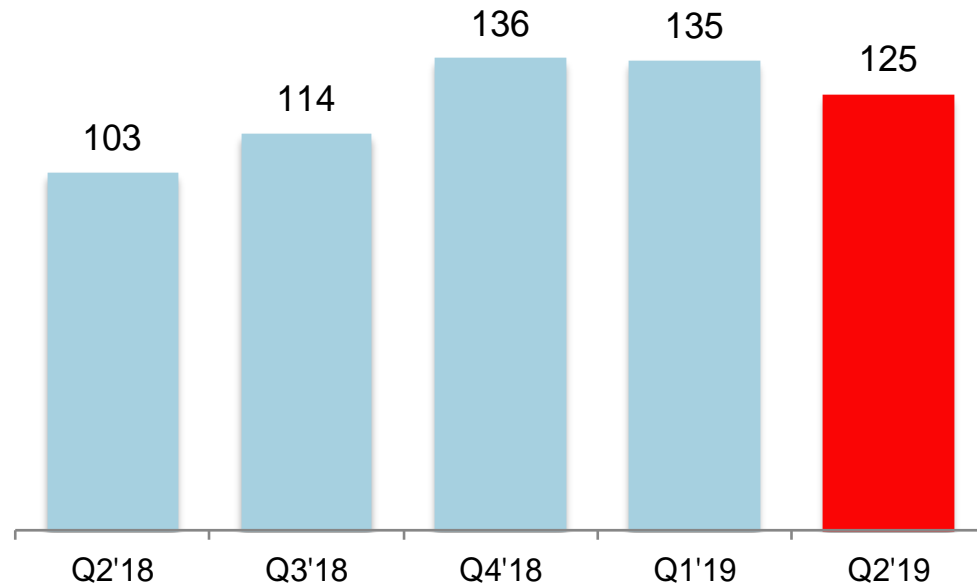


	H1'19	H1'18	YoY (%)	QoQ (%)
Net Operating Income	400	363	+10.0	-0.1
LLPs	12	-8	-	-
Net Op. Income after LLPs	412	355	+16.0	-6.8
NPL ratio	5.0%	7.6%		
NPL coverage ratio	52.9%	52.7%		



Underlying attributable profit increased 13.5%, reflecting lower operating costs, higher revenues and the subdued cost of credit

Underlying attributable profit (EUR mn)



	H1'19	H1'18	YoY (%)	QoQ (%)
Underlying profit before taxes	379	324	+16.9	-3.9
Tax on profit	-118	-94	+25.9	+3.4
Underlying consolidated profit	261	231	+13.3	-7.0
Underlying attributable profit to the Group	260	229	+13.5	-7.1
Effective tax rate	31.2%	28.9%		



Strong results and stable business volumes

Market Environment & Financial System

- ▶ GDP continues to expand at a sustained pace, gradually converging towards potential (1.5%), while unemployment is stable around its natural level (6-7% range)
- ▶ The fiscal balance reached a surplus of 0.4% in Q1'19 and is on track to meet the target of an almost balanced budget
- ▶ 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, with continuous deliveries on digital channels and changes in its internal processes
- ▶ This will contribute to our aim to leverage our position as the largest private sector bank by loans, with a specific focus in 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
- ▶ Low cost of credit, in the current favourable economic environment
- ▶ Gradual stabilisation of the loan book and continued increase in customer funds

Appendix



04

Balance sheet



EUR million	30-Jun-19	30-Jun-18	Variation	
			Amount	%
Loans and advances to customers	35,734	35,567	167	0.5
Cash, central banks and credit institutions	4,025	4,362	(338)	(7.7)
Debt instruments	13,238	11,794	1,444	12.2
Other financial assets	1,809	1,936	(126)	(6.5)
Other asset accounts	1,941	2,454	(513)	(20.9)
Total assets	56,747	56,112	634	1.1
Customer deposits	38,975	37,066	1,908	5.1
Central banks and credit institutions	8,064	9,041	(976)	(10.8)
Marketable debt securities	3,426	4,329	(903)	(20.9)
Other financial liabilities	326	262	63	24.2
Other liabilities accounts	1,701	1,489	212	14.3
Total liabilities	52,491	52,186	305	0.6
Total equity	4,256	3,926	330	8.4
Other managed customer funds	4,474	3,900	573	14.7
Mutual funds	2,809	2,128	681	32.0
Pension funds	1,180	1,149	31	2.7
Managed portfolios	485	623	(138)	(22.2)

Income statement



EUR million	H1'19	H1'18	Variation	
			Amount	%
Net interest income	429	435	(6)	(1.4)
Net fee income	197	189	8	4.1
Gains (losses) on financial transactions	91	58	34	58.6
Other operating income	(6)	6	(11)	—
Total income	712	688	24	3.5
Operating expenses	(312)	(324)	12	(3.8)
Net operating income	400	363	36	10.0
Net loan-loss provisions	12	(8)	20	—
Other gains (losses) and provisions	(33)	(31)	(2)	6.1
Underlying profit before tax	379	324	55	16.9
Tax on profit	(118)	(94)	(24)	25.9
Underlying profit from continuing operations	261	231	31	13.3
Net profit from discontinued operations	—	—	—	—
Underlying consolidated profit	261	231	31	13.3
Non-controlling interests	(1)	(1)	0	(24.6)
Underlying attributable profit to the parent	260	229	31	13.5

Income statement



EUR million

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