

31 October 2018



## 9M'18 Earnings Presentation



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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

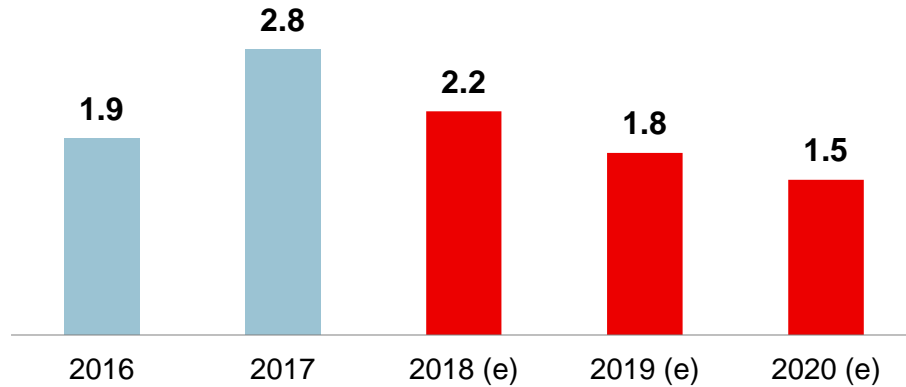


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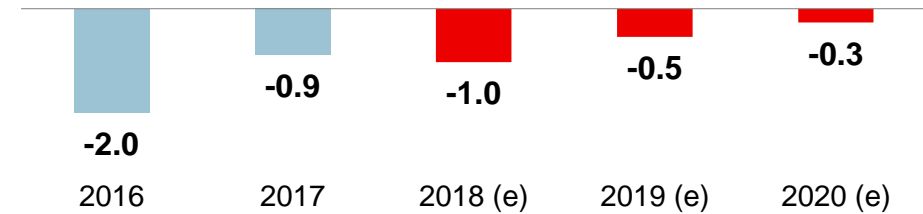


# Sustained growth dynamics with declining unemployment...

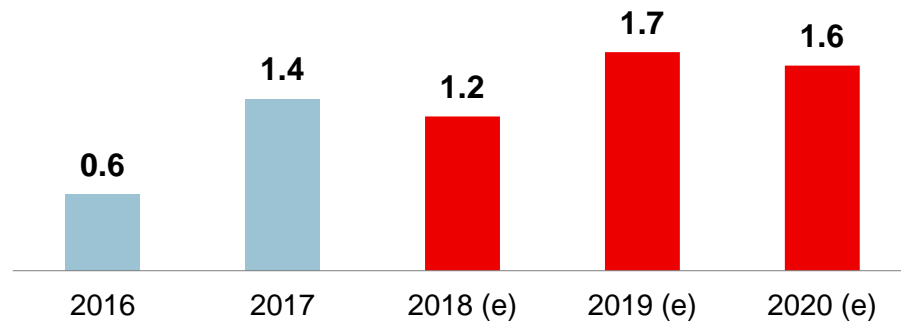
### Annual GDP Growth (real, %)



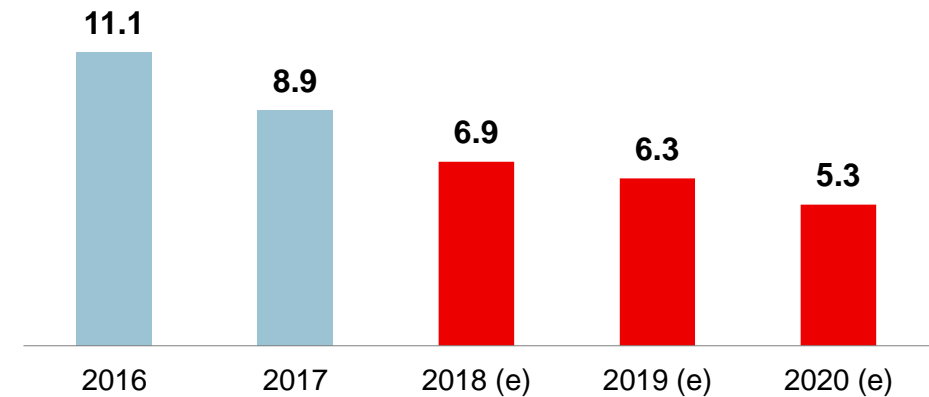
### Fiscal Balance (% of GDP)



### Annual inflation rate (%)



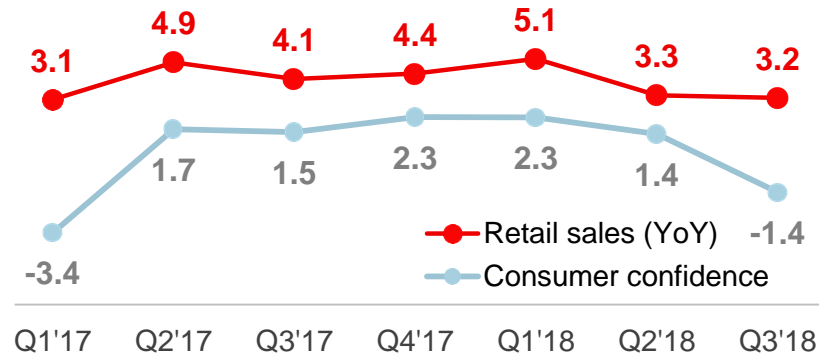
### Unemployment Rate (% , annual average)



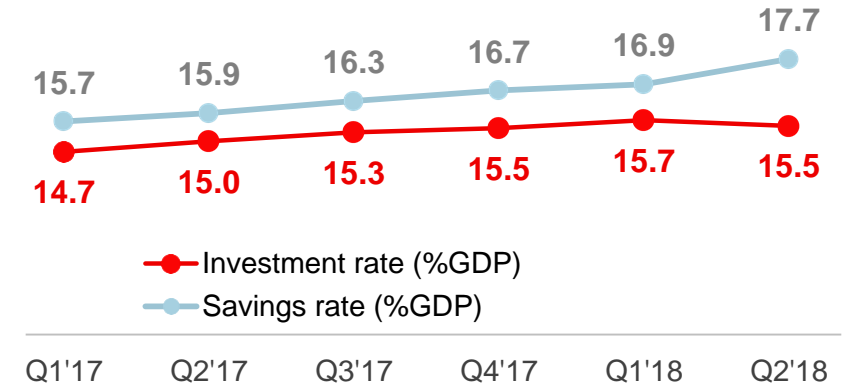


# ...based on improved competitiveness and deleveraging

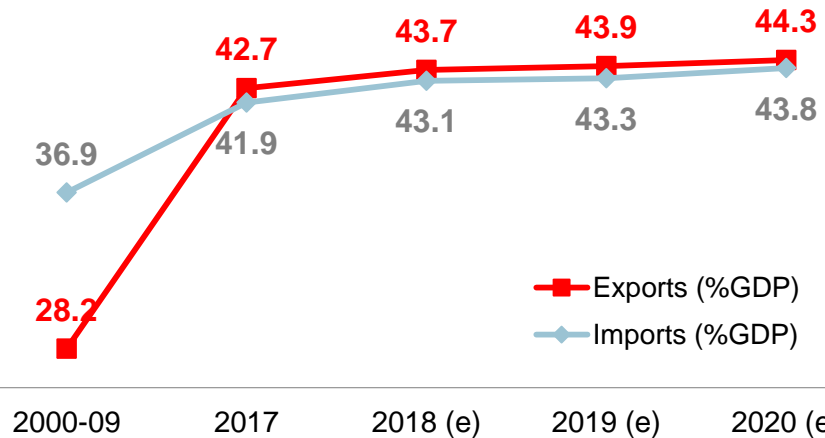
## Consumer dynamics



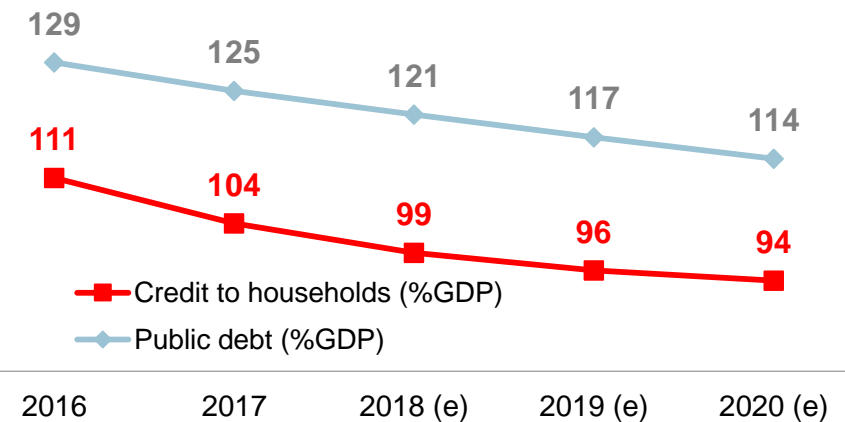
## Investment dynamics (total economy)



## Tradable sector dynamics



## Deleveraging dynamics

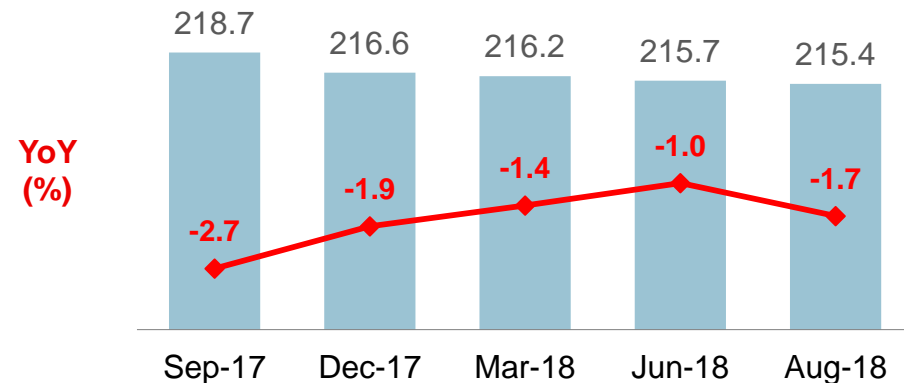






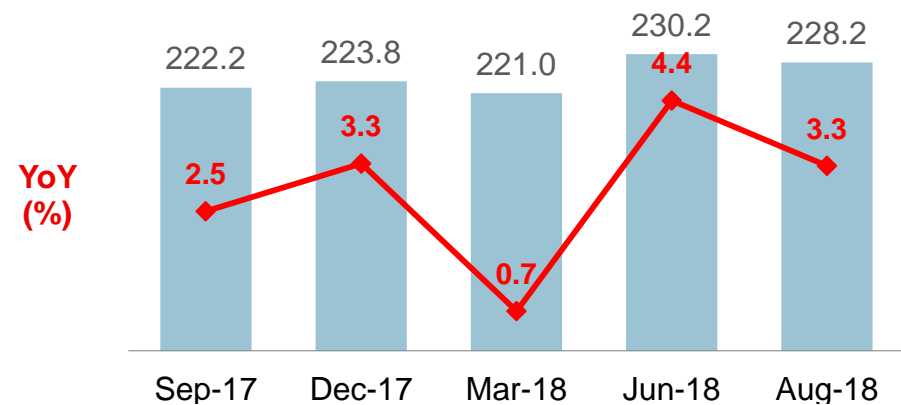
# Loan growth is flattening

**Total loans** (EUR bn)



- ▶ High indebtedness is the main constraint for the private sector credit growth
- ▶ Banks continue “cleaning” their balance sheets from impaired assets

**Total deposits** (EUR bn)



- ▶ Deposits hovered around high levels, as households allocated resources into Government retail debt and corporates financed their investments with own funds

# Strategy and business



02














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



## STRATEGIC PRIORITIES

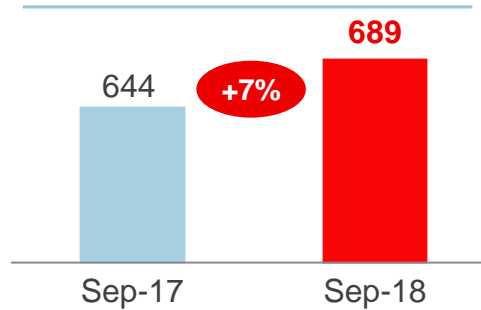
- ▶ Conclusion of the operational and technological integration of Banco Popular Portugal
- ▶ Continue transformation of the Bank to simplify it, bring it closer to customers and make it more efficient
- ▶ Continue gaining profitable market share
- ▶ Improve efficiency and cost of credit

	KEY DATA	9M'18	YoY Var.
	Gross loans <sup>1</sup>	37,093	-2.1%
	Deposits <sup>1</sup>	37,141	+8.2%
	Attributable profit <sup>1</sup>	364	+15.3%
	RoTE <sup>2</sup>	11.6%	-11bps
	Efficiency ratio	47.5%	-137bps
	Loans' market share <sup>3</sup>	18.3%	+7bps
	Deposits' market share <sup>3</sup>	15.8%	+77bps
	Loyal customers <sup>4</sup>	736	+8.2%
	Digital customers <sup>4</sup>	691	+25.4%
	Branches	667	-5.4%
	Employees	6,910	-0.8%



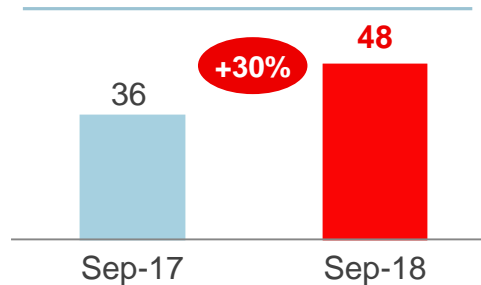
# Dynamic growth in the most valuable customer segments

## Loyal individuals (k)



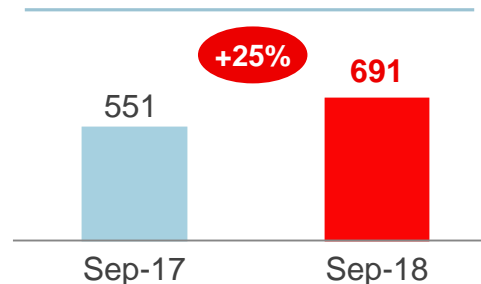
- ▶ The number of loyal customers continues to grow, underpinned by the 1|2|3 strategy...

## Loyal companies (k)



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

## Digital customers (k)



- ▶ The number of digital customers continued to grow, as we increase the digital functionalities available to household as well as corporate customers (*CrediSimples*, mutual funds, new corporate mobile app)



# Retail and digital services



The Bank sponsored the *Agroglobal* fair promoting several debates aimed at reflection on the agricultural sector and closer proximity to its customers and partners



The Bank sponsored the European Innovation Academy (EIA), promoting entrepreneurship in young people



Santander Totta launched the *SIM* account, a simpler, more economic and digital account, aimed at customers at the beginning of their active life or with lower income



The Bank made available the immediate transfer service which allows that in any bank transfer the funds become available in the recipient's account within 10 seconds



In order to attract university students, the Bank launched the enrollment campaign aimed at helping them through the entire bureaucratic process

In October, Moody's upgraded BST LT debt and deposits rating to Baa3/P-3 and Baa2/P-2, respectively



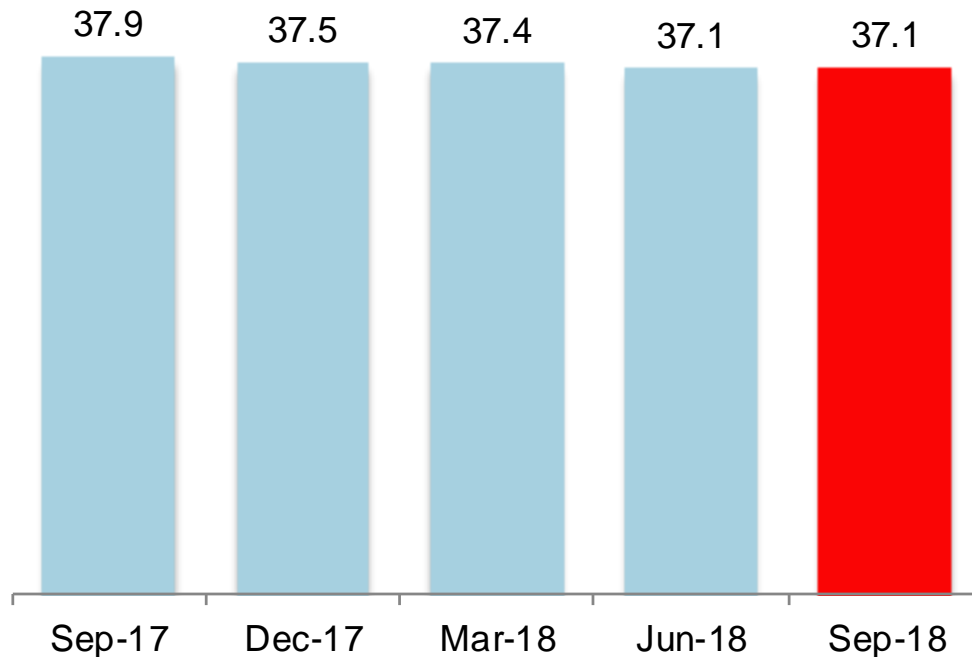
Santander launched a campaign to highlight its investment in corporate social responsibility with special focus on three areas: social welfare, volunteering and training. In the last 5 years, the Bank dedicated EUR 32.5 million to support society in Portugal





# Loans to individuals continued to increase, while total loans declined due to loan portfolio sales in the corporate sector

**Total loans** (EUR bn)



## Individuals

from which:

Mortgage

Consumer credit

## Corporates

## Other(\*)

## Total

Loans to Corporates (\*\*)

Total Loans (\*\*)

	Sep-18	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>21.7</b>	<b>+1.3</b>	<b>+0.6</b>
from which:			
Mortgage	19.3	+1.6	+0.5
Consumer credit	1.6	+3.3	+0.6
<b>Corporates</b>	<b>12.7</b>	<b>-9.4</b>	<b>-0.8</b>
<b>Other(*)</b>	<b>2.7</b>	<b>+10.0</b>	<b>-0.0</b>
<b>Total</b>	<b>37.1</b>	<b>-2.1</b>	<b>+0.1</b>
Loans to Corporates (**)	17.2	-5.4	-0.7
Total Loans (**)	41.6	-1.1	+0.0

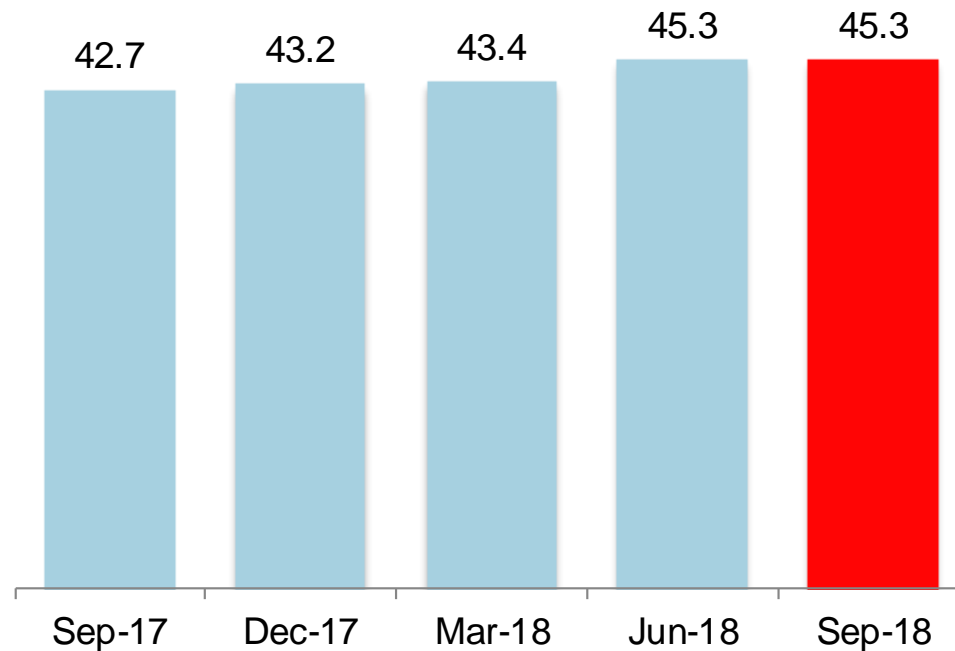
(\*) Includes Government, Institutional and other sectors

(\*\*) includes commercial paper



## Total customer funds stable from the previous quarter, but increasing YTD

**Total customer funds (EUR bn)**



	Sep-18	YoY (%)	QoQ (%)
Demand	14.7	+10.5	-1.0
Time and Savings	18.5	+1.5	+0.4
Total Deposits	33.3	+5.3	-0.2
Financial insurance	3.9	+41.2	+4.0
Deposits & financial insurance	37.1	+8.2	+0.2
Securities placed	4.3	-10.4	-0.5
Investment funds and other	3.8	+7.0	-2.3
<b>Total Customer Funds</b>	<b>45.3</b>	<b>+6.0</b>	<b>-0.1</b>

Results



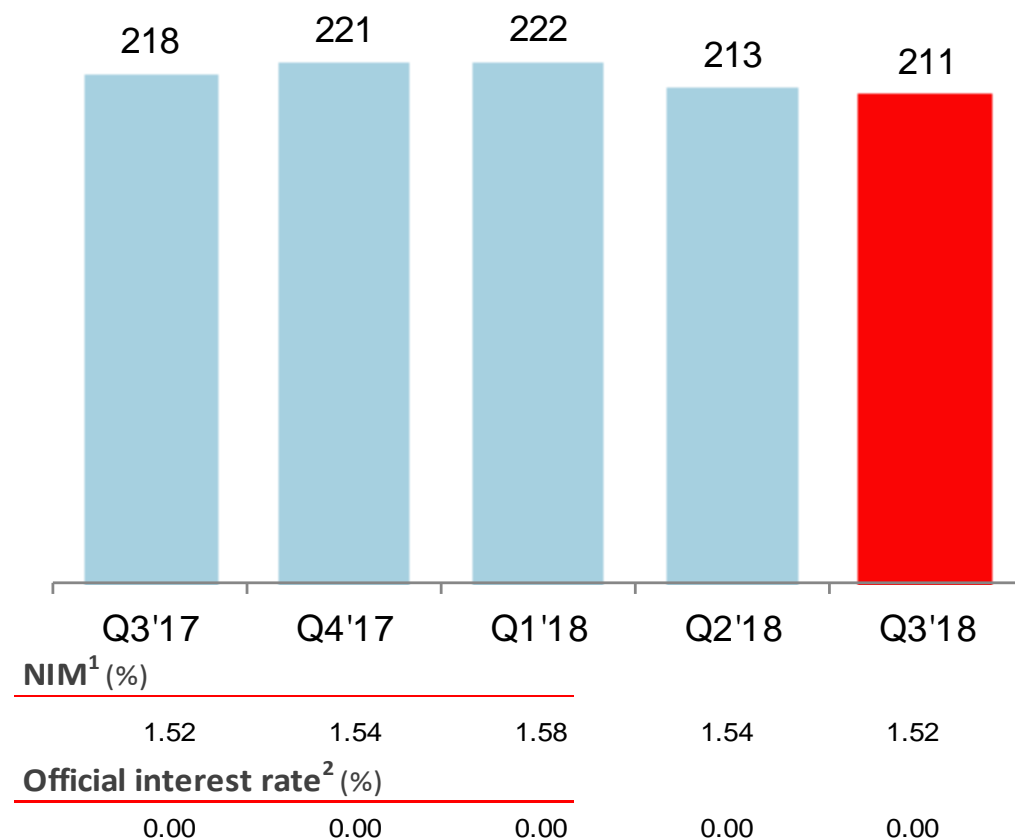
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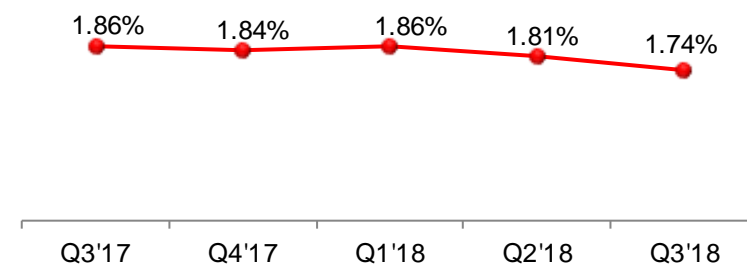
# NII impacted by lower yield on loans



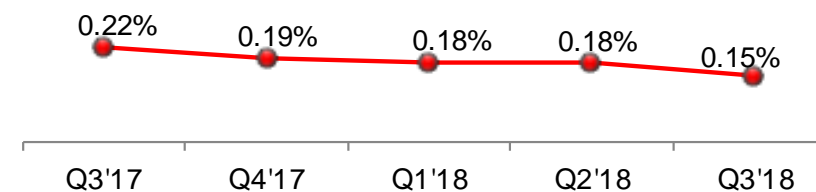
## Net interest income (EUR mn)



## Yield on loans (%)



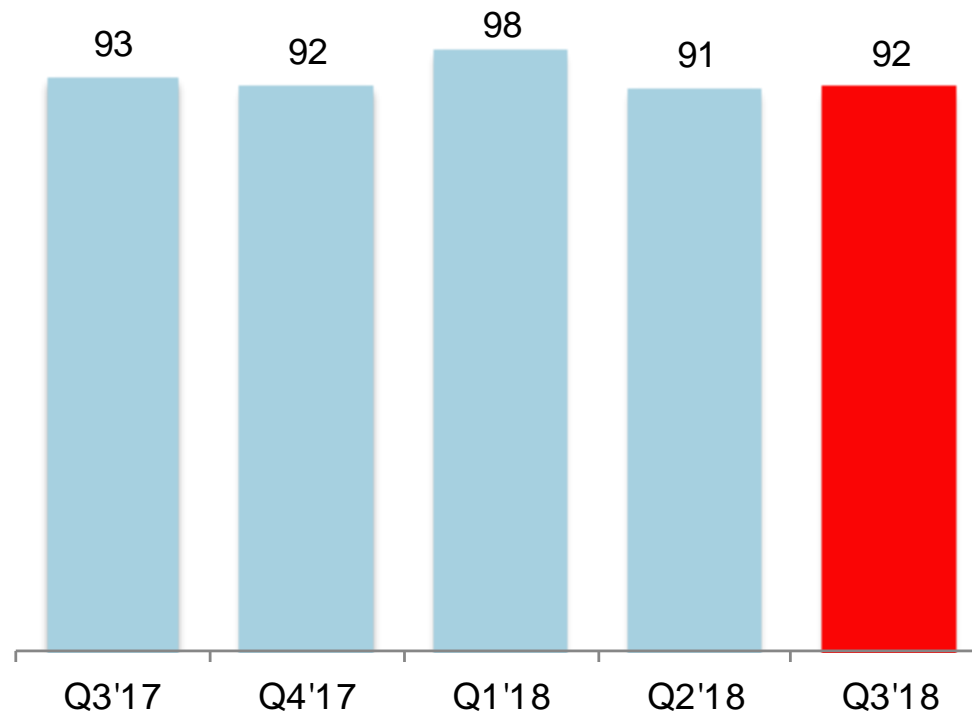
## Cost of deposits (%)





Net fee income grew slightly in the quarter due to the evolution of credit cards, insurance and mutual funds

### Net fee income (EUR mn)



Credit  
Credit cards  
Mutual funds  
Insurance  
Other

**Total**

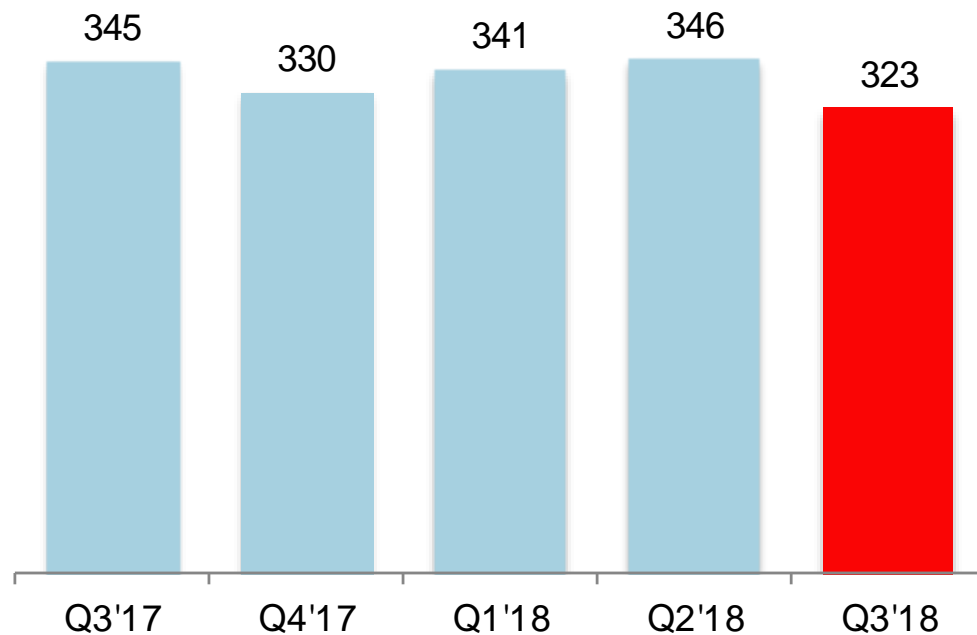
	9M'18	9M'17	YoY (%)	QoQ (%)
Credit	62	64	-3.2	-4.8
Credit cards	66	62	+6.3	+2.3
Mutual funds	18	15	+23.2	+0.8
Insurance	74	70	+5.3	+3.2
Other	60	56	+7.1	-0.5
<b>Total</b>	<b>281</b>	<b>268</b>	<b>+4.8</b>	<b>+0.2</b>

Note: "Other" includes BaPop commissions

# Quarterly evolution in gross income affected by the decrease in gains on financial transactions



**Gross income** (EUR mn)



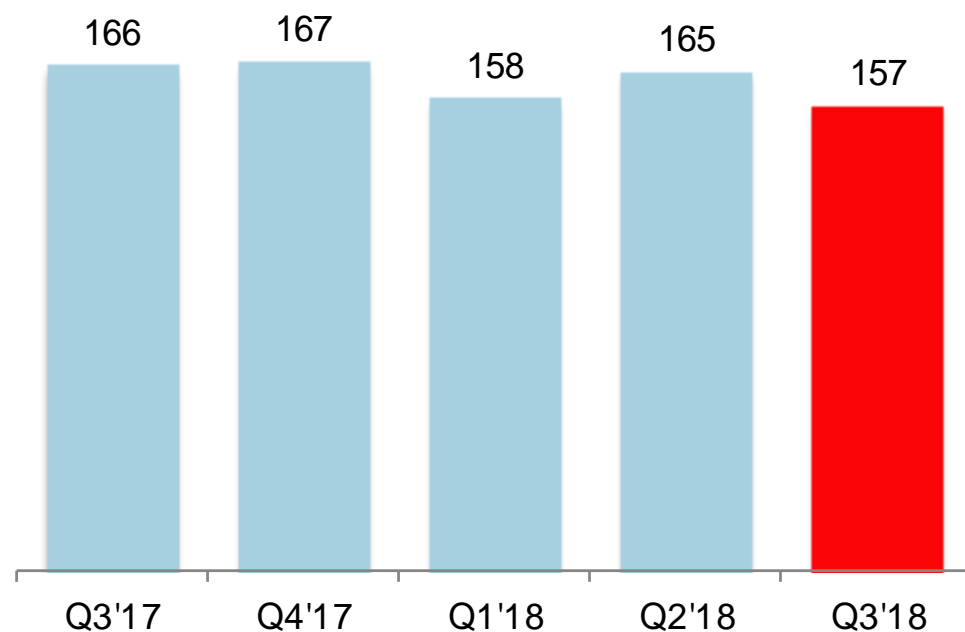
	9M'18	9M'17	YoY (%)	QoQ (%)
Net interest income	646	566	+14.2	-1.1
Net Fees	281	268	+4.8	+0.2
<b>Subtotal</b>	<b>927</b>	<b>834</b>	<b>+11.2</b>	<b>-0.7</b>
Gains/losses on financial transactions	63	74	-14.6	-84.1
Other	20	6	+218.1	+132.3
<b>Gross income</b>	<b>1,010</b>	<b>914</b>	<b>+10.5</b>	<b>-6.9</b>



# Efficiency continued to improve YoY



## Operating expenses (EUR mn)

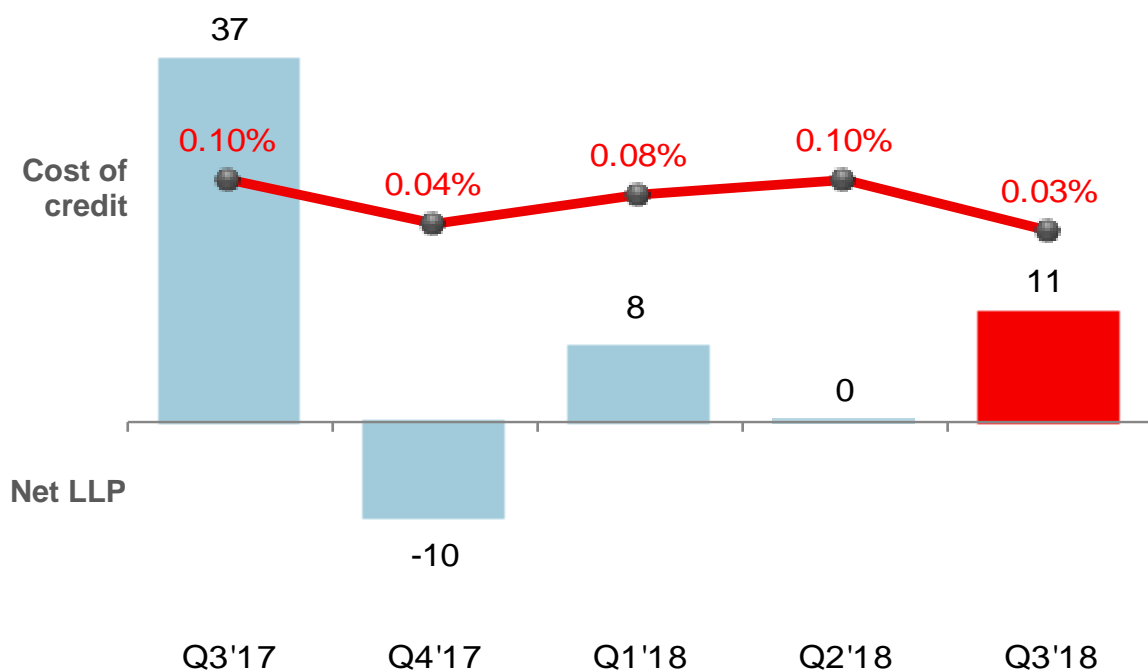


	9M'18	9M'17	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	449	418	+7.5	-4.8
Depreciation and amortisation	31	29	+6.2	-2.9
<b>Total</b>	<b>480</b>	<b>447</b>	<b>+7.4</b>	<b>-4.7</b>
Efficiency ratio (with amortisations)	47.5%	48.9%		
Number of branches	667	705		
Number of employees	6,910	6,967		

# The cost of credit remained low



## LLP and cost of credit (EUR mn, %)

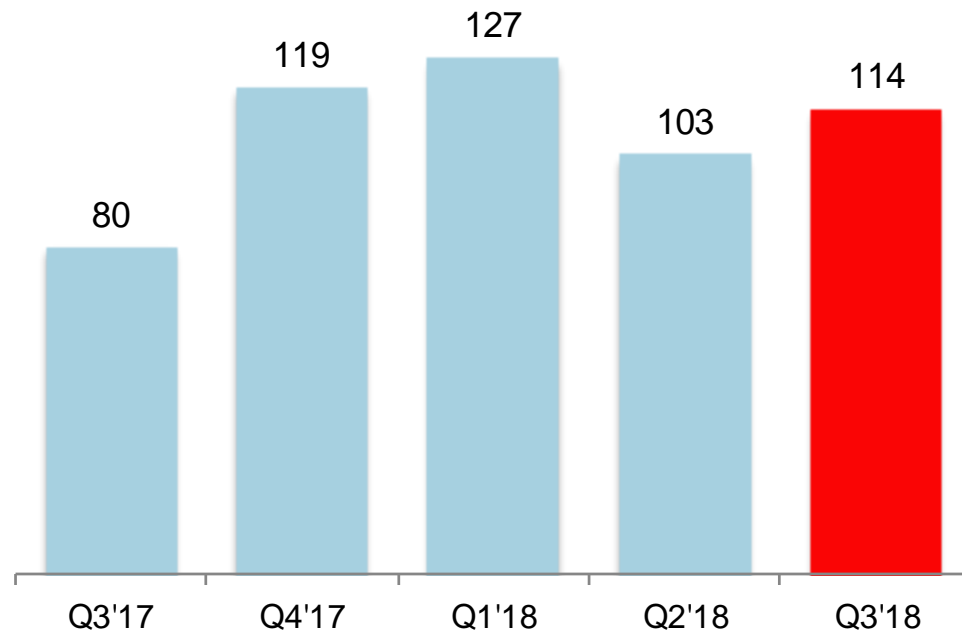


	9M'18	9M'17	YoY (%)	QoQ (%)
Net Operating Income	530	467	+13.4	-8.9
LLPs	20	22	-10.8	-
Net Op. Income after LLPs	510	445	+14.6	-14.9
NPL ratio	7.4%	8.4%		
NPL coverage ratio	53.4%	56.1%		



## 9M'18 PBT boosted by improved efficiency and lower cost of credit

### Underlying attributable profit (EUR mn)



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

80	119	127	123	114
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	9M'18	9M'17	YoY (%)	QoQ (%)
Underlying profit before taxes	492	407	+21.1	+4.8
Tax on profit	146	89	+64.3	-6.5
Underlying consolidated profit	346	318	+9.0	+10.8
<b>Underlying attributable profit to the Group</b>	<b>344</b>	<b>316</b>	<b>+8.9</b>	<b>+10.9</b>
Net capital gains and provisions (*)	20	0	-	-100.0
<b>Attributable profit to the Group</b>	<b>364</b>	<b>316</b>	<b>+15.3</b>	<b>-7.1</b>
Effective tax rate	29.7%	21.9%		

# 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 is expected to grow around 2% in 2018 and 2019
- ▶ The fiscal deficit narrowed to 0.7% of GDP in Q2'18, aligned with the annual target of 0.7%
- ▶ Loan dynamics continue to be affected by NPL management

## Strategy & Business

- ▶ With the full integration of Banco Popular Portugal we will continue to focus on strengthening 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

## Results

- ▶ Improving underlying profit, with better efficiency and low cost of credit
- ▶ Conclusion of Banco Popular integration (IT&OP integration concluded on 14 Oct.)
- ▶ Stabilisation of the loan book, considering the management of credit from Popular



# Appendix



04

# Balance sheet



EUR million	30-Sep-18	30-Sep-17	Variation	
			Amount	%
Loans and advances to customers	35,612	36,025	(413)	(1.1)
Cash, central banks and credit institutions	3,191	5,824	(2,633)	(45.2)
Debt securities	11,861	11,630	231	2.0
<i>o/w: designated at fair value through equity</i>	5,172	5,158	13	0.3
Other financial assets	1,941	1,831	110	6.0
Other assets	2,298	2,863	(565)	(19.7)
<b>Total assets</b>	<b>54,904</b>	<b>58,174</b>	<b>(3,271)</b>	<b>(5.6)</b>
Customer deposits	37,141	35,677	1,463	4.1
Central banks and credit institutions	7,816	11,364	(3,548)	(31.2)
Debt securities issued	4,309	4,808	(499)	(10.4)
Other financial liabilities	243	316	(73)	(23.2)
Other liabilities	1,382	1,857	(475)	(25.6)
<b>Total liabilities</b>	<b>50,889</b>	<b>54,022</b>	<b>(3,133)</b>	<b>(5.8)</b>
<b>Total equity</b>	<b>4,014</b>	<b>4,152</b>	<b>(138)</b>	<b>(3.3)</b>
<b>Other managed and marketed customer funds</b>	<b>3,810</b>	<b>3,560</b>	<b>250</b>	<b>7.0</b>
Mutual funds	2,045	1,981	64	3.2
Pension funds	1,145	1,117	28	2.5
Managed portfolios	620	461	158	34.3



# Income statement



EUR million	9M'18	9M'17	Variation	
			Amount	%
Net interest income	646	566	80	14.2
Net fees	281	268	13	4.8
Gains (losses) on financial transactions	63	74	(11)	(14.6)
Other operating income	20	6	14	218.1
<b>Gross income</b>	<b>1,010</b>	<b>914</b>	<b>96</b>	<b>10.5</b>
Operating expenses	(480)	(447)	(33)	7.4
General administrative expenses	(449)	(418)	(31)	7.5
<i>Personnel</i>	(278)	(260)	(18)	7.0
<i>Other general administrative expenses</i>	(171)	(158)	(13)	8.2
Depreciation and amortisation	(31)	(29)	(2)	6.2
<b>Net operating income</b>	<b>530</b>	<b>467</b>	<b>63</b>	<b>13.4</b>
Net loan-loss provisions	(20)	(22)	2	(10.8)
Other income	(18)	(39)	21	(53.2)
<b>Underlying profit before taxes</b>	<b>492</b>	<b>407</b>	<b>86</b>	<b>21.1</b>
Tax on profit	(146)	(89)	(57)	64.3
<b>Underlying profit from continuing operations</b>	<b>346</b>	<b>318</b>	<b>29</b>	<b>9.0</b>
Net profit from discontinued operations	—	—	—	—
<b>Underlying consolidated profit</b>	<b>346</b>	<b>318</b>	<b>29</b>	<b>9.0</b>
Minority interests	2	2	0	20.3
<b>Underlying attributable profit to the Group</b>	<b>344</b>	<b>316</b>	<b>28</b>	<b>8.9</b>
Net capital gains and provisions	20	—	20	—
<b>Attributable profit to the Group</b>	<b>364</b>	<b>316</b>	<b>48</b>	<b>15.3</b>

# Income statement



EUR million

	Q1'17	Q2'17	Q3'17	Q4'17	Q1'18	Q2'18	Q3'18
Net interest income	172	177	218	221	222	213	211
Net fees	89	85	93	92	98	91	92
Gains (losses) on financial transactions	34	9	31	2	22	36	6
Other operating income	(1)	4	3	15	(0)	6	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>
Operating expenses	(139)	(142)	(166)	(167)	(158)	(165)	(157)
General administrative expenses	(129)	(133)	(156)	(157)	(148)	(154)	(147)
<i>Personnel</i>	(83)	(84)	(92)	(91)	(91)	(95)	(91)
<i>Other general administrative expenses</i>	(46)	(49)	(64)	(66)	(57)	(59)	(55)
Depreciation and amortisation	(10)	(10)	(10)	(10)	(11)	(10)	(10)
<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>
Net loan-loss provisions	10	5	(37)	10	(8)	(0)	(11)
Other income	(14)	(9)	(16)	(5)	(9)	(22)	13
<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>
Tax on profit	(25)	(19)	(45)	(47)	(39)	(56)	(52)
<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>
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>
Minority interests	1	0	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>
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>



# 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

