

# Portugal

## First Half 2014

*July 31, 2014*

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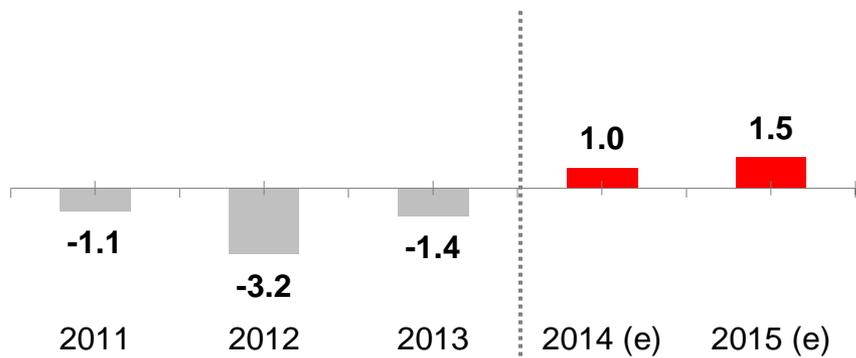
Note: The results information contained in this presentation has been prepared according to Spanish accounting criteria and regulation in a manner applicable to all subsidiaries of the Santander Group and as a result it may differ from the one disclosed locally by Banco Santander Totta.

# Agenda

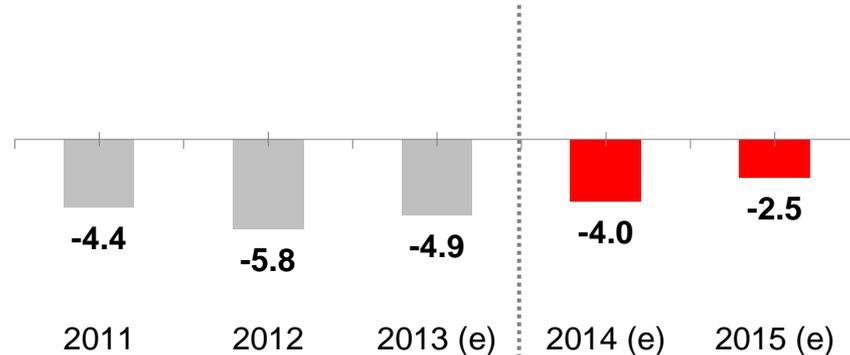
- **Macro-economic environment and financial system**
- Strategy and business
- Results
- Appendix

## Moderate growth continues to support a gradual decline in unemployment

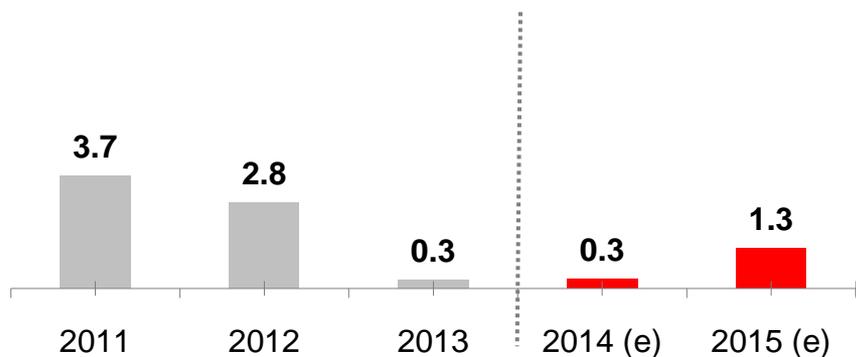
### Annual GDP Growth (% , real)



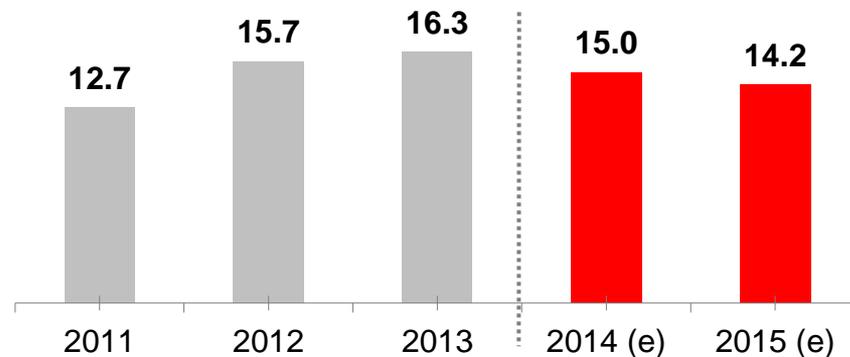
### Fiscal Balance (% GDP)



### Annual CPI inflation rate (% , annual average)

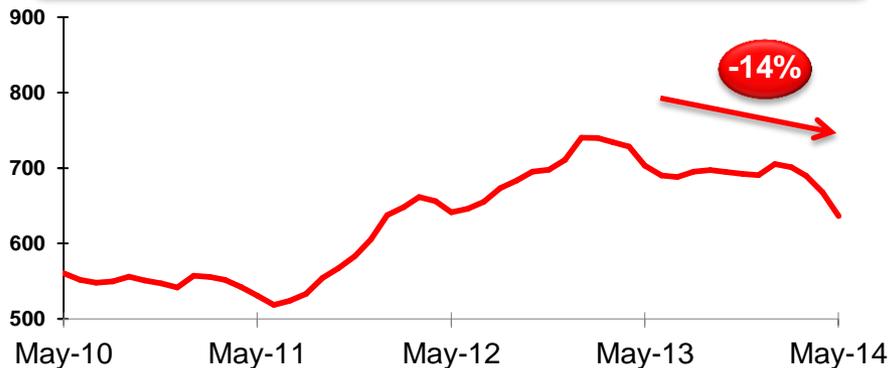


### Unemployment Rate (annual average)



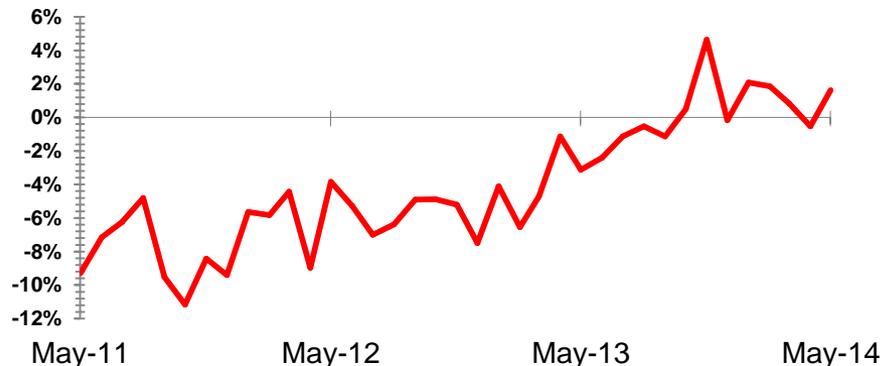
Exports affected by the temporary shutdown of the Sines refinery. Non oil exports remain resilient

### Registered Unemployment (000)



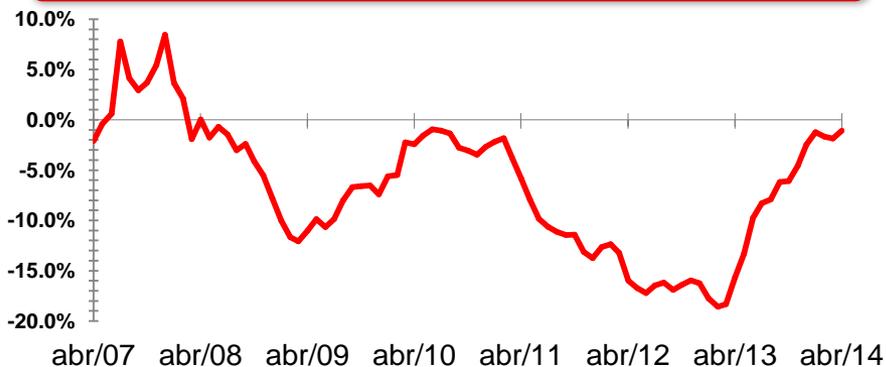
Source: IEFP

### Retail Sales (YoY)



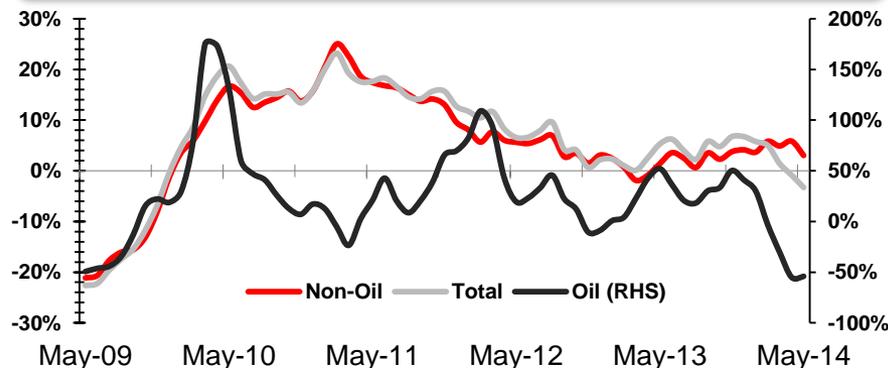
Source: INE

### Investment Indicator (YoY)



Source: INE

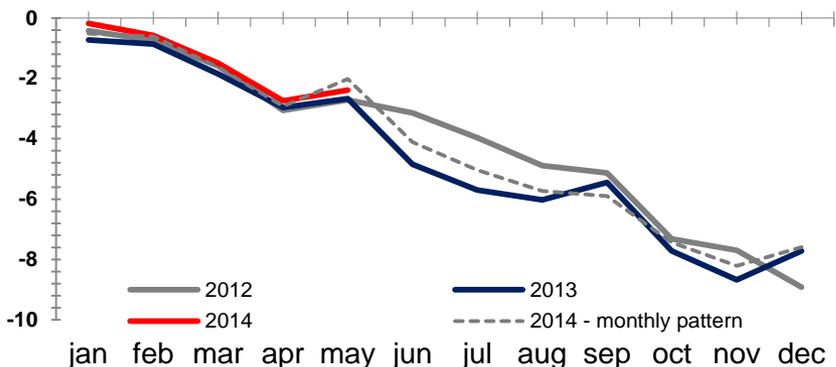
### Exports (MA3, YoY)



Source: INE

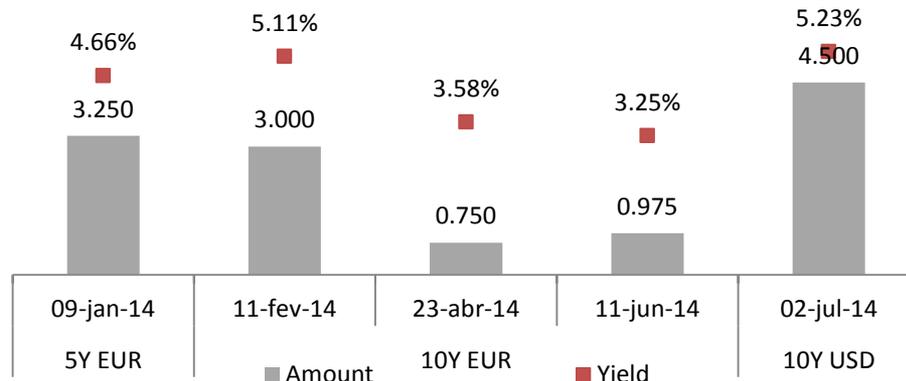
**Budgetary developments remain in line with the projected path. The Treasury continues to issue in wholesale markets, issuing a new 10-year benchmark in USD**

## Fiscal Balance (€ bn)



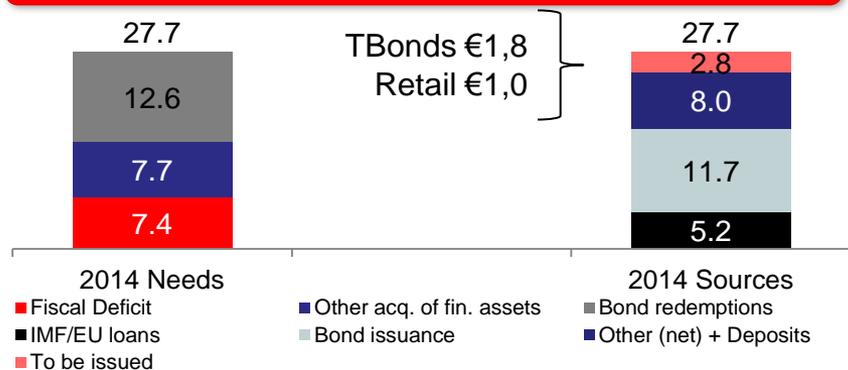
Source: Ministry of Finance

## Medium-Long term Issuance in 2014 (bn)



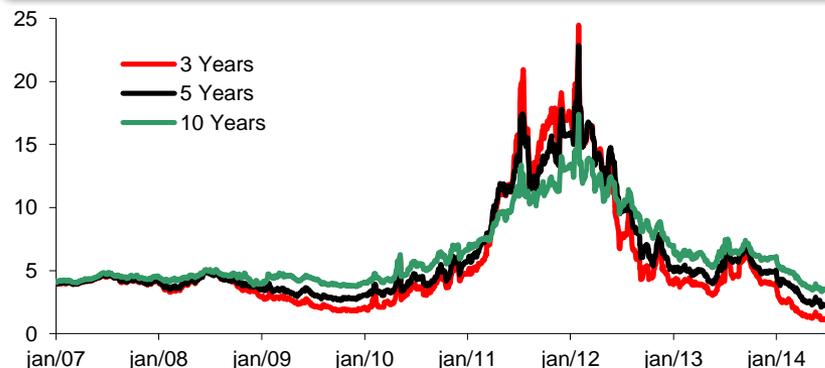
Source: IGCP

## Funding Needs and Financing Plan (€ bn)



Source: IGCP

## Portuguese Government Bond Yields

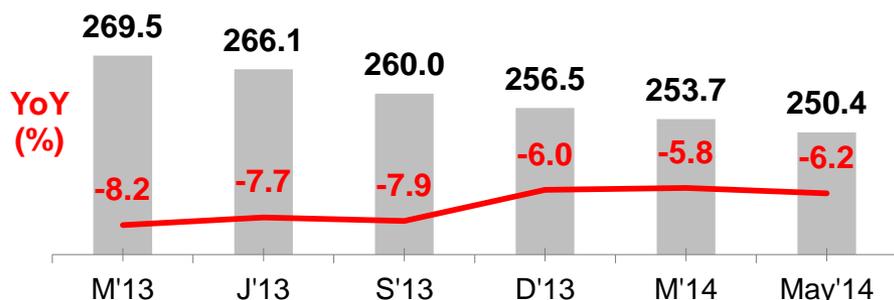


Source: Bloomberg

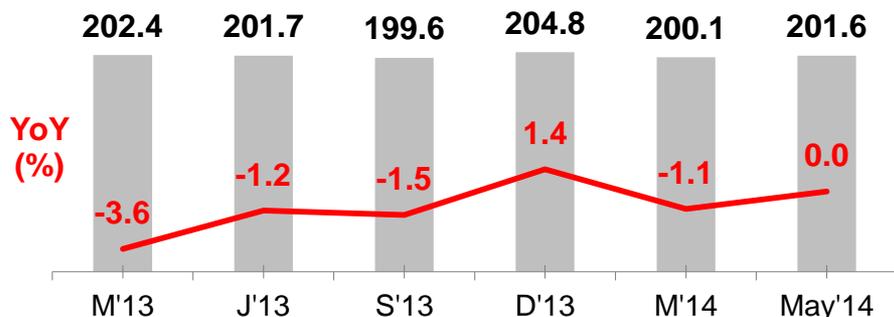
Bank loans decline, but a slower pace. In 2Q, the assumption of State-Owned Enterprises' debt by the Government is resulting in increased volatility in data

EURbn.

## Total loans



## Total deposits



- The private sector continues to deleverage, at a slower pace
  - Changes in the mix of funding of SOEs, in 2Q, in favour of public debt funding, are resulting in a larger decline in the stock of loans
  - Estimated growth of loans in 2014: -4,0%
- 
- Deposits have been flat around €200bn
  - Having met the required 120% target for the loans-to-deposits ratio, banks are now managing their funding mix and costs

## Macro developments underpin the financial system

- Economic activity declined unexpectedly in 1Q14, due to the impacts of the temporary shutdown of the Sines refinery, which affected exports of refined oil products
- In 2Q this impact is being reversed, and GDP could resume to positive QoQ growth, supported by improving domestic demand, as unemployment falls to 2011 levels
- The fiscal targets remain on track, as strong domestic demand underpins tax revenue. Still, to meet the 4,05 of GDP target for the fiscal deficit, the Government needs to replace of the measures ruled unconstitutional by the Constitutional Court (namely the deeper wage cuts which were in effect in 2014)
- The Treasury continues to rely on wholesale funding, opening a new 10-year benchmark in USD for the first time since 2010 (issued US\$4.5bn, at 5.225%)
- Deleveraging continues, at a steady pace in the non-financial private sector
- Deposits remain stable, while funding at the ECB continues to decline (€45bn in May 14)

# Agenda

- Macro-economic environment and financial system
- **Strategy and business**
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- Appendix

**Santander Totta is the 3<sup>rd</sup> private bank in domestic activity by total assets**



<i>EUR</i>	Jun'14	Var. YoY
<b>Business and Results</b>		
Loans	25.2 bn.	-3.9%
Deposits	23.3 bn.	-1.4%
Total customer funds	29.5 bn.	+4.7%
Consolidated profit	70.4 m.	+53.3%
Attributable profit	74.4 m.	+62.6%

<b>Other Data</b>		
Employees	5,515	-94
Branches	626	-25
ATMs	1,544	-52

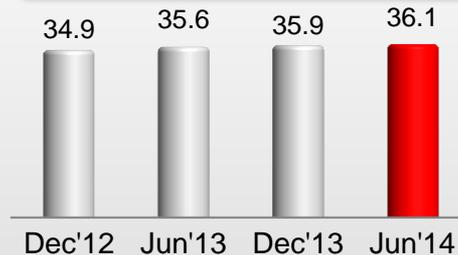
<b>Market Share <sup>(1)</sup></b>		
Loans	9.92%	+0.25pp
- Individuals	12.53%	+0.11pp
- Corporates	7.64%	+0.22pp
Deposits	9.55%	-0.47pp

(1) Market share as of May, 2014

# Commercial focus / strategy

## Balance sheet mix (in local criteria\*)

Mix of Corporates / Total loans (%)



Loans to corporates/SMEs increase its relative weight in loan portfolio...

## Market shares

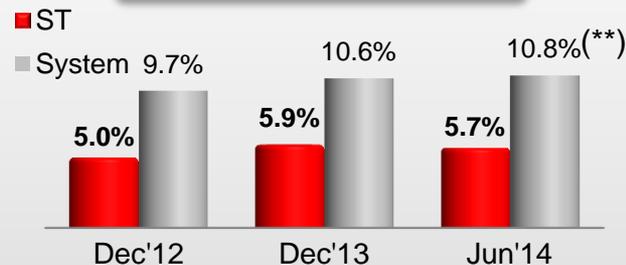
Market shares - Loans



...with a market share gain in corporates

## Asset quality

Credit at risk ratio

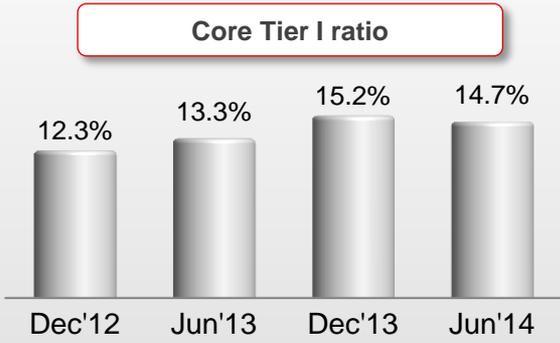


BST's asset quality indicators are better compared to the average of the banking system (\*\*)

(\*) Total loans includes commercial paper

(\*\*) According to the latest available data (Mar/14)

**Capital ratios**



**Capital ratios' evolution continues to reflect the sound structure of the Bank**

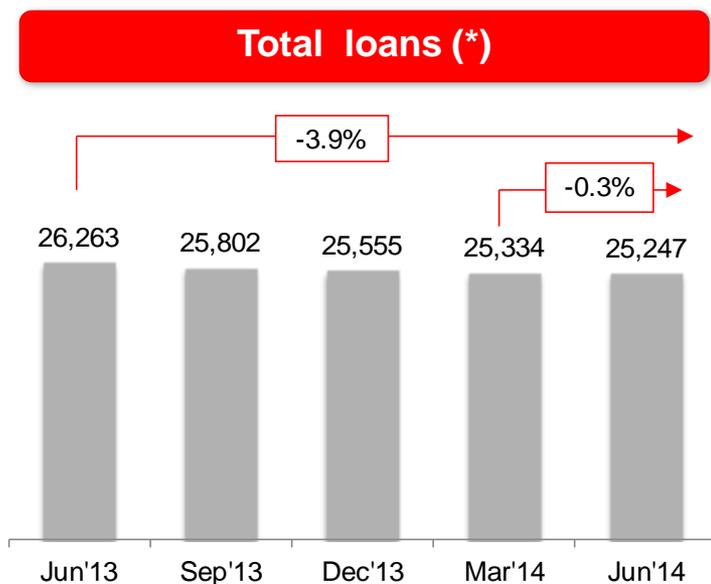
**Commercial gap**



**Commercial gap stabilises**

## Corporate Loans relatively flat in 2014 in spite of strong market reduction

EUR million



	Jun'14	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>16,897</b>	<b>-3.3</b>	<b>-0.7</b>
Mortgage	15,004	-3.4	-0.8
Consumer credit	1,416	+0.9	+1.8
<b>Corporates</b>	<b>7,642</b>	<b>-9.7</b>	<b>-2.3</b>
SMEs	2,586	-10.8	-1.2
Corporates	3,375	-10.3	+0.9
Large corporates	1,681	-6.8	-9.6
<b>Total</b>	<b>25,247</b>	<b>-3.9</b>	<b>-0.3</b>
Loans to Corporates (*)	9,706	-4.6	-1.2
Total Loans (*)	27,311	-2.4	-0.1

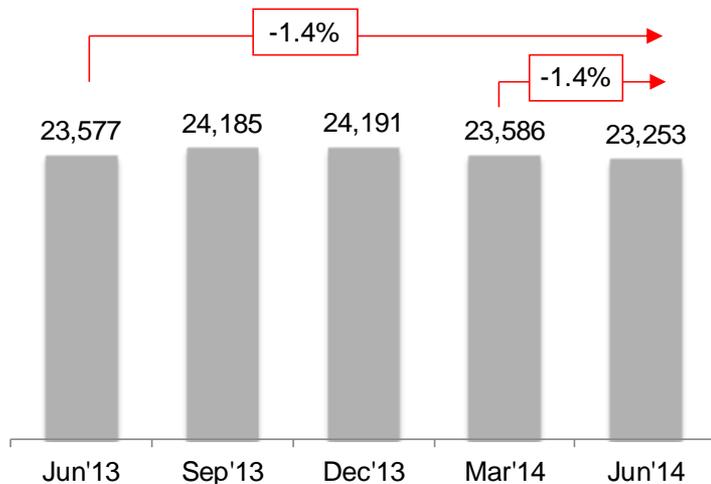
(\*) Including commercial paper

(\*) Gross credit

## Customer Funds increase due to the recovery of off balance sheet resources

EUR million

### Total deposits



	Jun'14	YoY (%)	QoQ (%)
Demand	4,579	-3.5	+7.9
Time and Savings	18,674	-0.8	-3.5
<b>Deposits</b>	<b>23,253</b>	<b>-1.4</b>	<b>-1.4</b>
Securities placed	3,811	+59.1	+69.5
Investment funds and other	2,396	+11.0	+7.6
<b>Total Customer Funds</b>	<b>29,460</b>	<b>+4.7</b>	<b>+5.0</b>

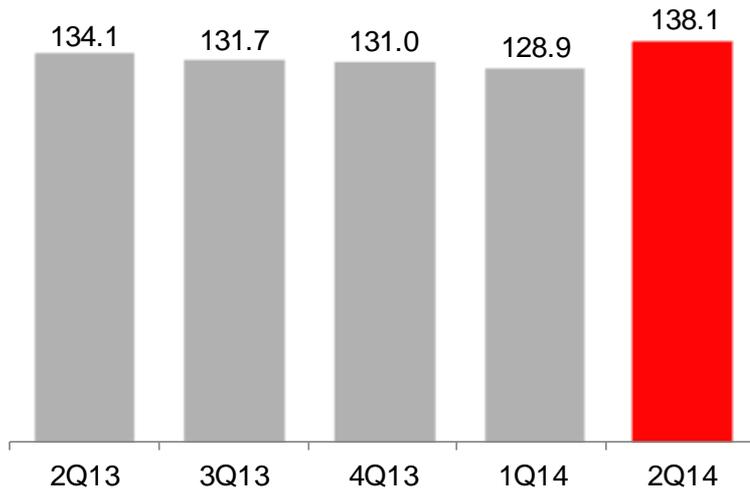
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**NII recovers over the last quarter due to the decrease of funding costs**

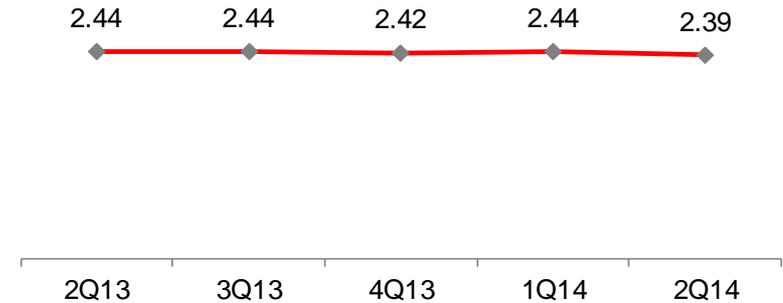
EUR million

## Net Interest Income



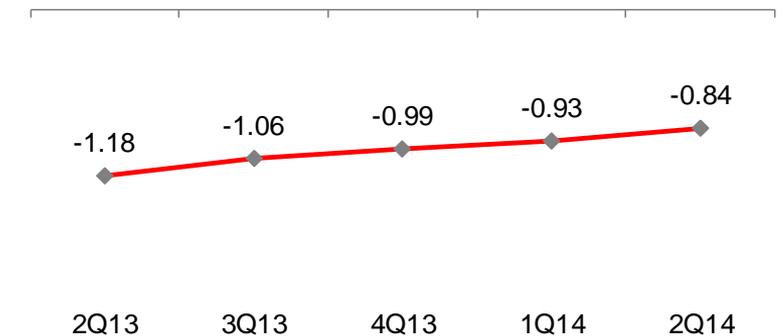
## Loan spreads, %

Commercial Banking



## Deposit spreads, %

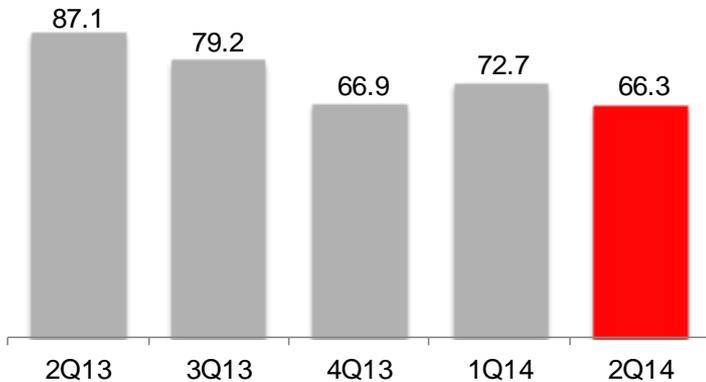
Commercial Banking



## Fees affected by the volatility in the GBM business in spite of steady performance in retail business

EUR million

### Net Fees

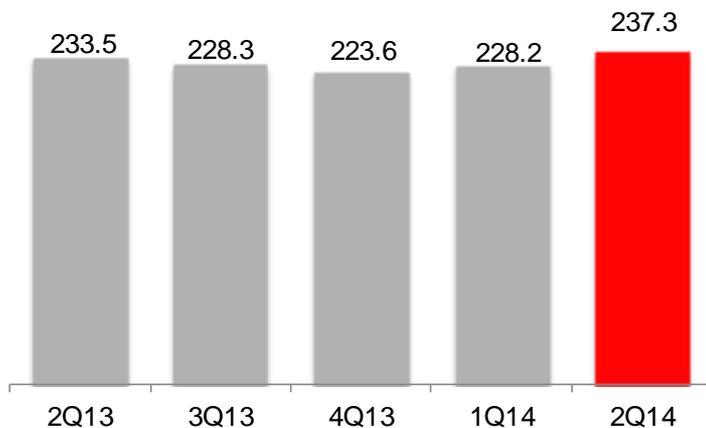


	1H14	1H13	YoY (%)	QoQ (%)
Credit	37.9	46.8	-19.0	-7.5
Credit cards	23.6	26.2	-9.9	+1.4
Mutual funds / AM	8.5	14.2	-40.3	+8.4
Insurance	45.5	45.9	-0.9	+4.1
GBM	28.0	39.5	-29.2	-20.6
Other	(4.5)	(0.9)	>200	>200
<b>Total</b>	<b>139.0</b>	<b>171.7</b>	<b>-19.0</b>	<b>-8.8</b>

**Increase in gross income over the previous quarter due to NII and gains on financial transactions**

Constant EUR million

## Gross income



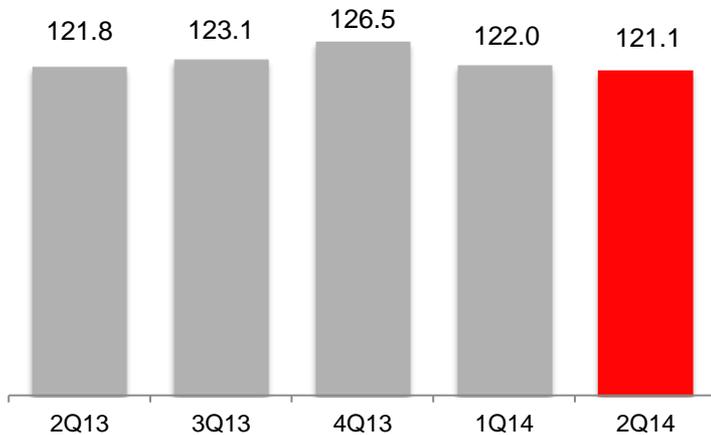
	1H14	1H13	YoY (%)	QoQ (%)
Net interest income	267.0	251.2	+6.3	+7.1
Net Fees	139.0	171.7	-19.0	-8.8
<b>Subtotal</b>	<b>406.0</b>	<b>422.8</b>	<b>-4.0</b>	<b>+1.4</b>
Other <sup>1</sup>	59.5	41.7	+42.6	+24.1
<b>Gross income</b>	<b>465.5</b>	<b>464.6</b>	<b>+0.2</b>	<b>+4.0</b>

(1) Other includes Gains (losses) on financial transactions and Other operating income

The evolution of revenues and costs led to an improvement in the efficiency ratio

EUR million

## Operating expenses



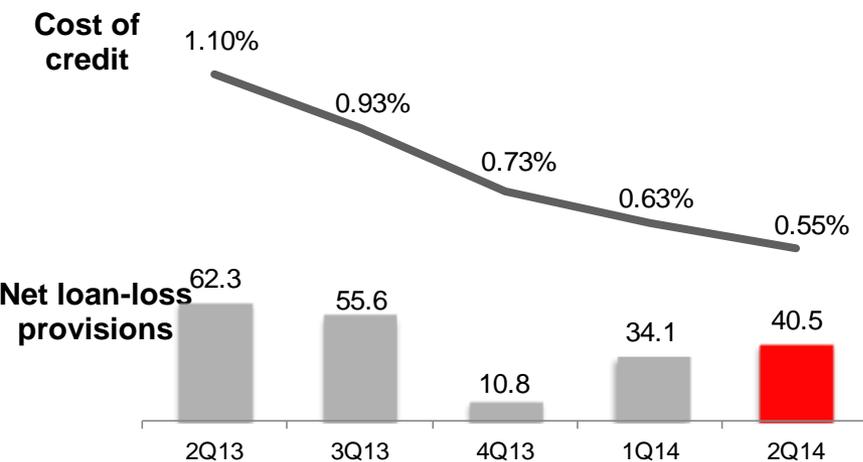
	1H14	1H13	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	206.6	206.2	+0.2	+1.3
Depreciation and amortization	36.5	39.7	-8.0	-11.6
<b>Total</b>	<b>243.1</b>	<b>245.9</b>	<b>-1.1</b>	<b>-0.8</b>

Efficiency ratio (with amortisations)	52.2%	52.9%	-0.7pp	-2.5pp
Number of branches	626	651	-25	-7
Number of employees	5,515	5,609	-94	+3

## Cost of credit maintains a downward trend

EUR million

### LLPs and cost of credit

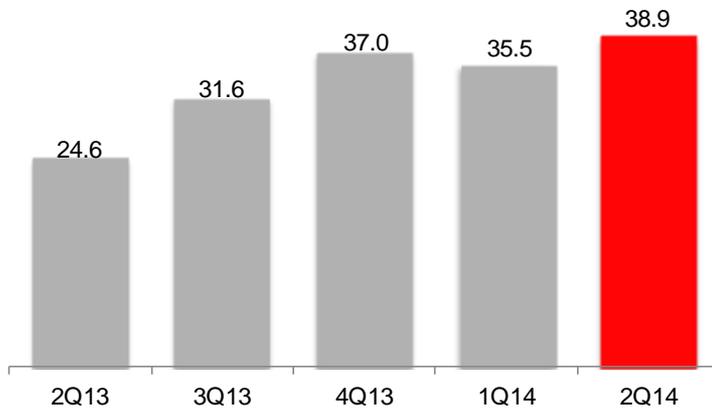


	1H14	1H13	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>222.4</b>	<b>218.7</b>	<b>+1.7</b>	<b>+9.5</b>
LLPs	74.6	126.0	-40.8	+18.7
<b>Net Op. Income after LLPs</b>	<b>147.8</b>	<b>92.7</b>	<b>+59.4</b>	<b>+5.2</b>
NPL Coverage ratio	53.1%	52.4%	+0.7pp	+2.5pp
NPL ratio	8.2%	7.4%	+0.8pp	-0.1pp

## Increase in attributable profit

EUR million

### Attributable profit



	1H14	1H13	YoY (%)	QoQ (%)
<b>Profit before taxes</b>	88.8	62.8	+41.3	+11.1
Tax on profit	18.4	16.9	+8.7	+5.3
<b>Consolidated profit</b>	<b>70.4</b>	<b>45.9</b>	<b>+53.3</b>	<b>+12.7</b>
<b>Attributable profit</b>	<b>74.4</b>	<b>45.8</b>	<b>+62.6</b>	<b>+9.6</b>
Effective tax rate	20.7%	27.0%		

## Market Environment & Financial System

- Economic growth continues at a gradual pace, with unemployment falling back to 2011 levels.
- New production on loans continues to strengthen, but the reclassification of some state-owned enterprises is leading to a faster decline in the stock of loans.
- Despite the recent rulings by the Constitutional Court, that require offsetting measures, the Government remains confident it will meet the 2014 deficit targets.

## Strategy & Business

- Improving market shares in loans to corporates and a more balanced loan book
- The Bank is continuously adapting its cost structure to the new competitive environment
- Cost of deposits continues to decline

## Capital and Profitability

- Capital ratios continue reflecting the sound structure of Santander Totta with the core capital ratio set at 14.7%
- Attributable profit increased 62.6% (ac.yoy) which reflects the increase in revenues and lower operating costs. Comparing with the previous quarter attributable profit grew 9.6%
- Gross income increased 0.2% (ac.yoy) due to the positive evolution in NII and gains on financial transactions
- NPL ratio is evolving at a slower pace and cost of credit maintains a downward trend

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# Balance sheet

EUR million	Variation			
	30.06.14	30.06.13	Amount	%
Loans and credits*	24,111	25,210	(1,099)	(4.4)
Trading portfolio (w/o loans)	1,880	1,794	86	4.8
Available-for-sale financial assets	7,119	4,934	2,185	44.3
Due from credit institutions*	2,491	3,566	(1,075)	(30.1)
Intangible assets and property and equipment	763	906	(143)	(15.8)
Other assets	6,276	5,829	447	7.7
<b>Total assets/liabilities &amp; shareholders' equity</b>	<b>42,640</b>	<b>42,239</b>	<b>401</b>	<b>0.9</b>
Customer deposits*	23,253	23,577	(324)	(1.4)
Marketable debt securities*	3,811	2,396	1,415	59.1
Subordinated debt	0	0	0	57.2
Insurance liabilities	80	87	(7)	(8.0)
Due to credit institutions*	12,271	13,336	(1,065)	(8.0)
Other liabilities	641	296	345	116.6
Shareholders' equity**	2,583	2,547	36	1.4
<b>Off-balance-sheet funds</b>	<b>2,396</b>	<b>2,158</b>	<b>238</b>	<b>11.0</b>
Mutual funds	1,311	1,281	30	2.4
Pension funds	864	768	95	12.4
Managed portfolios	222	109	113	103.3
<b>Customer funds under management</b>	<b>29,460</b>	<b>28,131</b>	<b>1,329</b>	<b>4.7</b>

\* Includes all stock of concept classified in the balance sheet

\*\* Not including profit of the year

# Income Statement

EUR million			Variation	
	1H 14	1H 13	Amount	%
<b>Net interest income</b>	<b>267</b>	<b>251</b>	<b>16</b>	<b>6.3</b>
Net fees	139	172	(33)	(19.0)
Gains (losses) on financial transactions	40	30	10	33.9
Other operating income**	20	12	8	63.9
<b>Gross income</b>	<b>465</b>	<b>465</b>	<b>1</b>	<b>0.2</b>
Operating expenses	(243)	(246)	3	(1.1)
General administrative expenses	(207)	(206)	(0)	0.2
<i>Personnel</i>	(146)	(149)	3	(1.9)
<i>Other general administrative expenses</i>	(60)	(57)	(3)	5.7
Depreciation and amortisation	(37)	(40)	3	(8.0)
<b>Net operating income</b>	<b>222</b>	<b>219</b>	<b>4</b>	<b>1.7</b>
Net loan-loss provisions	(75)	(126)	51	(40.8)
Other income	(59)	(30)	(29)	97.7
<b>Profit before taxes</b>	<b>89</b>	<b>63</b>	<b>26</b>	<b>41.3</b>
Tax on profit	(18)	(17)	(1)	8.7
<b>Profit from continuing operations</b>	<b>70</b>	<b>46</b>	<b>24</b>	<b>53.3</b>
Net profit from discontinued operations	—	—	—	—
<b>Consolidated profit</b>	<b>70</b>	<b>46</b>	<b>24</b>	<b>53.3</b>
Minority interests	(4)	0	(4)	—
<b>Attributable profit to the Group</b>	<b>74</b>	<b>46</b>	<b>29</b>	<b>62.6</b>

\*\* Including dividends, income from equity-accounted method and other operating income/expenses

# Quarterly statements of income

26

EUR million

	1Q 13	2Q 13	3Q 13	4Q 13	1Q 14	2Q 14
<b>Net interest income</b>	<b>117</b>	<b>134</b>	<b>132</b>	<b>131</b>	<b>129</b>	<b>138</b>
Net fees	85	87	79	67	73	66
Gains (losses) on financial transactions	23	7	10	11	18	22
Other operating income**	6	6	7	15	9	11
<b>Gross income</b>	<b>231</b>	<b>233</b>	<b>228</b>	<b>224</b>	<b>228</b>	<b>237</b>
Operating expenses	(124)	(122)	(123)	(126)	(122)	(121)
General administrative expenses	(104)	(102)	(103)	(107)	(103)	(104)
<i>Personnel</i>	(75)	(74)	(74)	(76)	(73)	(73)
<i>Other general administrative expenses</i>	(29)	(28)	(29)	(31)	(30)	(31)
Depreciation and amortisation	(20)	(20)	(20)	(19)	(19)	(17)
<b>Net operating income</b>	<b>107</b>	<b>112</b>	<b>105</b>	<b>97</b>	<b>106</b>	<b>116</b>
Net loan-loss provisions	(64)	(62)	(56)	(11)	(34)	(40)
Other income	(13)	(17)	(6)	(42)	(30)	(29)
<b>Profit before taxes</b>	<b>31</b>	<b>32</b>	<b>44</b>	<b>44</b>	<b>42</b>	<b>47</b>
Tax on profit	(10)	(7)	(12)	(15)	(9)	(9)
<b>Profit from continuing operations</b>	<b>21</b>	<b>25</b>	<b>32</b>	<b>29</b>	<b>33</b>	<b>37</b>
Net profit from discontinued operations	—	—	—	—	—	—
<b>Consolidated profit</b>	<b>21</b>	<b>25</b>	<b>32</b>	<b>29</b>	<b>33</b>	<b>37</b>
Minority interests	0	0	(0)	(8)	(2)	(2)
<b>Attributable profit to the Group</b>	<b>21</b>	<b>25</b>	<b>32</b>	<b>37</b>	<b>36</b>	<b>39</b>

\*\* Including dividends, income from equity-accounted method and other operating income/expenses

