

# PORTUGAL

January – December 2015

Simple | Personal | Fair



# Disclaimer

Banco Santander, S.A. ("Santander") cautions that this presentation contains forward-looking statements within the meaning of the US Private Securities Litigation Reform Act of 1995. 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. 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. These factors include, but are not limited to: (1) general market, macro-economic, governmental and regulatory trends; (2) movements in local and international securities markets, currency exchange rates, and interest rates; (3) competitive pressures; (4) technological developments; and (5) changes in the financial position or credit worthiness of our customers, obligors and counterparties. The risk factors and other key factors that we have indicated in our past and future filings and reports, including those with the Securities and Exchange Commission of the United States of America (the "SEC"), could adversely affect our business and financial performance. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

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 the 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.

No offering of Securities shall be made in the United States except pursuant to registration under the U.S. Securities Act of 1933, as amended, or an exemption therefore.

Nothing contained in this presentation is intended to constitute an invitation or inducement to engage in investment activity for the purposes of the prohibition on financial promotion in the U.K. Financial Services and Markets Act 2000.

Note: Statements as to historical performance, historical share price or financial accretion are not intended to mean that future performance, historical share price or future earnings (including earnings per share) for any period will necessarily match or exceed those of any prior year. Nothing in this presentation should be construed as a profit forecast.

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.

Note: The P&L accounts do not reflect the acquisition of the business of Banif (effective date December 20th, 2015)

---

# Agenda

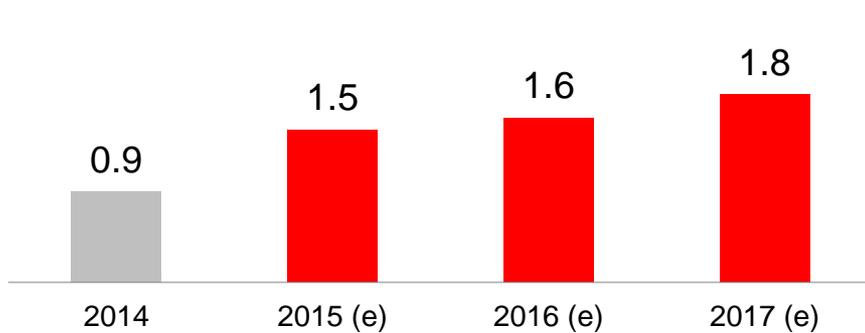
- **Macro-economic environment and financial system**
- Strategy and business
- Results
- Appendix



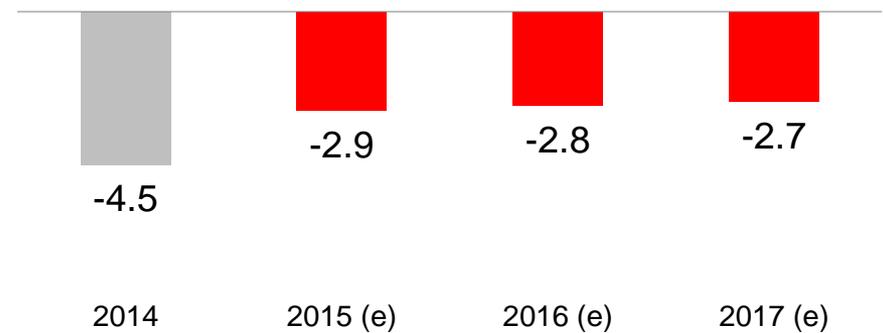
# Macro-economic environment

## Economic activity is expected to continue growing at a moderate pace

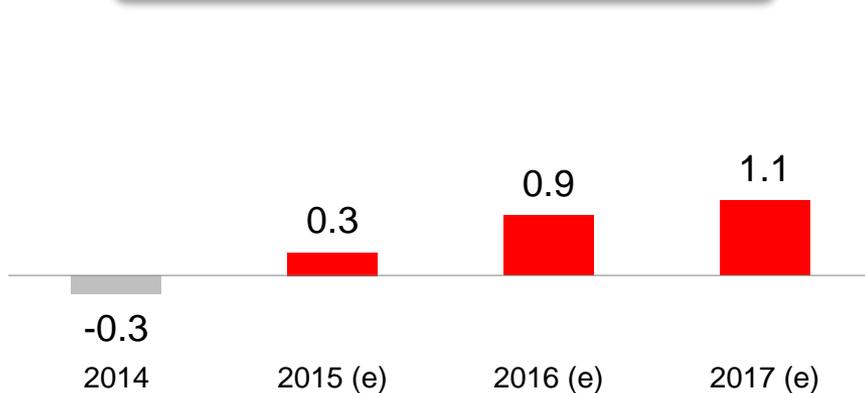
Annual GDP Growth (% , real)



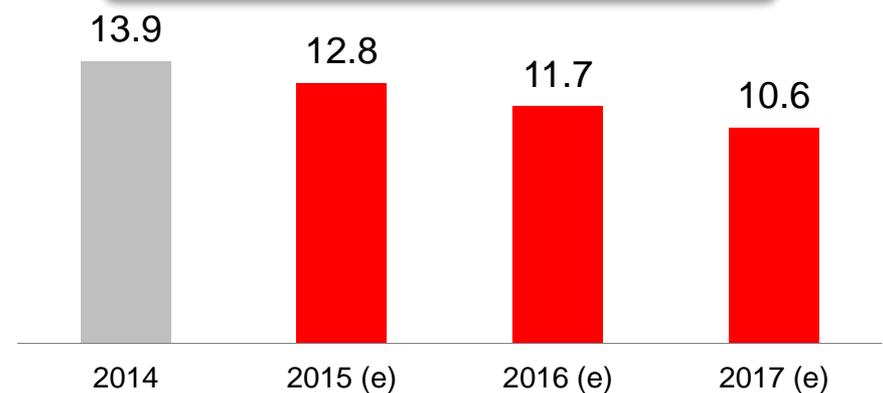
Fiscal Balance (% GDP)



Inflation (annual change, %)



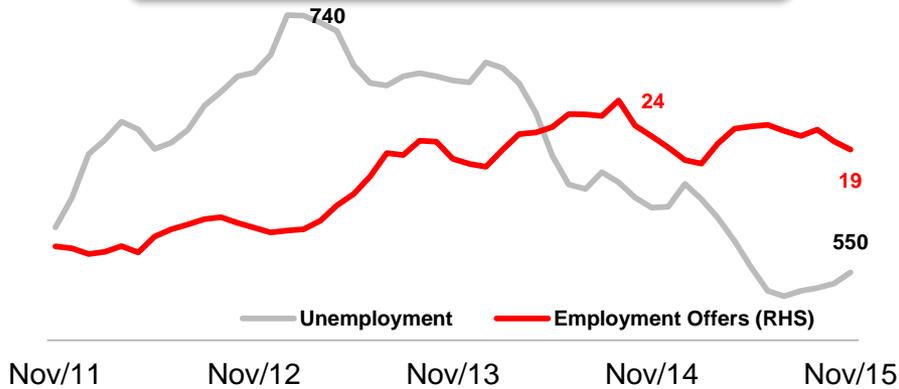
Unemployment (% , annual average)



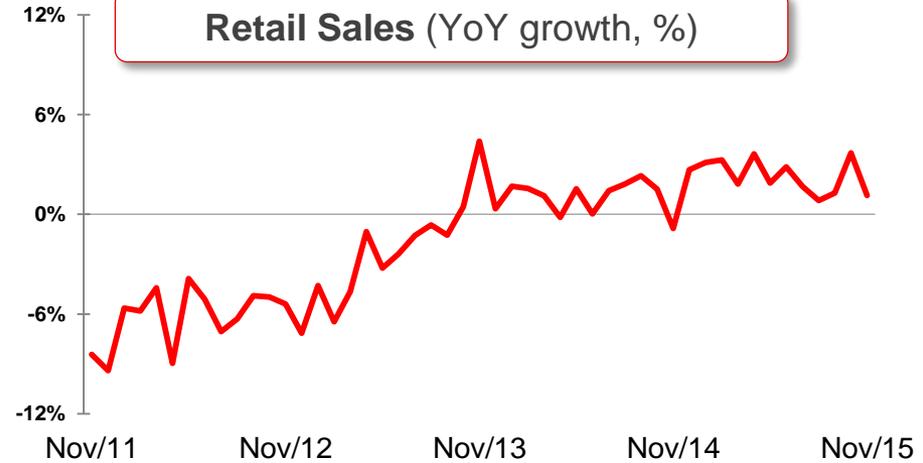
# Macro-economic environment

## Resilient export growth, despite weaker sales to Angola

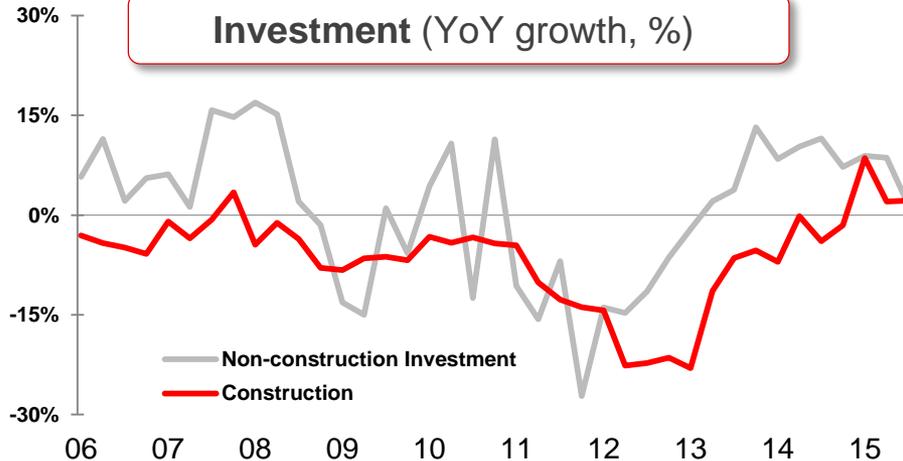
Registered Unemployment (000)



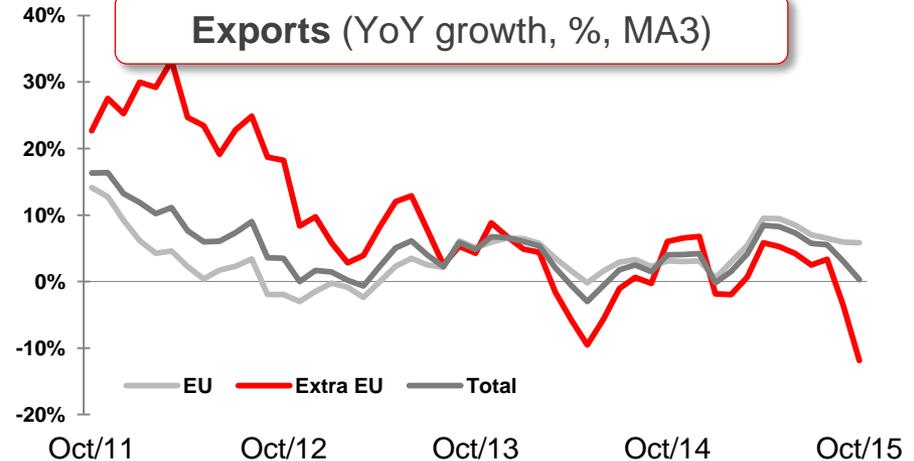
Retail Sales (YoY growth, %)



Investment (YoY growth, %)



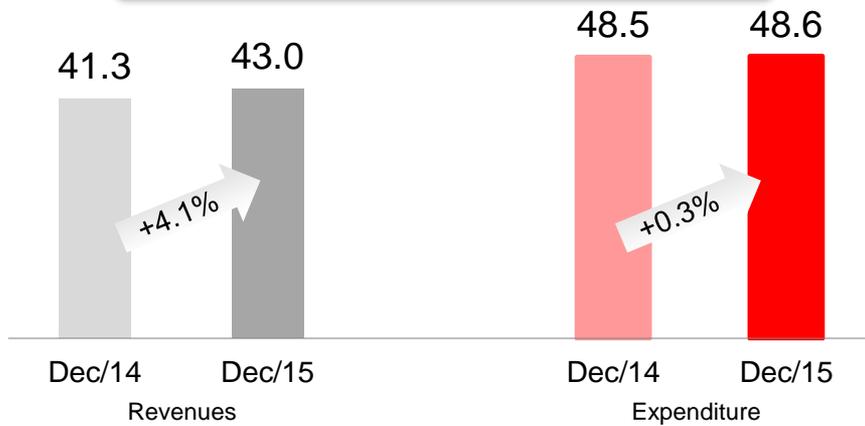
Exports (YoY growth, %, MA3)



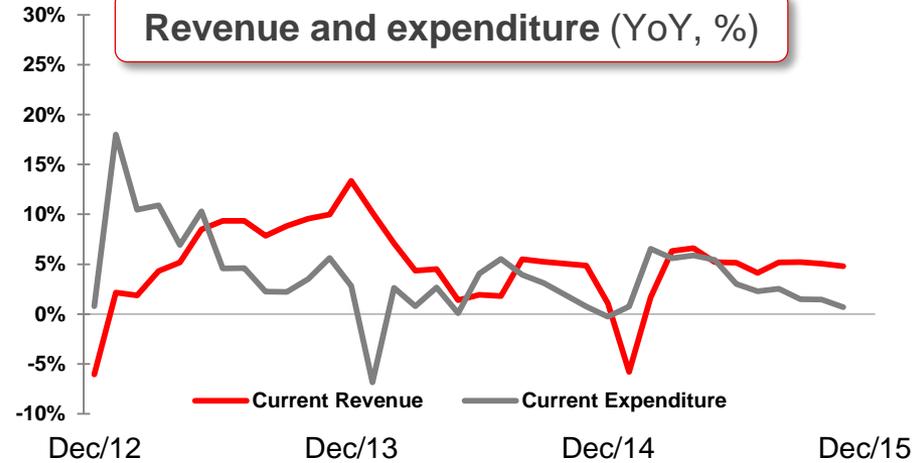
# Macro-economic environment

## Fiscal deficit of c.3% of GDP (excluding one-offs)

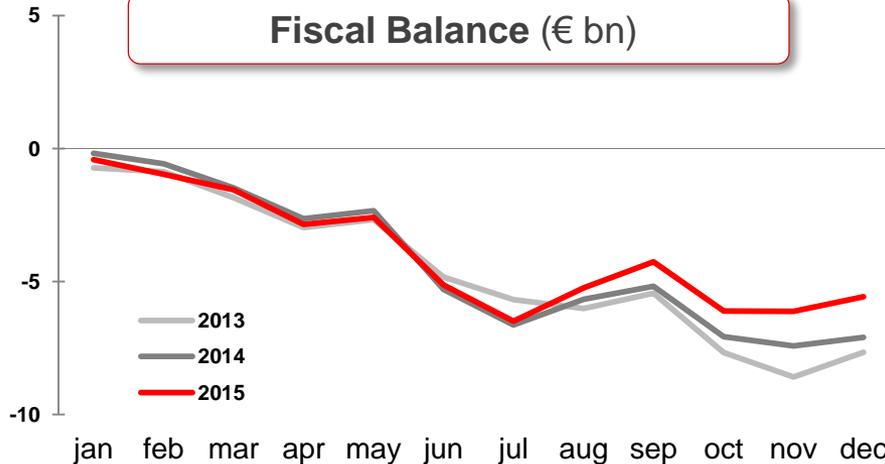
Revenue and Expenditure (€mn)



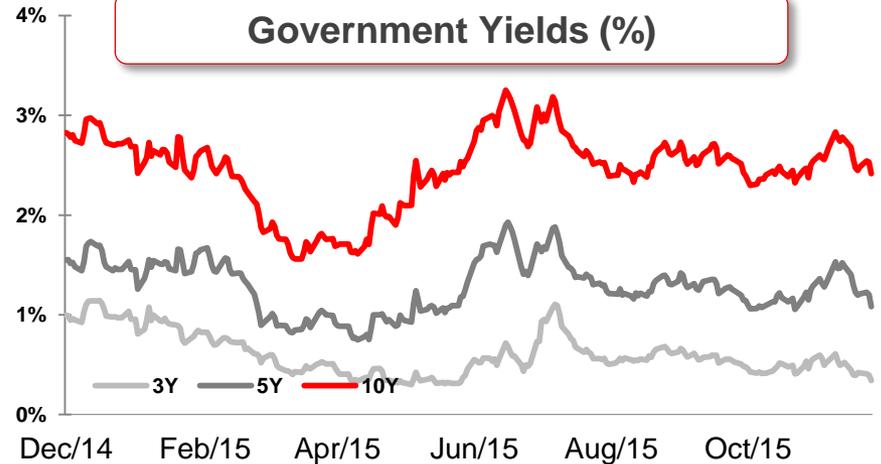
Revenue and expenditure (YoY, %)



Fiscal Balance (€ bn)

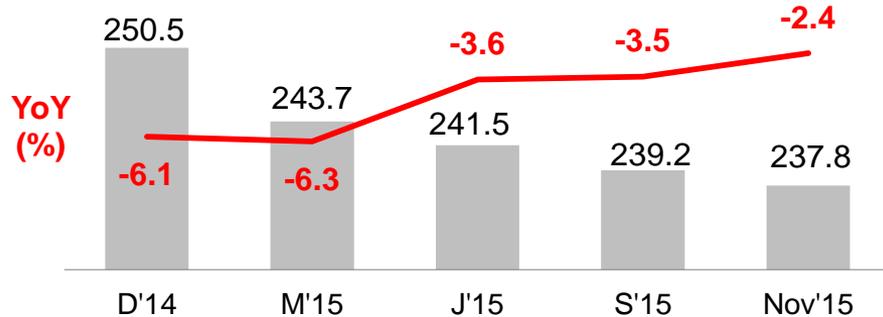


Government Yields (%)

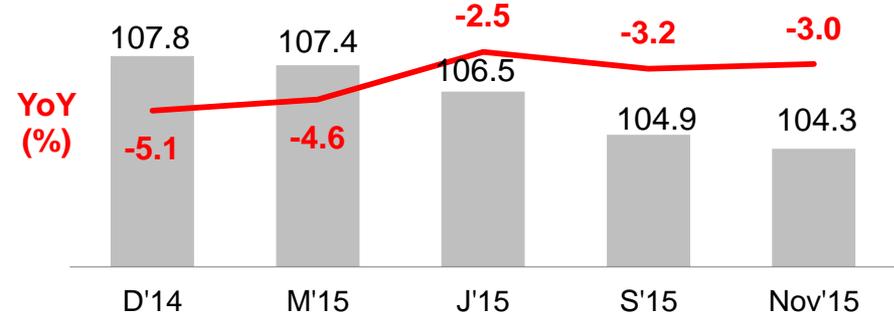


## Ongoing deleveraging

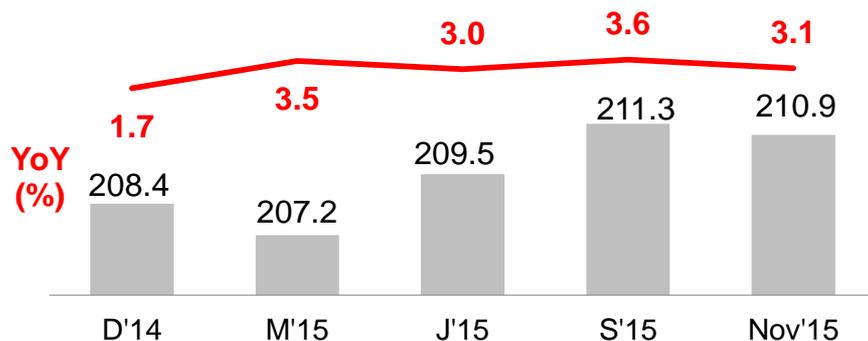
### Total loans (€bn)



### Corporate loans (€bn)



### Total Deposits (€bn)



- Credit continues to decline, at a more moderate pace, should begin to bottom in 2016F.
- Deposits remain elevated, and should continue growing around 1% in 2016F.

---

# Agenda

- Macro-economic environment and financial system

- **Strategy and business**

- Results

- Appendix



## Our Franchise

**According to the resolution measure determined by the Banco de Portugal (the resolution authority) upon Banco Banif (Dec-15), Banco Santander Totta has acquired a substantial part of the commercial activity of Banif for 150 million euro**

	Dec'15
<b>Business</b>	
<b>Loans</b>	6.6 bn.
<b>Households</b>	3.2 bn.
<b>Corporates</b>	3.4 bn.
<b>Deposits</b>	4.4 bn.
<b>Clients</b>	350 mil
<b>Branches</b>	177
<b>Employees</b>	1,136

## Our Franchise

# Santander Totta is the 2<sup>nd</sup> private bank in domestic activity by total assets



<i>EUR</i>	<b>Dec'15</b>	<b>Var. YOY</b>	<b>Var. YOY (w/o ex-Banif)</b>
<b>Business and Results</b>			
<b>Loans</b>	30.6 bn.	+25.6%	-1.6%
<b>Deposits</b>	29.2 bn.	+21.5%	+3.0%
<b>Total customer funds</b>	37.0 bn.	+26.0%	+5.1%
<b>Consolidated profit</b>	301.0m.	+66.7%	+66.7%
<b>Attributable profit</b>	300.2 m.	+62.8%	+62.8%

### Other Data

<b>Employees</b>	6,568	+1,120	-16
<b>Branches</b>	752	+158	-19

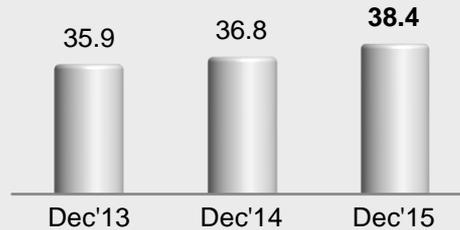
### Market Share <sup>(1)</sup>

<b>Loans</b>	11.49%	+0.58pp	+0.58pp
- Individuals	12.95%	+0.28pp	+0.28pp
- Corporates	9.69%	+0,96pp	+0,96pp
<b>Deposits</b>	10.63%	+0.27pp	+0.27pp

## Reinforcing our customer focus

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

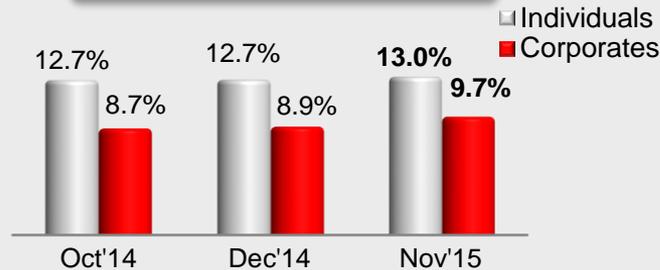
Mix of Corporates / Total loans (%)



Loans to corporates/SMEs are increasing its relative weight in loan portfolio

**Market shares**

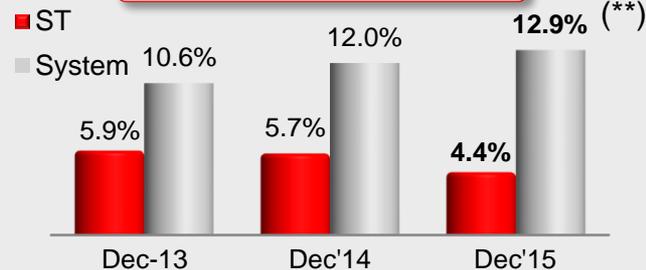
Market shares - Loans



Market share gains yoy in loans to corporates and individuals

**Asset quality**

Credit at risk ratio



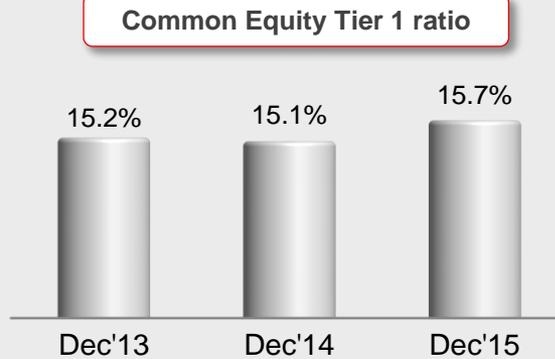
BST's asset quality indicators have been improving even compared to the average of the banking system (\*\*)

(\*) Total loans includes commercial paper

(\*\*) According to the latest available data (Sep/15)

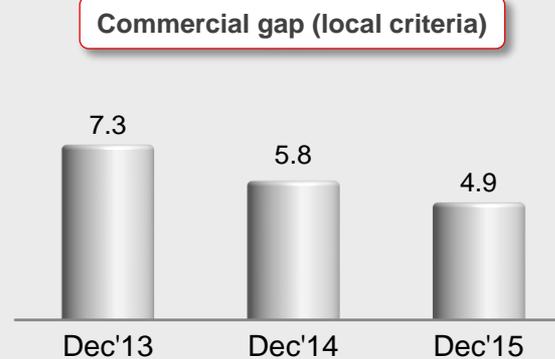
## Reinforcing our customer focus

### Capital ratios



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

### Commercial gap

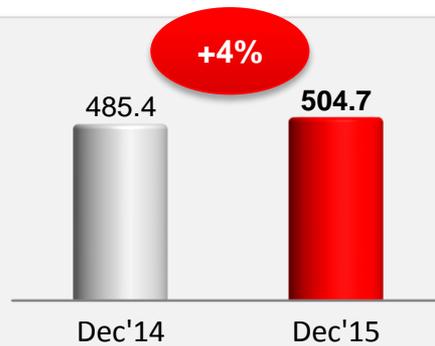


Commercial gap continues to improve

Creating a bank that is Simple | Personal | Fair

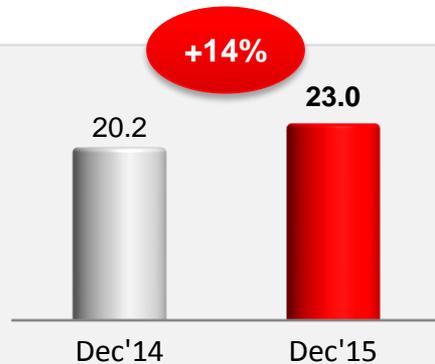
# Customers (metrics for Investor Day 2016 targets)

**Retail loyal customers**  
(k)



The number of loyal customers is growing above the targets...

**Loyal SMEs and Corporate customers**  
(k)



... and the increase in of corporate customers reflects our focus in that segment

**Online digital customers**  
(k)

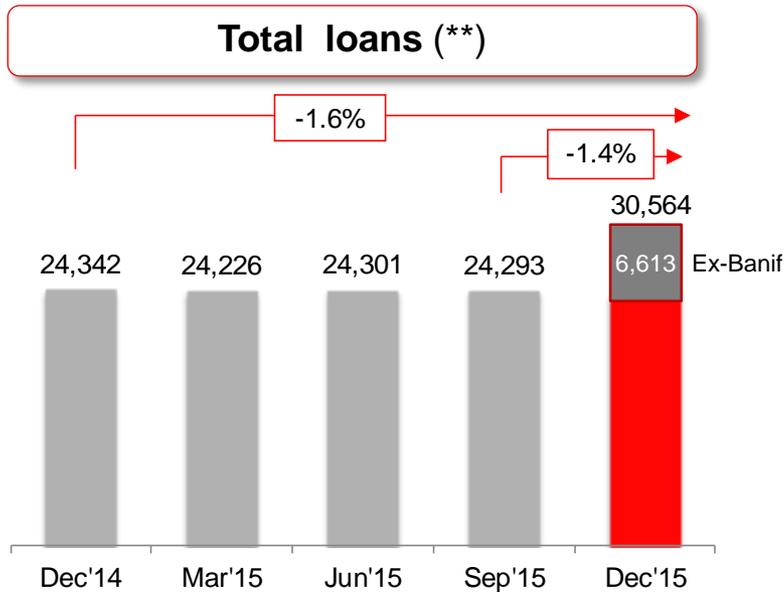


The number of digital clients maintains a strong growth

# Total loans performance

The acquisition of Banif business leverages ST position in the credit market, adding 2.5pp to the market share...

EUR million



	Dec'15	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>16,328</b>	<b>-1.8</b>	<b>-0.7</b>
<i>from which:</i>			
Mortgage	14,601	-1.3	-0.2
Consumer credit	1,349	-2.3	-2.9
<b>Corporates</b>	<b>7,418</b>	<b>-0.3</b>	<b>-1.4</b>
<b>Total</b>	<b>23,961</b>	<b>-1.6</b>	<b>-1.4</b>
Loans to Corporates (*)	10,327	+4.9	-0.5
Total Loans (*)	26,870	+0.5	-1.0

(\*) Including commercial paper

Note: Excluding Ex-Banif

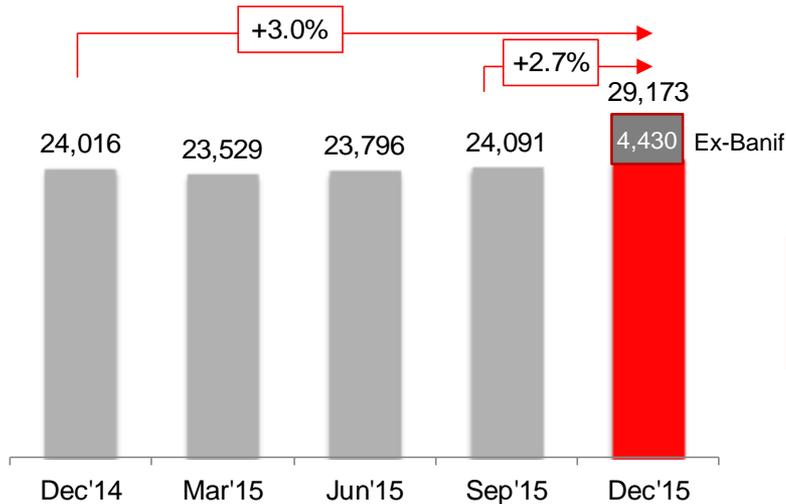
(\*\*) Gross credit

# Total customer funds performance

... as well as in terms of customer funds

EUR million

## Total deposits



	Dec'15	YoY (%)	QoQ (%)
Demand	7,234	+37.0	+12.4
Time and Savings	17,509	-6.6	-0.8
<b>Deposits &amp; financial insurance</b>	<b>24,743</b>	<b>+3.0</b>	<b>+2.7</b>
Securities placed	3,297	+15.5	+28.5
Investment funds and other	2,841	+13.6	+1.4
<b>Total Customer Funds</b>	<b>30,881</b>	<b>+5.1</b>	<b>+4.8</b>

Note: Excluding Ex-Banif

---

# Agenda

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

## ■ Results

- Appendix

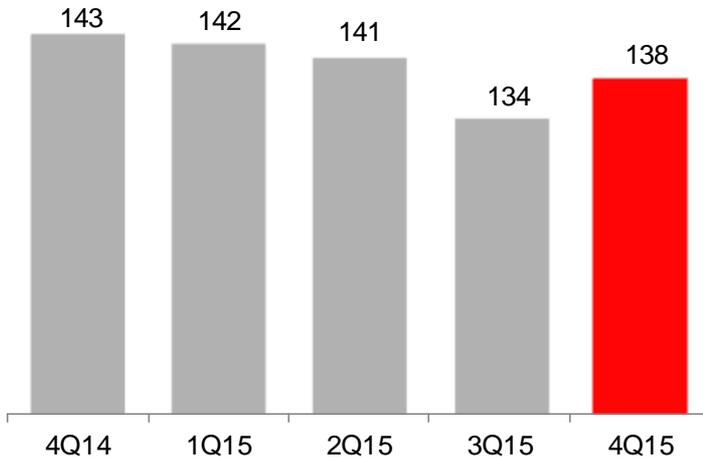


# Net interest income and spreads

**NII continues to benefit from lower cost of funding, in particular of deposits**

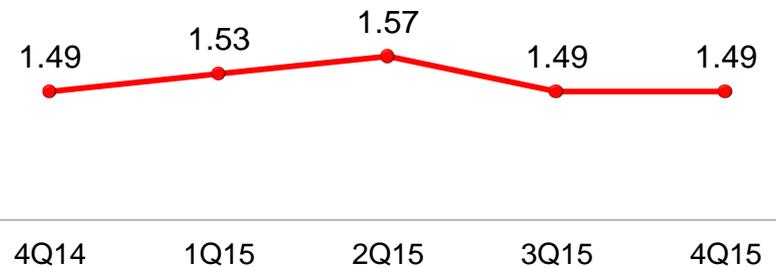
EUR million

## Net Interest Income



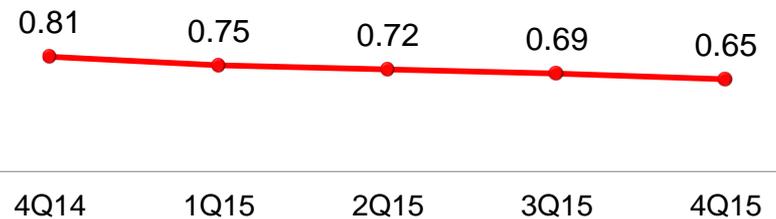
## Loan spreads, %

Retail Banking



## Deposit spreads, %

Retail Banking

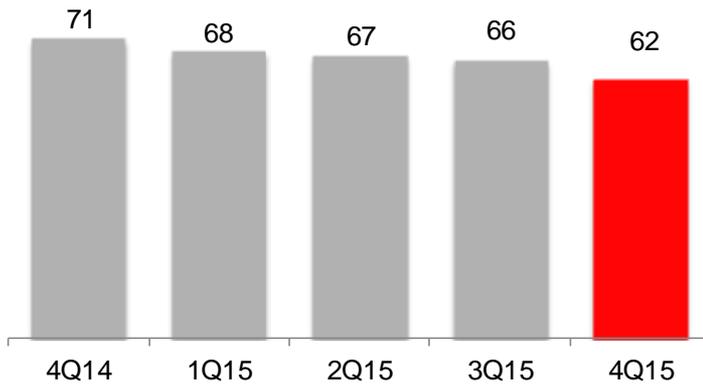


# Net fees

## Net fees decline, in view of lower volumes and regulatory issues

EUR million

### Net fees



	12M15	12M14	YoY (%)	QoQ (%)
Credit	65	64	+1.0	-9.3
Credit cards	53	57	-8.2	-6.1
Mutual funds	20	18	+10.0	-1.2
Insurance	89	93	-4.0	-1.5
Other*	37	47	-22.8	-20.2
<b>Total</b>	<b>263</b>	<b>280</b>	<b>-6.0</b>	<b>-6.8</b>

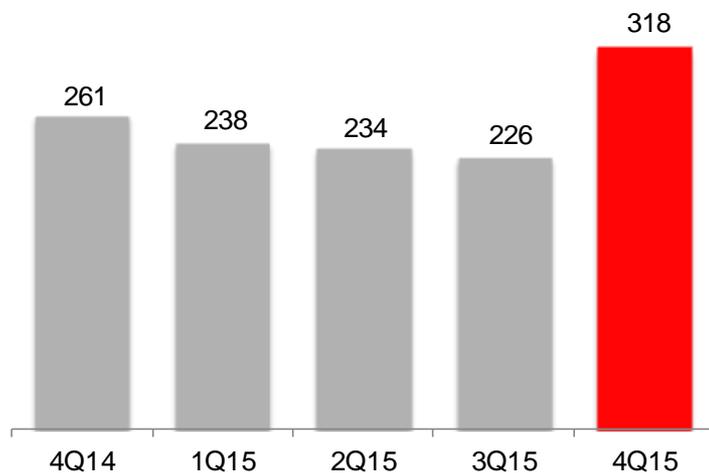
\* Increased fees paid to other business units

# Gross income

## Gross income in 4Q15 ex-one offs in line with that of recent quarters

EUR million

### Gross Income



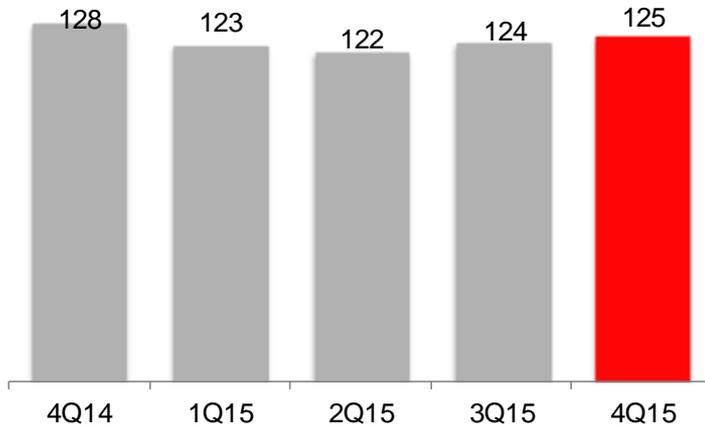
	12M15	12M14	YoY (%)	QoQ (%)
Net interest income	555	546	+1.6	+3.4
Net Fees	263	280	-6.0	-6.8
<b>Subtotal</b>	<b>818</b>	<b>826</b>	<b>-0.9</b>	<b>+0.0</b>
Other <sup>1</sup>	197	130	+51.8	+358.3
<b>Gross income</b>	<b>1,016</b>	<b>956</b>	<b>+6.2</b>	<b>+41.0</b>

# Operating expenses

## The efficiency ratio continues to decline, in line with stable operating expenses

EUR million

### Operating expenses



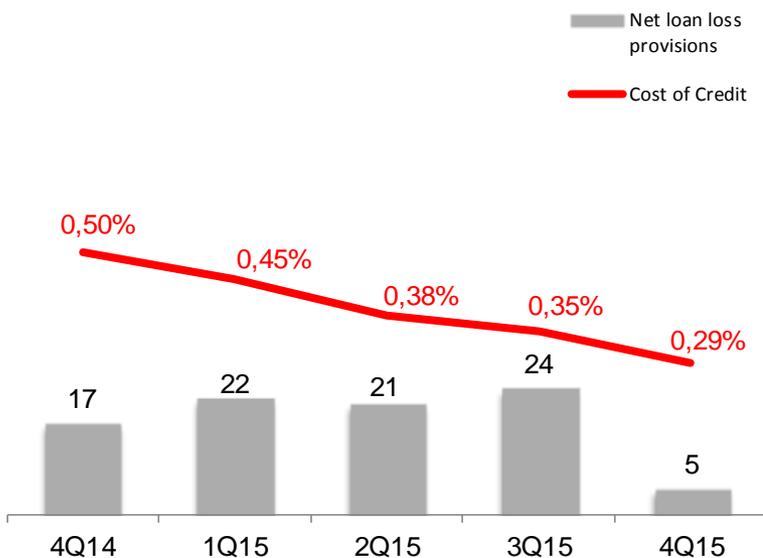
	12M15	12M14	YoY (%)	QoQ (%)
Personnel costs and admin. expenses	458	447	+2.5	+0.7
Depreciation and amortization	36	50	-28.6	+4.2
<b>Total</b>	<b>494</b>	<b>498</b>	<b>-0.7</b>	<b>+0.9</b>

Efficiency ratio (with amortisations)	48.7%	52.0%
Number of branches	752	594
Number of employees	6,568	5,448

# Net operating income after loan-loss provisions (LLPs)

## The cost of credit continues to decline

### LLPs and cost of credit



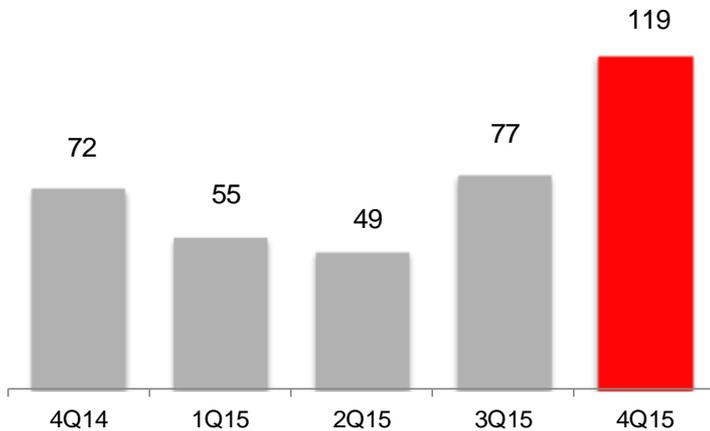
	12M15	12M14	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>522</b>	<b>459</b>	<b>+13.7</b>	<b>+89.7</b>
LLPs	72	124	-42.1	-79.4
<b>Net Op. Income after LLPs</b>	<b>450</b>	<b>335</b>	<b>+34.3</b>	<b>+141.4</b>
NPL Coverage ratio	54.0%	51.8%		
NPL ratio	7.5%	8.9%		

# Attributable profit

**Attributable profit in the 12M'15 grew 63% yoy**

EUR million

## Attributable profit



	12M15	12M14	YoY (%)	QoQ (%)
<b>Profit before taxes</b>	419	236	+77.3	+76.0
Tax on profit	118	56	+111.6	+139.8
<b>Consolidated profit</b>	<b>301</b>	<b>181</b>	<b>+66.7</b>	<b>+55.9</b>
<b>Attributable profit</b>	<b>300</b>	<b>184</b>	<b>+62.8</b>	<b>+55.8</b>
Effective tax rate	28.1%	23.5%		

# Conclusions

## Market Environment & Financial System

- Activity continues to expand, with GDP rising around 1.5% in 2015, with a gradual acceleration expected for 2016.
- The deficit could fall below 3% of GDP in 2015, excluding the costs with the banking sector support. For 2016, the Government aims to maintain the deficit below 3%, despite some reversal of past expenditure cuts.
- Deleveraging continues, but more gradually, as new production of mortgages and loans to non-financial corporates is consolidating.

## Strategy, Business and Capital

- The acquisition of Banif business further improves market shares in loans to corporates and a more balanced loan book
- Increasing the number of loyal customers
- Capital ratios continue reflecting the sound structure of Santander Totta with the Common Equity Tier 1 ratio (CET1) reaching 15.7%

## Results

- NII maintains a positive evolution (+3.4% qoq) reflecting mainly the increase of revenues and lower operating costs and provisions
- The cost of credit maintains a downward trend

---

# Agenda

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

# Balance sheet

EUR million

			Variation	
	31.12.15	31.12.14	Amount	%
Loans and credits*	28,221	23,180	5,041	21.7
Trading portfolio (w/o loans)	1,678	2,082	(404)	(19.4)
Available-for-sale financial assets	7,546	7,011	535	7.6
Due from credit institutions*	2,465	2,163	302	14.0
Intangible assets and property and equipment	720	729	(9)	(1.2)
Other assets	8,938	6,450	2,487	38.6
<b>Total assets/liabilities &amp; shareholders' equity</b>	<b>49,568</b>	<b>41,616</b>	<b>7,952</b>	<b>19.1</b>
Customer deposits*	29,173	24,016	5,157	21.5
Marketable debt securities*	4,994	2,855	2,138	74.9
Subordinated debt	(0)	0	(0)	—
Insurance liabilities	20	27	(8)	(28.6)
Due to credit institutions*	11,307	11,543	(235)	(2.0)
Other liabilities	1,351	787	564	71.7
Stockholders' equity**	2,724	2,388	336	14.1
<b>Off-balance-sheet funds</b>	<b>2,842</b>	<b>2,501</b>	<b>341</b>	<b>13.7</b>
Mutual funds	1,512	1,276	236	18.5
Pension funds	915	911	4	0.4
Managed portfolios	416	314	102	32.5
<b>Customer funds under management</b>	<b>37,009</b>	<b>29,372</b>	<b>7,636</b>	<b>26.0</b>

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

\*\* Capital + reserves + retained profit + valuation adjustments

# Income statement

EUR million

			Variation	
	2015	2014	Amount	%
<b>Net interest income</b>	<b>555</b>	<b>546</b>	<b>9</b>	<b>1.6</b>
Net fees	263	280	(17)	(6.0)
Gains (losses) on financial transactions	164	88	77	87.4
Other operating income**	33	42	(9)	(22.3)
<b>Gross income</b>	<b>1,016</b>	<b>956</b>	<b>60</b>	<b>6.2</b>
Operating expenses	(494)	(498)	3	(0.7)
General administrative expenses	(458)	(447)	(11)	2.5
<i>Personnel</i>	<i>(291)</i>	<i>(290)</i>	<i>(1)</i>	<i>0.4</i>
<i>Other general administrative expenses</i>	<i>(167)</i>	<i>(158)</i>	<i>(10)</i>	<i>6.3</i>
Depreciation and amortisation	(36)	(50)	14	(28.6)
<b>Net operating income</b>	<b>522</b>	<b>459</b>	<b>63</b>	<b>13.7</b>
Net loan-loss provisions	(72)	(124)	52	(42.1)
Other income	(31)	(99)	68	(68.4)
<b>Profit before taxes</b>	<b>419</b>	<b>236</b>	<b>182</b>	<b>77.3</b>
Tax on profit	(118)	(56)	(62)	111.6
<b>Profit from continuing operations</b>	<b>301</b>	<b>181</b>	<b>120</b>	<b>66.7</b>
Net profit from discontinued operations	—	—	—	—
<b>Consolidated profit</b>	<b>301.0</b>	<b>181</b>	<b>120</b>	<b>66.7</b>
Minority interests	0.8	(4)	5	—
<b>Attributable profit to the Group</b>	<b>300.2</b>	<b>184</b>	<b>116</b>	<b>62.8</b>

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

# Quarterly income statements

EUR million

	1Q 14	2Q 14	3Q 14	4Q 14	1Q 15	2Q 15	3Q 15	4Q 15
<b>Net interest income</b>	<b>129</b>	<b>138</b>	<b>136</b>	<b>143</b>	<b>142</b>	<b>141</b>	<b>134</b>	<b>138</b>
Net fees	73	66	70	71	68	67	66	62
Gains (losses) on financial transactions	18	22	13	35	15	10	16	123
Other operating income**	9	11	11	12	13	16	10	(5)
<b>Gross income</b>	<b>228</b>	<b>237</b>	<b>230</b>	<b>261</b>	<b>238</b>	<b>234</b>	<b>226</b>	<b>318</b>
Operating expenses	(124)	(123)	(123)	(128)	(123)	(122)	(124)	(125)
General administrative expenses	(109)	(111)	(111)	(115)	(114)	(113)	(115)	(116)
<i>Personnel</i>	(71)	(71)	(71)	(76)	(71)	(72)	(72)	(75)
<i>Other general administrative expenses</i>	(38)	(40)	(40)	(39)	(42)	(41)	(43)	(41)
Depreciation and amortisation	(14)	(12)	(12)	(12)	(10)	(9)	(9)	(9)
<b>Net operating income</b>	<b>105</b>	<b>114</b>	<b>106</b>	<b>133</b>	<b>115</b>	<b>112</b>	<b>102</b>	<b>193</b>
Net loan-loss provisions	(34)	(40)	(32)	(17)	(22)	(21)	(24)	(5)
Other income	(30)	(29)	(20)	(20)	(21)	(23)	23	(10)
<b>Profit before taxes</b>	<b>40</b>	<b>45</b>	<b>55</b>	<b>96</b>	<b>72</b>	<b>67</b>	<b>101</b>	<b>178</b>
Tax on profit	(9)	(9)	(14)	(24)	(17)	(18)	(24)	(58)
<b>Profit from continuing operations</b>	<b>32</b>	<b>36</b>	<b>40</b>	<b>72</b>	<b>55</b>	<b>49</b>	<b>77</b>	<b>120</b>
Net profit from discontinued operations	—	—	—	—	—	—	—	—
<b>Consolidated profit</b>	<b>32</b>	<b>36</b>	<b>40</b>	<b>72</b>	<b>55</b>	<b>49</b>	<b>77</b>	<b>120</b>
Minority interests	(2)	(2)	(0)	0	0	(0)	0	1
<b>Attributable profit to the Group</b>	<b>34</b>	<b>38</b>	<b>41</b>	<b>72</b>	<b>55</b>	<b>49</b>	<b>77</b>	<b>119</b>

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

# Thank you

Our purpose is to help people and businesses prosper.

Our culture is based on the belief that everything we do should be

**Simple | Personal | Fair**

