

# Portugal

## 2018 Earnings Presentation



# Disclaimer

Santander Totta SGPS, S.A. (“Santander Totta”) cautions that this presentation contains forward looking statements. 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, (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 could adversely affect our business and financial performance contained in our past and future filings and reports, including those with the Securities and Exchange Commission of Portugal.

The information contained herein is in accordance with the Bank of Portugal’s criteria. Unless otherwise stated, data in this presentation refers to consolidated figures for Santander Totta SGPS, the group’s holding company in Portugal. BST is Santander Totta SGPS’ main operating unit, aggregating the group’s retail banking business in Portugal.

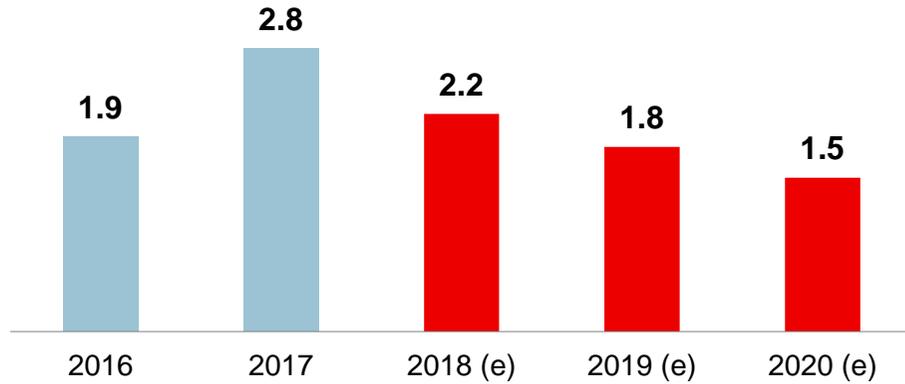
# Macroeconomic environment and financial system

01

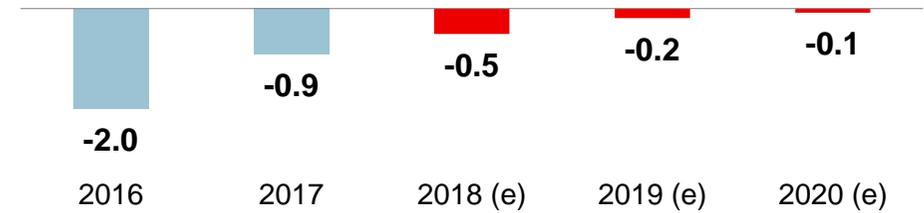


# Growth continues, with declining unemployment

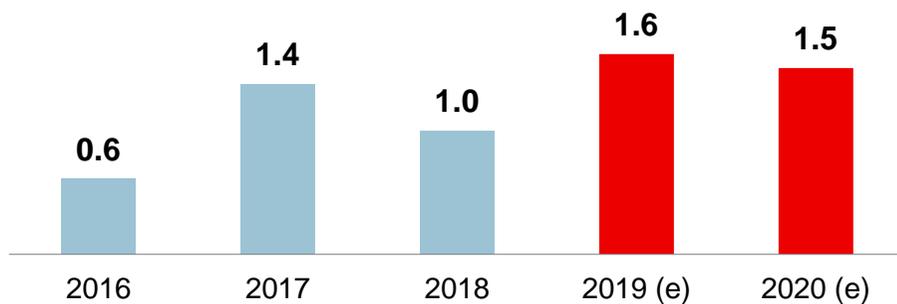
**Annual GDP Growth (real, %)**



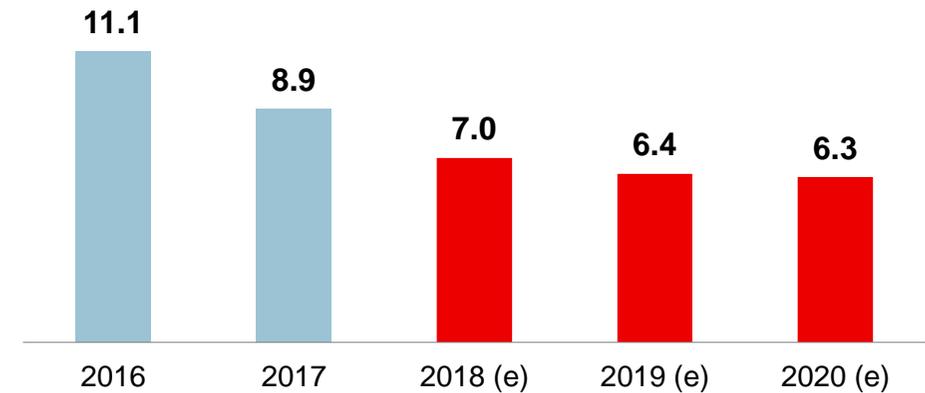
**Fiscal Balance (% of GDP)**



**Annual inflation rate (%)**



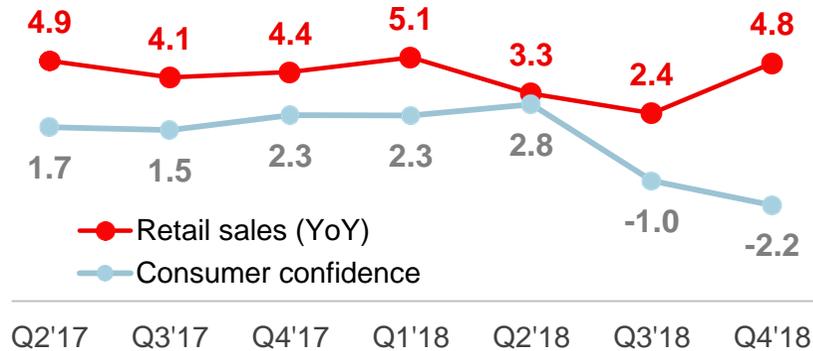
**Unemployment Rate (% , annual average)**



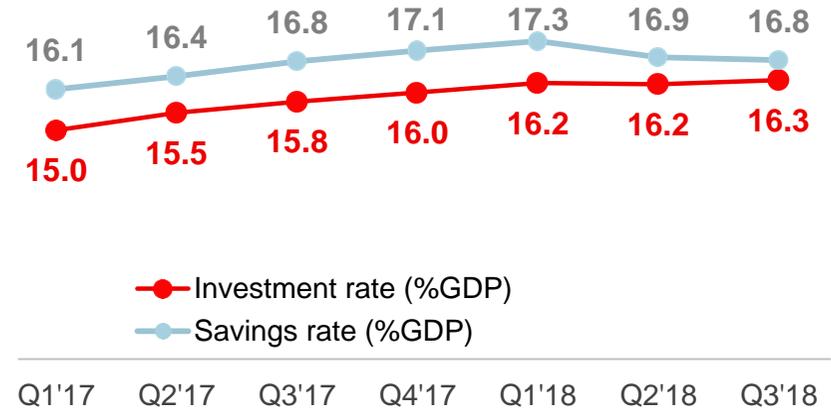


# Investment and exports continue to drive GDP expansion

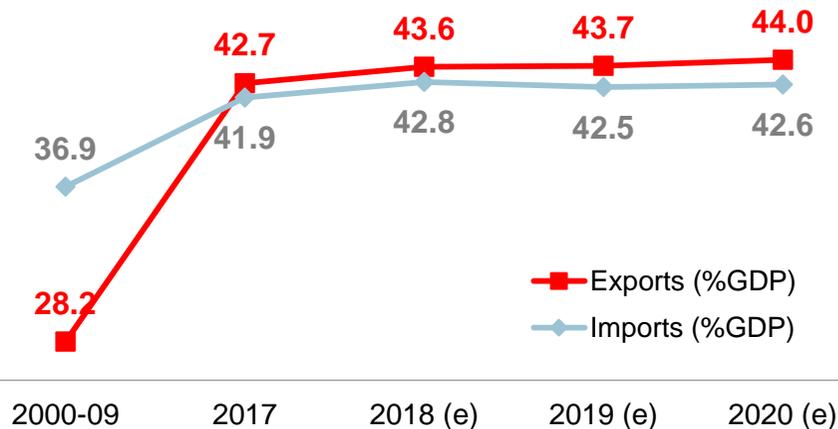
## Consumer dynamics



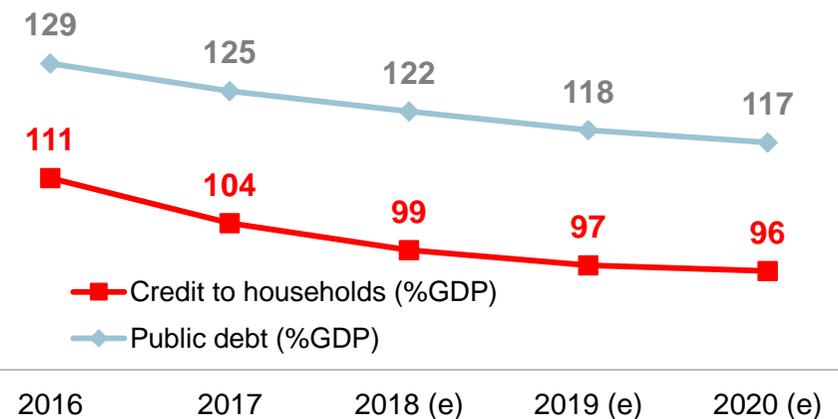
## Investment dynamics (total economy)



## Tradable sector dynamics



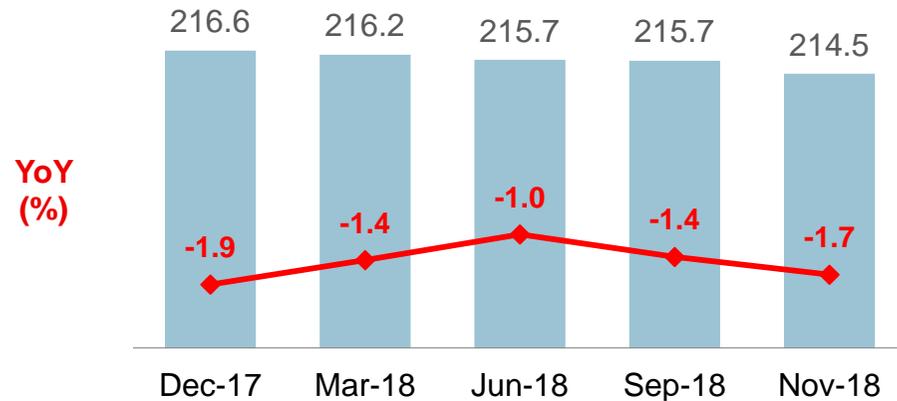
## Deleveraging dynamics





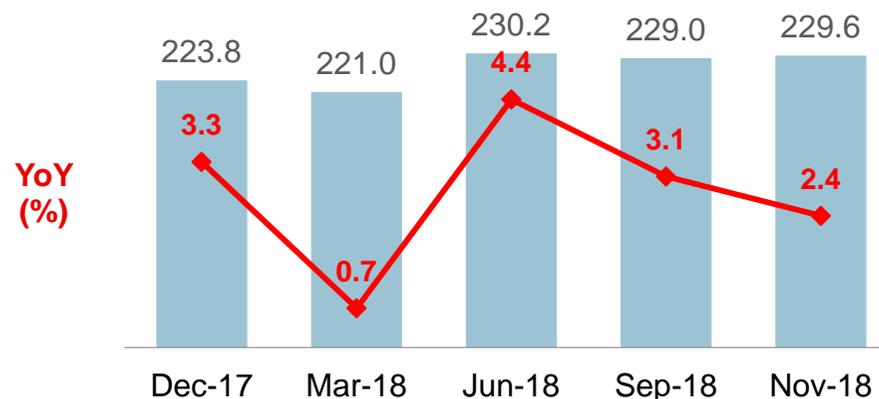
# Loans decline, as banks reduce impaired assets

### Total loans (EUR bn)



- ▶ The economic continues to deleverage but 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 stabilise at high levels, as households also allocate resources into Government retail debt, and corporates finance their investments with own funds

# Strategy and business



02

# Santander Totta is the first 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

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- ▶ Continue gaining profitable market share, improving our position as leading private bank and leveraging our position in the corporate sector, especially in SMEs

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- ▶ Improve efficiency and maintain a low cost of credit

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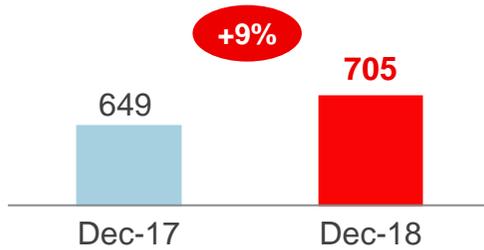
- ▶ Maintain a solid capital position, managing it in line with the new regulatory requirements

## KEY DATA (local criteria) 12M'18 YoY Var.

	Gross loans	40,380	-2.4%
	Deposits	33,438	+6.3%
	Attributable profit	500.0	+14.6%
	RoE	12.4%	+60bps
	Efficiency ratio	49.2%	+320bps
	Loans' market share	18.3%	+14bps
	Deposits' market share	15.5%	+45bps
	Loyal customers (k)	752	+9.5%
	Digital customers (k)	734	+31.6%
	Branches	572	-16.1%
	Employees	6,517	-4.4%

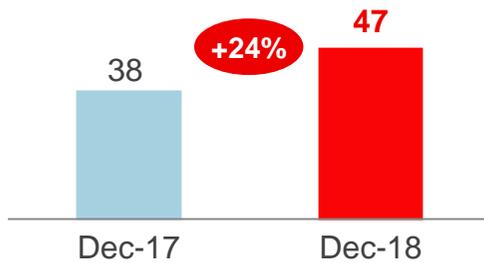
# Sustained growth in the most valuable customer segments

## Loyal individuals (k)



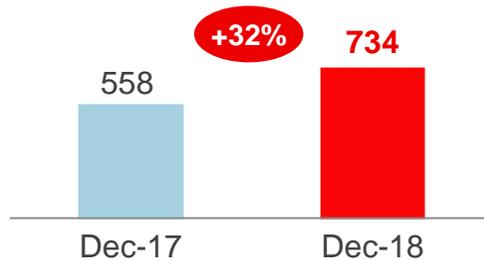
- ▶ Continued growth in the number of loyal customers, supported by the focus on the 1|2|3 strategy...

## Loyal companies (k)



- ▶ ... as well as in corporates, where the increase of customers is aligned with the strong market shares in new loans

## Digital customers (k)



- ▶ The improved availability of digital functionalities for both households and corporates is supporting the increase in the number of digital customers



# Market recognition in 2018

In financial performance...  
and in different areas of activity

In customer service...  
in different channels ...

<p>“Best Bank in Portugal” Global Finance</p>	<p>“Best Bank in Portugal” Global Finance</p>	<p>“Best Private Banking Services Overall” Euromoney</p>	<p>“Best Trade Finance Provider” Global Finance</p>	<p>“Great Bank 5 Stars”, U-scoot</p>	
				<p>“Best Contact Center”, APCC</p>	
		<p>“Melhor Private Bank” Global Finance</p>		<p>“Best Retail Bank” World Finance</p>	

In investor confidence...

The "Most Reputable Brand" and "Best Bank to Work"

"Deal of The Year - Peripheral", issuance of covered bonds, in the amount of 1,000 million in September 2017, **Covered Bond Report**.

“Market member - Most Active Trading House in Derivatives Market”, **Euronext Lisbon Awards**

“Most Reputable Brand”, 1st. in **Ranking OnStrategy 2018**

“Best Bank to work”, **Great Place to Work Institute**



# Retail and digital services



## Happy account

With the objective of attracting young Customers and accompanying them in the growth of its relationship with the Bank, Santander launched the “Happy account”, targeting clients up to 20 years. The account provides several services, without maintenance costs.

## Christmas Campaign 2018 - Personal Credit

In order to support the commercialization of Personal Loans in a period of stronger consumption, the Bank provides promotional financing conditions for traditional products, also including its CrediSimples (digital) offer.



A group of about 100 Bank volunteers participated on November 30 in a joint action at the LIGA Foundation

## IFRRU 2020

Santander is the leading bank in the IFRRU 2020 (financial instrument for urban renewal), which supports investment in both commercial and residential construction. The IFRRU 2020 is a major lever supporting the Bank’s position of leadership in Protocol Credit



Mais fortes no apoio à reabilitação urbana

767 Milhões de euros para financiamento



Santander opened the first Work Café, in Lisbon, the new concept of relationship between the Bank and its customers. The Work Café has co-working spaces, where customers and non-customers can work, have meeting with partners or just relax and drink a coffee. Over the coming months, additional work cafés will be opened in other locations in the country

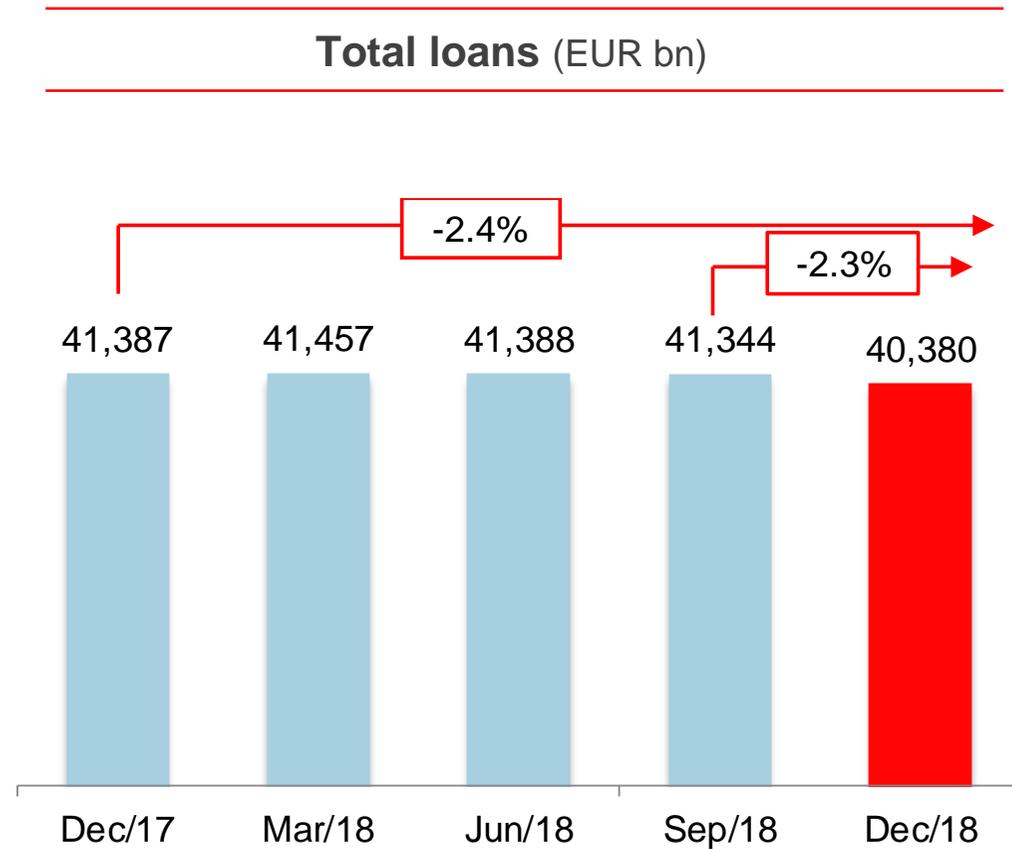
## Mais fortes no apoio às empresas e negócios

Solidez e confiança estão na base do nosso crescimento



Santander has been a leader in the lines of credit filed with PME Investimentos since 2010, which reflects the Bank's commitment to the Business segment and the strong support given to the economy

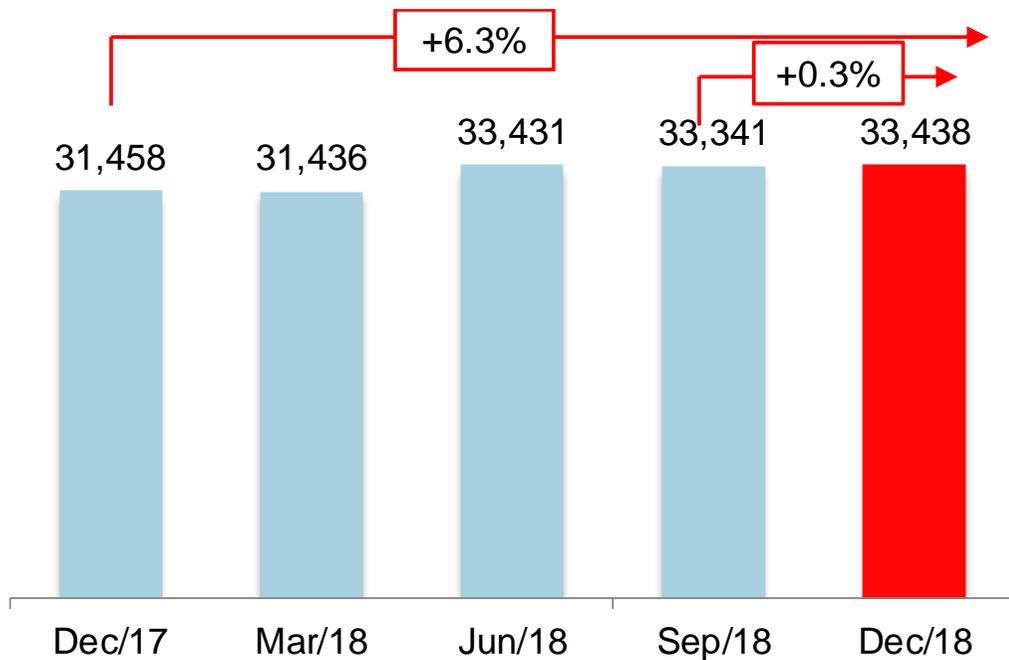
## Increase in loans to individuals offset by sales of corporate loans



	Dec-18	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>21,550</b>	<b>+0.5</b>	<b>-0.6</b>
Mortgage	19,462	+1.9	+0.6
Consumer and other	2,088	-11.0	-10.1
<b>Corporates</b>	<b>18,051</b>	<b>-6.0</b>	<b>-4.9</b>
<b>Other</b>	<b>779</b>	<b>+3.2</b>	<b>+12.6</b>
<b>Total</b>	<b>40,380</b>	<b>-2.4</b>	<b>-2.3</b>

# Deposits increased, while mutual funds were affected by market volatility in late 2018

**Total deposits** (EUR bn)



	Dec-18	YoY (%)	QoQ (%)
<b>Deposits</b>	<b>33,438</b>	<b>+6.3</b>	<b>+0.3</b>
<b>Off Balance Sheet Resources</b>	<b>5,929</b>	<b>+13.2</b>	<b>-4.2</b>
Investment Funds	1,926	-0.9	-5.8
Insurance and other	4,003	+21.4	-3.4
<b>Total Customer Funds</b>	<b>39,367</b>	<b>+7.3</b>	<b>-0.4</b>

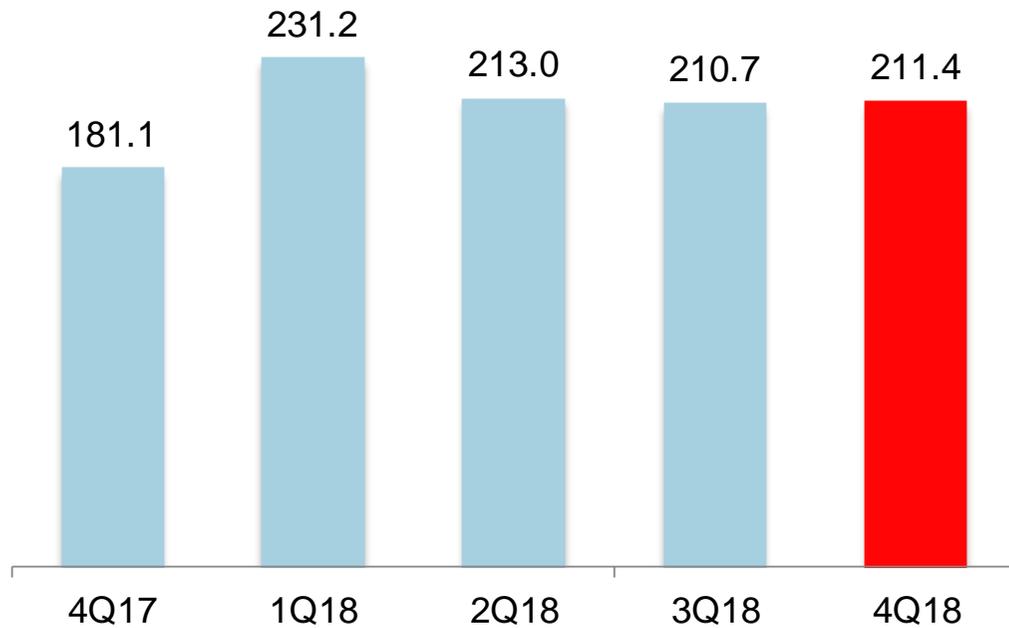
Results



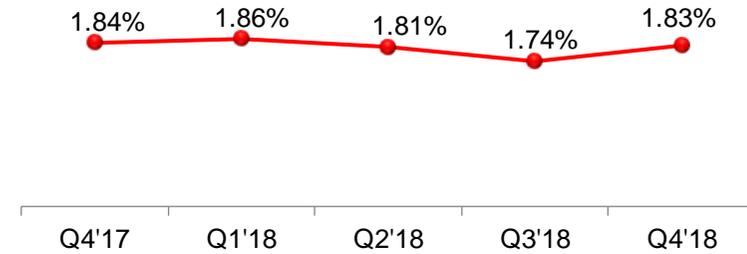
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# NII stabilised, with improvement in the yield on loans

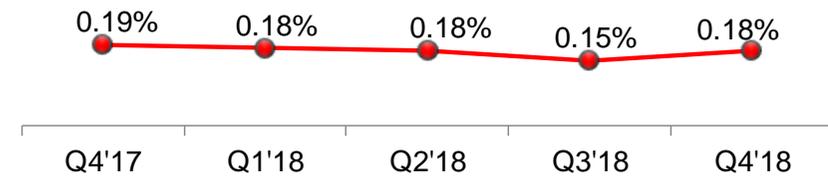
Net interest income (EUR mn)



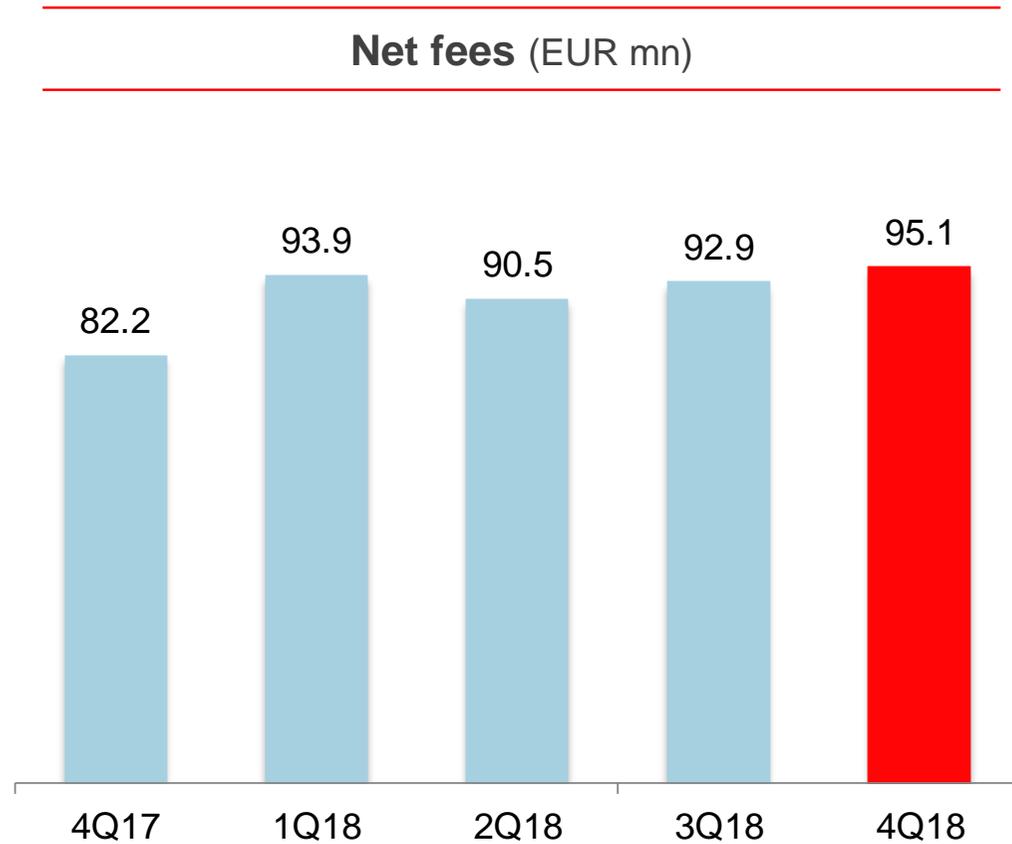
Yield on loans (%)



Cost of deposits (%)



## Net fees improved, namely driven by mutual funds and insurance fees

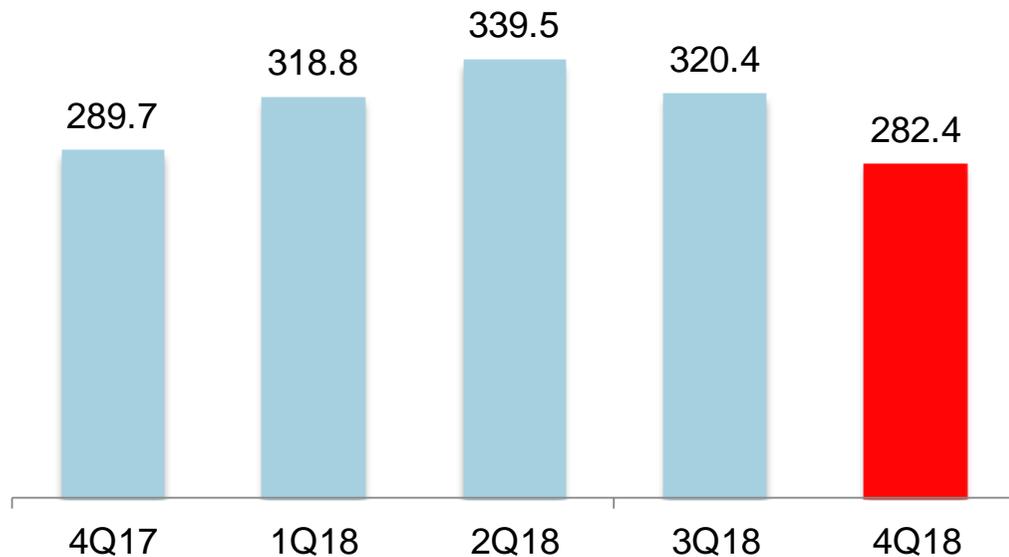


	12M'18	12M'17	YoY (%)	QoQ (%)
Credit	82.4	83.5	-1.3	-0.7
Credit cards	92.1	82.2	+12.1	+14.5
Mutual funds	24.5	20.7	+18.2	+0.2
Insurance	100.2	92.6	+8.2	+4.1
Other	73.2	52.1	+40.4	+0.6
<b>Total</b>	<b>372.4</b>	<b>331.1</b>	<b>+12.5</b>	<b>+2.3</b>

Note: "Other" includes BaPop commissions

## Higher gross income YoY, largely driven by NII

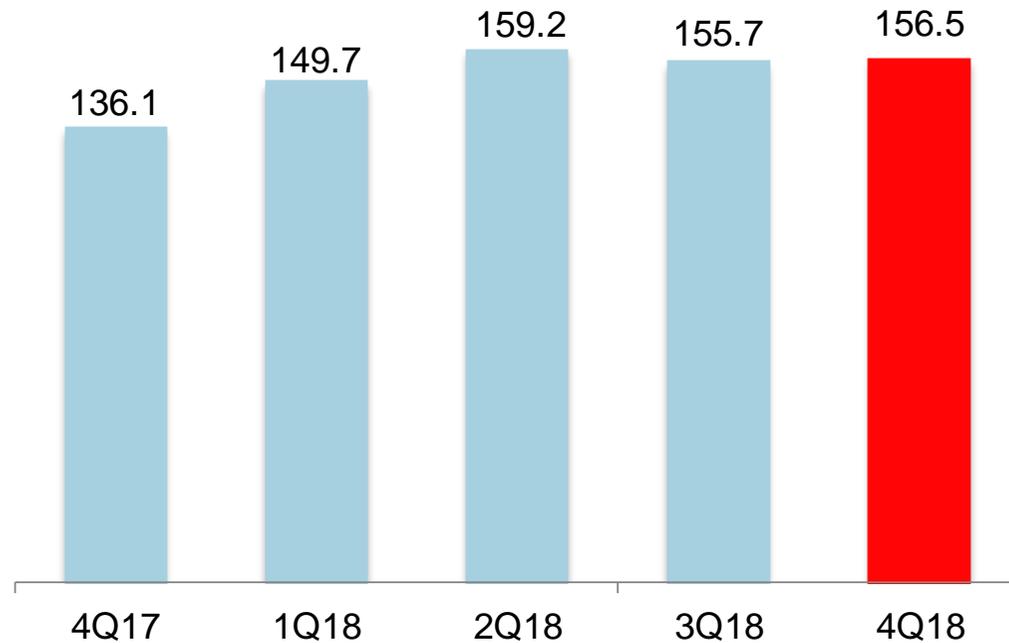
Gross income (EUR mn)



	12M'18	12M'17	YoY (%)	QoQ (%)
Net interest income	866.3	696.9	+24.3	+0.4
Net Fees	372.4	331.1	+12.5	+2.3
<b>Subtotal</b>	<b>1,239</b>	<b>1,028</b>	<b>+20.5</b>	<b>+1.0</b>
Other	22.5	119.6	-81.2%	-
<b>Gross income</b>	<b>1,261.1</b>	<b>1,147.7</b>	<b>+9.9</b>	<b>-11.9</b>

## Improvement in efficiency, as the retail branch network is optimised

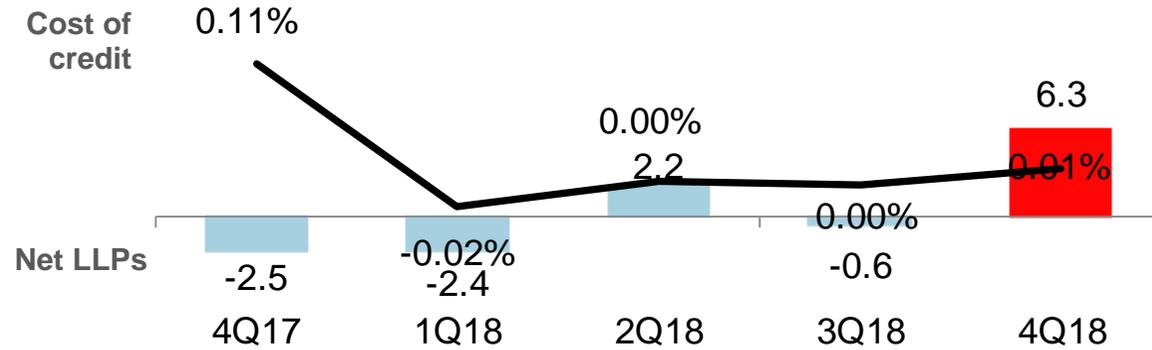
Operating expenses (EUR mn)



	12M'18	12M'17	YoY (%)	QoQ (%)
General and admin. expenses	579.2	490.3	+18.1	+0.2
Depreciation and amortization	41.8	37.7	+11.1	+4.9
<b>Total</b>	<b>621.1</b>	<b>527.9</b>	<b>+17.6</b>	<b>+0.5</b>
Efficiency ratio <i>(with amortisations)</i>	49.2%	46.0%	+3.2pp	+1.8pp
Number of branches	572	682	-110	-14.2
Number of employees	6,517	6,816	-299	-2.9

## Subdued cost of credit

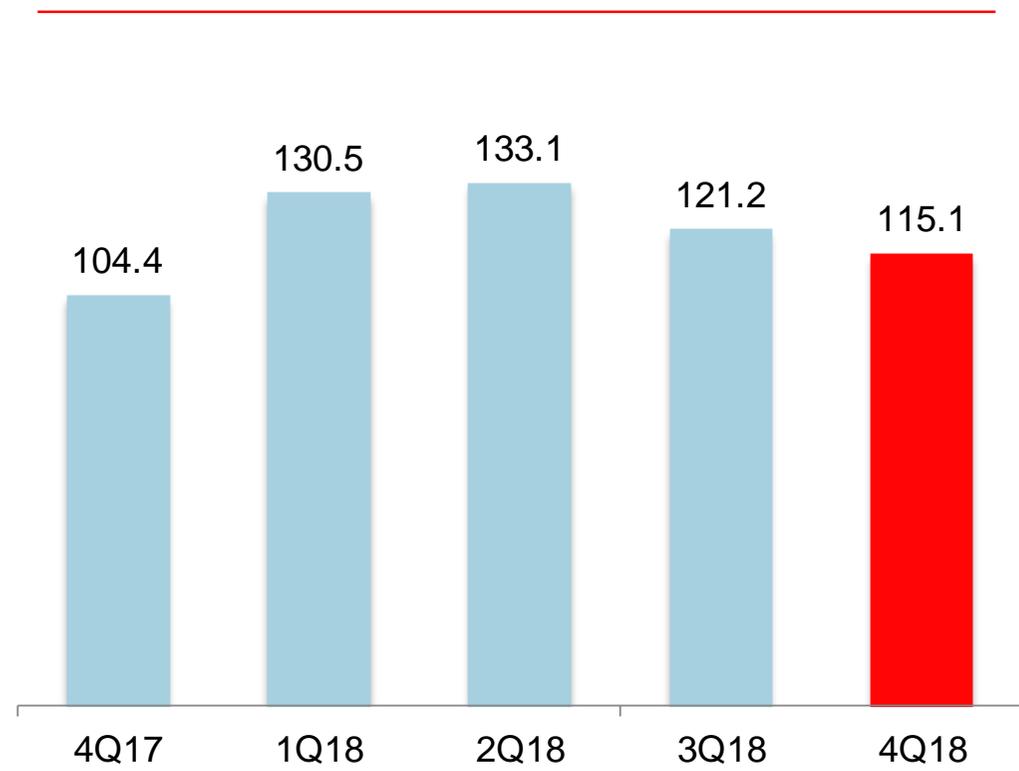
### LLPs and cost of credit (EUR mn, %)



	12M'18	12M'17	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>640.1</b>	<b>619.7</b>	<b>+3.3</b>	<b>-23.5</b>
LLPs	5.4	38.8	-86.0	-
<b>Net op. Income after LLPs</b>	<b>634.7</b>	<b>581.0</b>	<b>+9.2</b>	<b>-27.6</b>
NPE ratio	4.0%	5.7%	-1.7pp	-0.8pp
NPE coverage ratio	51.0%	55.4%	-4.4pp	-4.0pp

# 2018 attributable profit increased 15% due to the improved efficiency and lower provisions

**Attributable profit (EUR mn)**



	12M'18	12M'17	YoY (%)	QoQ (%)
<b>Profit before taxes</b>	<b>696.5</b>	<b>590.8</b>	<b>+17.9</b>	<b>+0.4</b>
Taxes and MI	216.6	154.4	+40.3	+13.9
Other non recurrent net income	20.1	0.0	-	-
<b>Net income</b>	<b>500.0</b>	<b>436.3</b>	<b>+14.6</b>	<b>-5.1</b>

## Improving business and results in the context of sustained economic growth

### Market Environment & Financial System

- ▶ The economy continues to grow above potential, despite some deceleration. GDP is expected to grow around 2% in 2019, still led by investment and exports
- ▶ The fiscal deficit should narrow to around 0.5% of GDP, below target, in 2018
- ▶ The evolution of loans continues largely influenced by the management of impaired assets

### Strategy & Business

- ▶ We remain focused in leveraging our position as the largest private bank by loans, especially strengthening our position in the SME market
- ▶ We continue our digital transformation process, at a sustained pace, with continuous deliveries on digital channels
- ▶ We maintain sound capital and liquidity bases, with organic capital generation

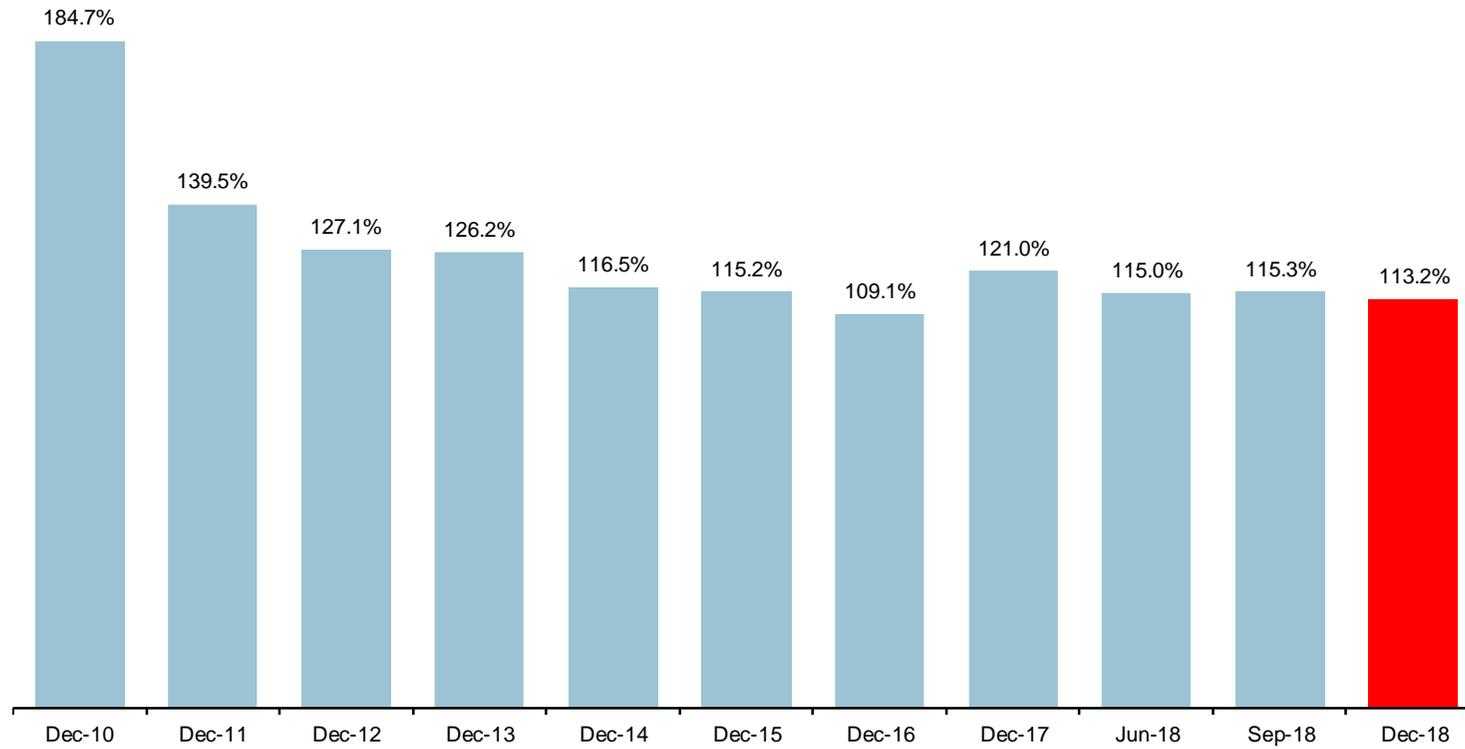
### Results

- ▶ Higher underlying profit, with improved efficiency and low cost of credit
- ▶ Banco Popular is now fully integrated (IT&OP integration concluded on Oct 14<sup>th</sup>), allowing for the extraction of synergies (retail network optimisation already under way)
- ▶ Stabilisation of the loan book, considering the management of credit from Banco Popular

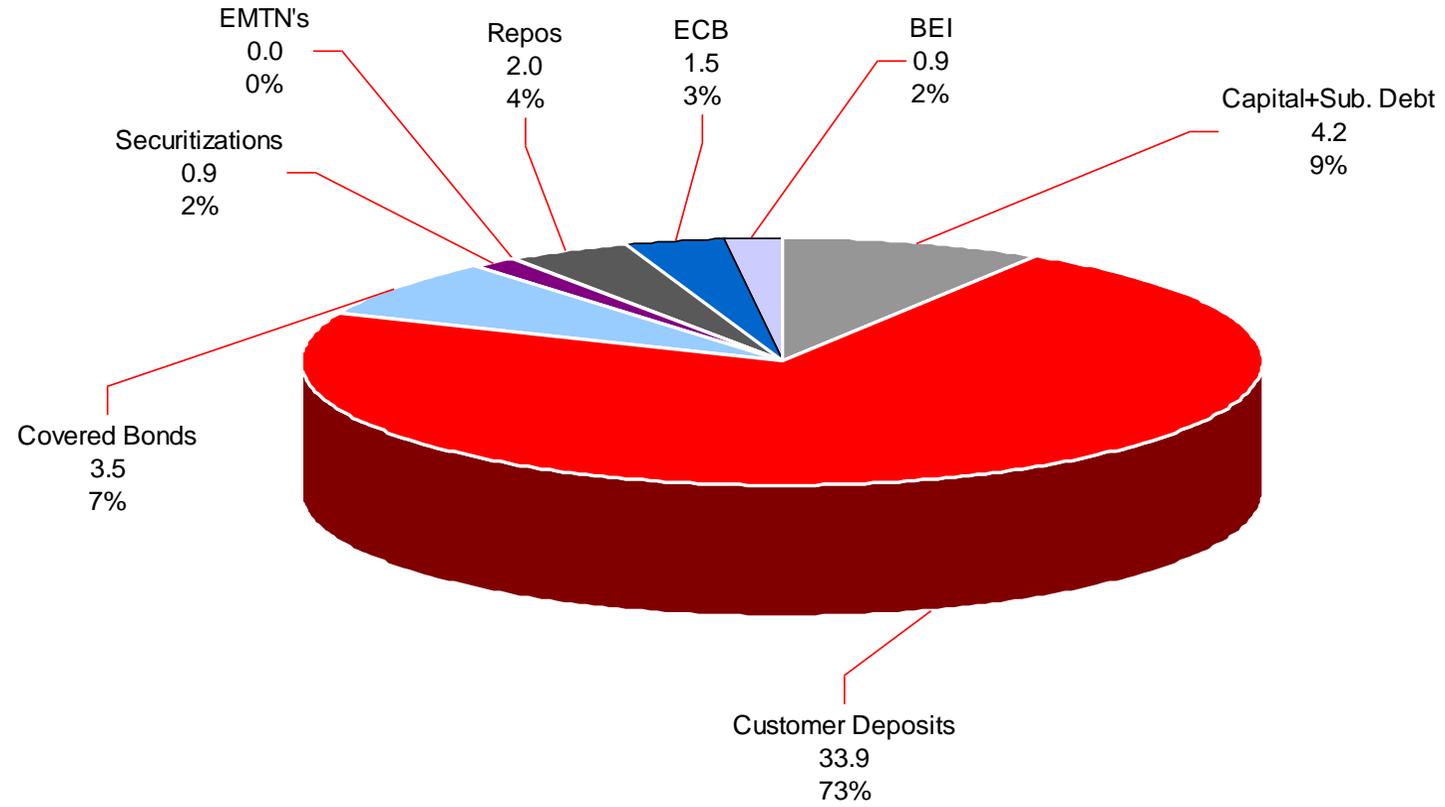
# Financial and liquidity management

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## Loan to Deposit Ratio

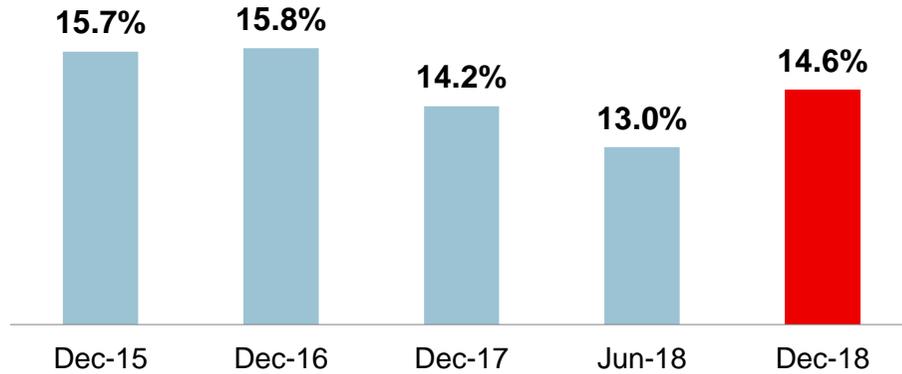


# Funding structure

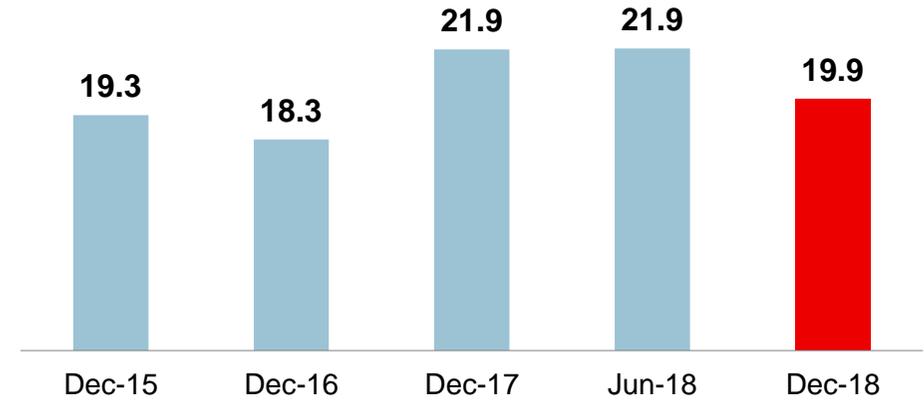


As of Dec/18

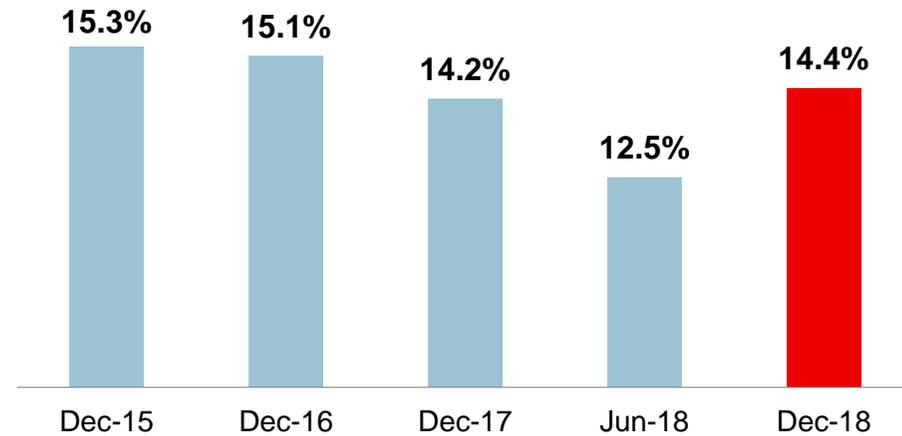
### CET 1 – phasing in



### RWA (bn€)



### CET 1 – full implemented



In Dec/17 impact of Popular Portugal integration

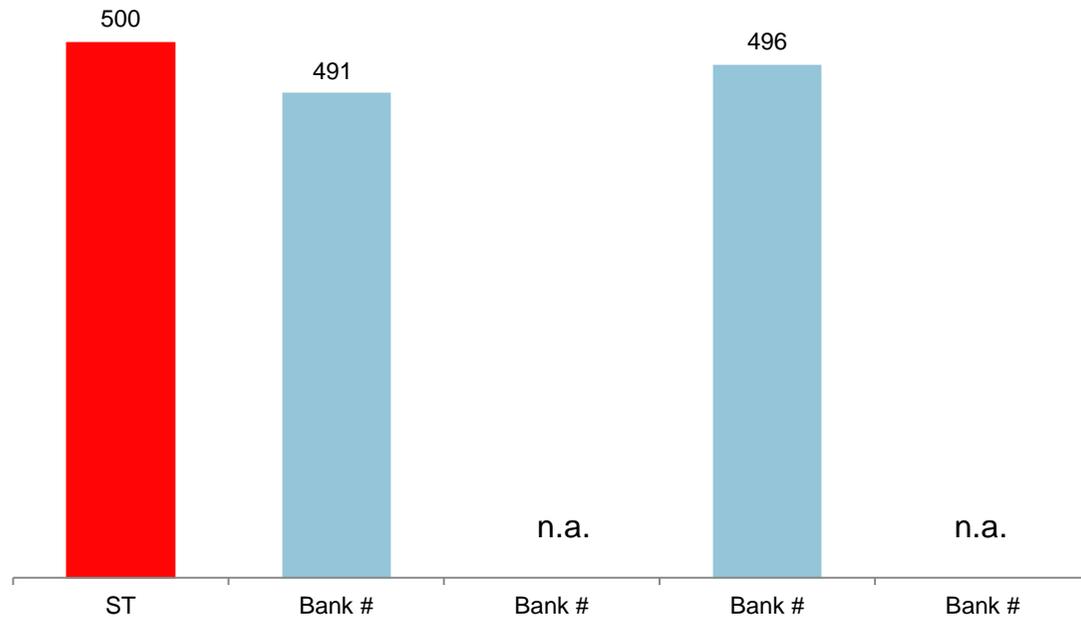
# Benchmarking



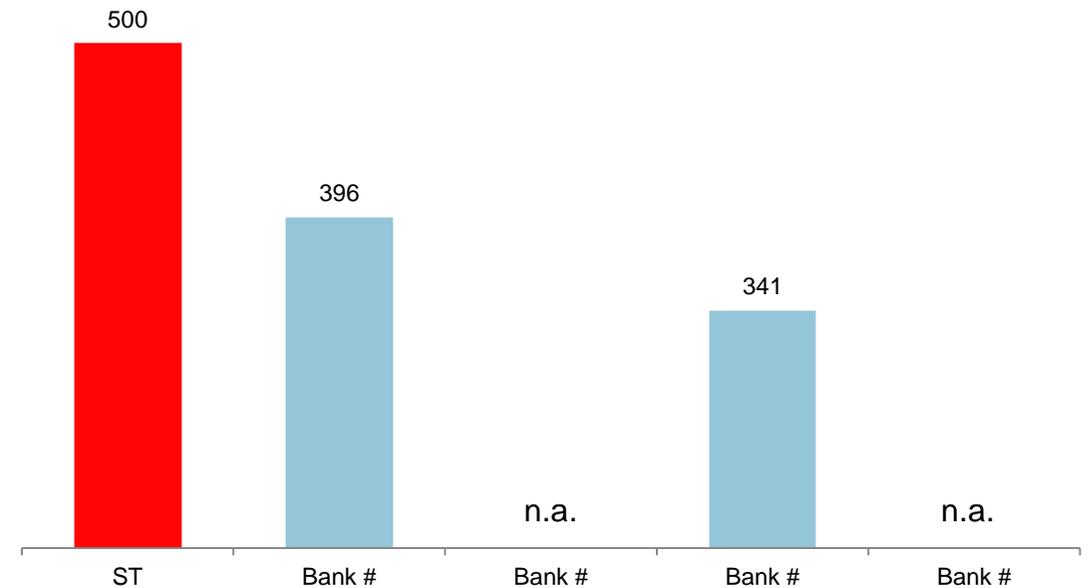
05

# ST continues to stand out vis-à-vis its competitors, in terms of recurrent domestic activity

## Net Income – Consolidated (M€)

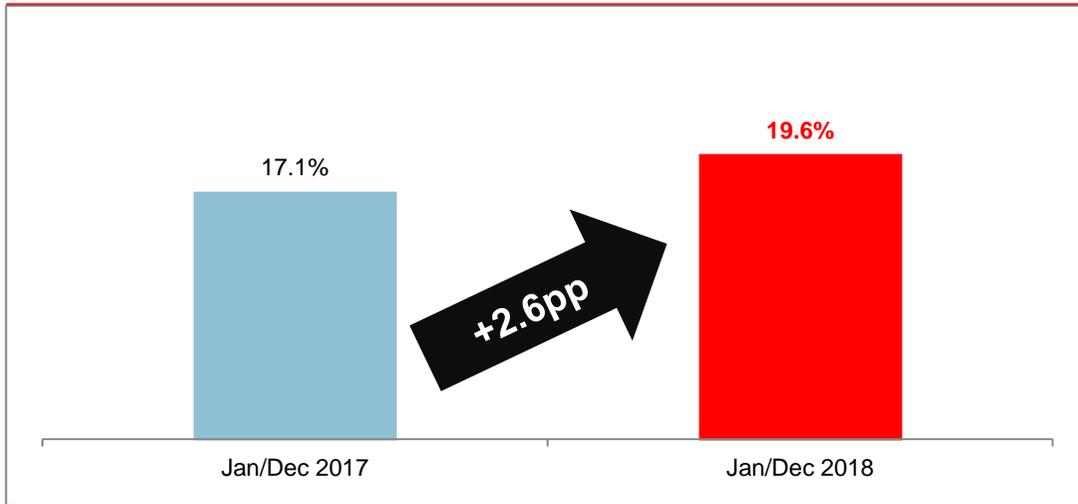


## Net Income – Domestic (M€)

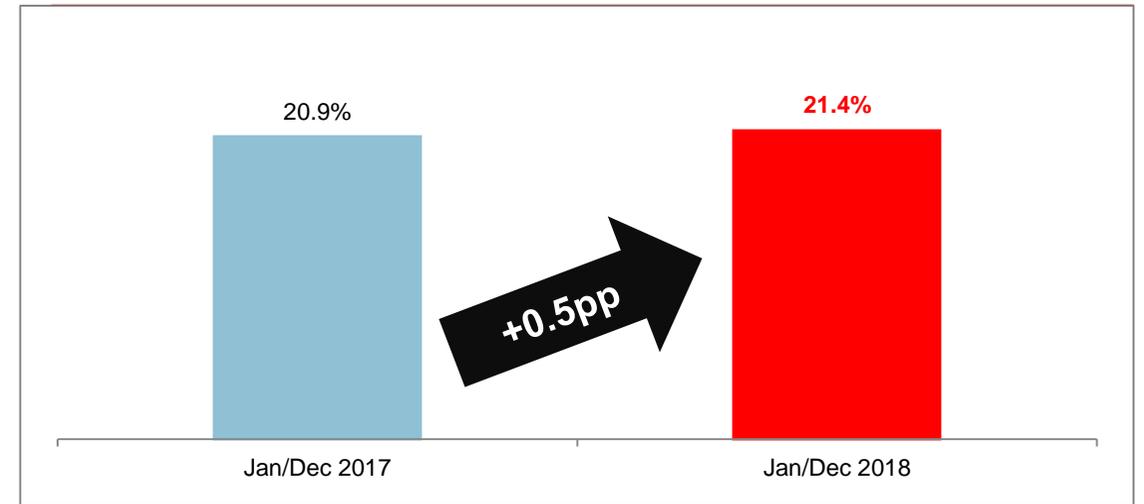


As at Dec/18

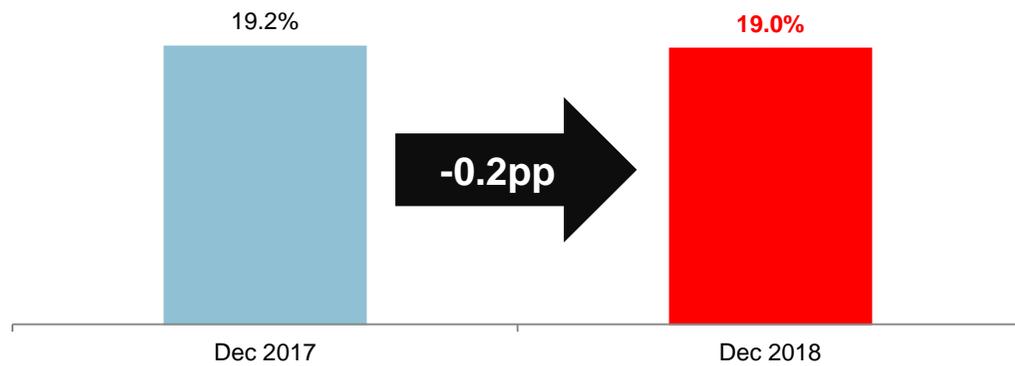
### Corporates – New Production



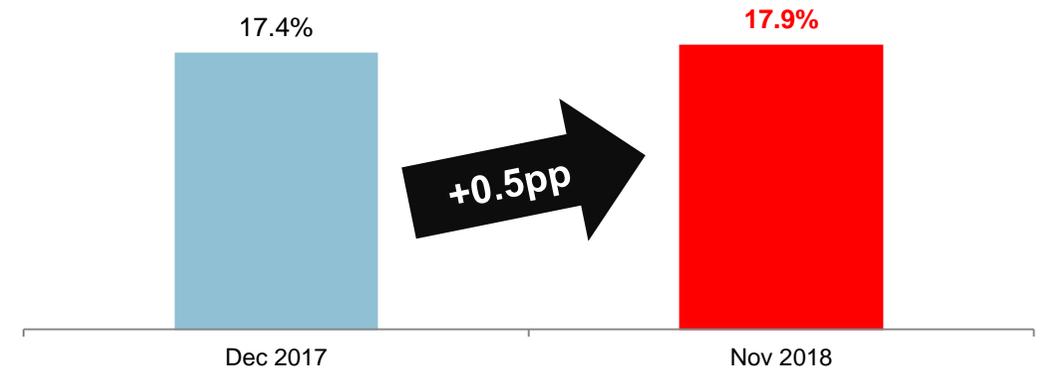
### Mortgages – New Production



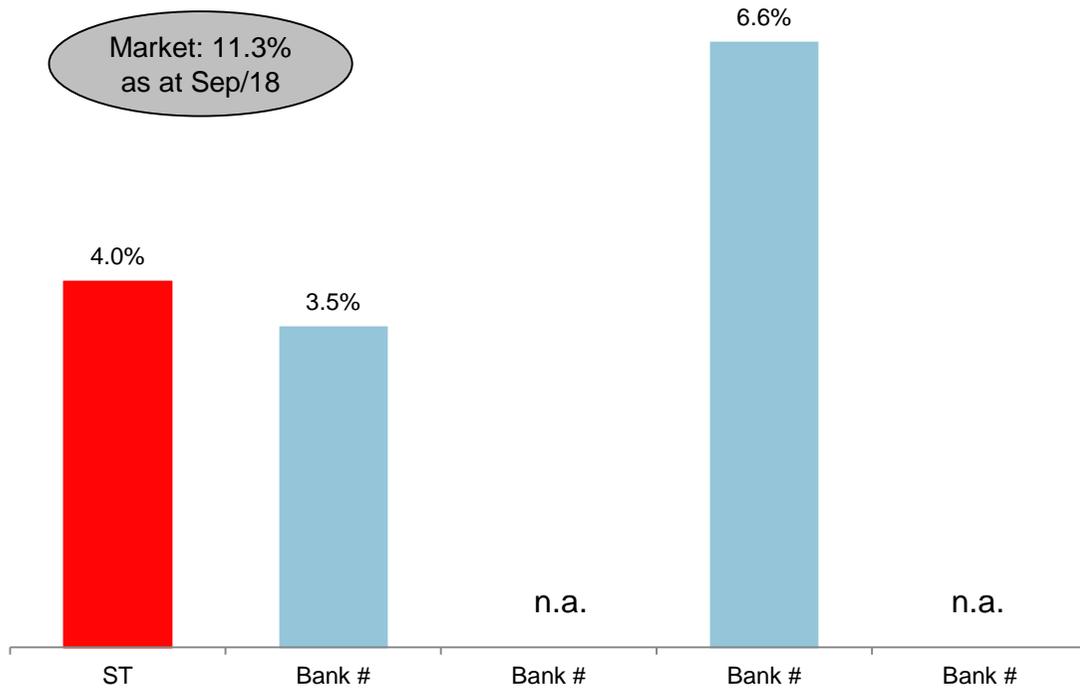
### Corporates – Stock



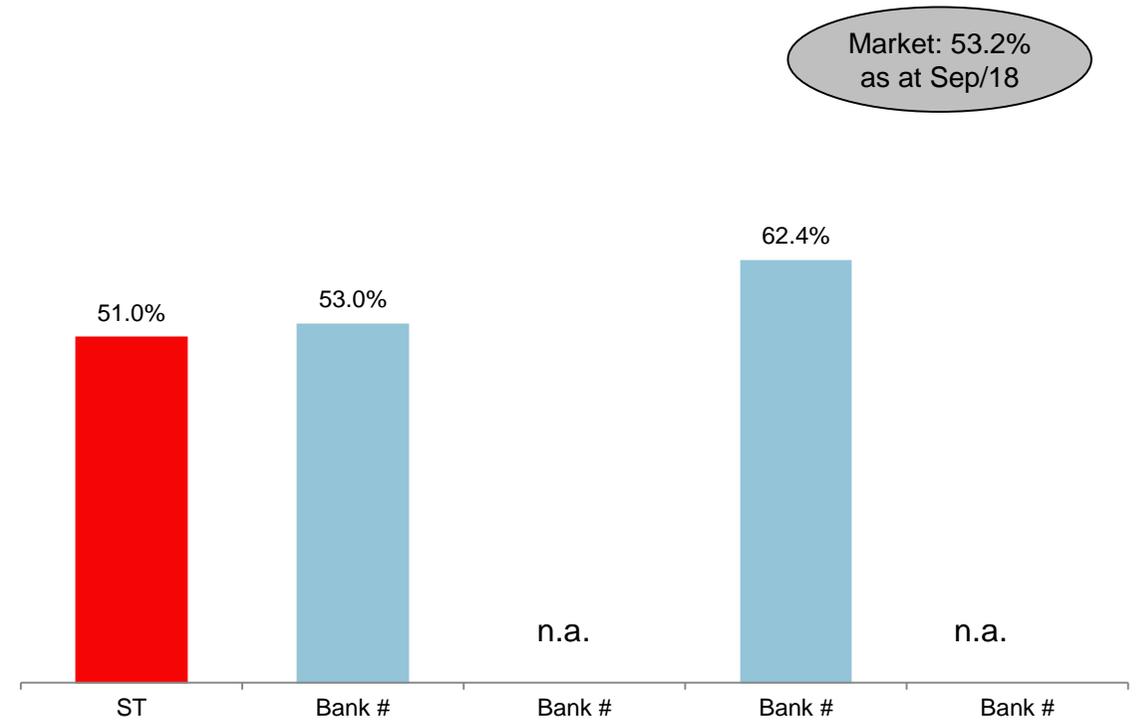
### Mortgages – Stock



### NPE Ratio



### NPE Coverage Ratio

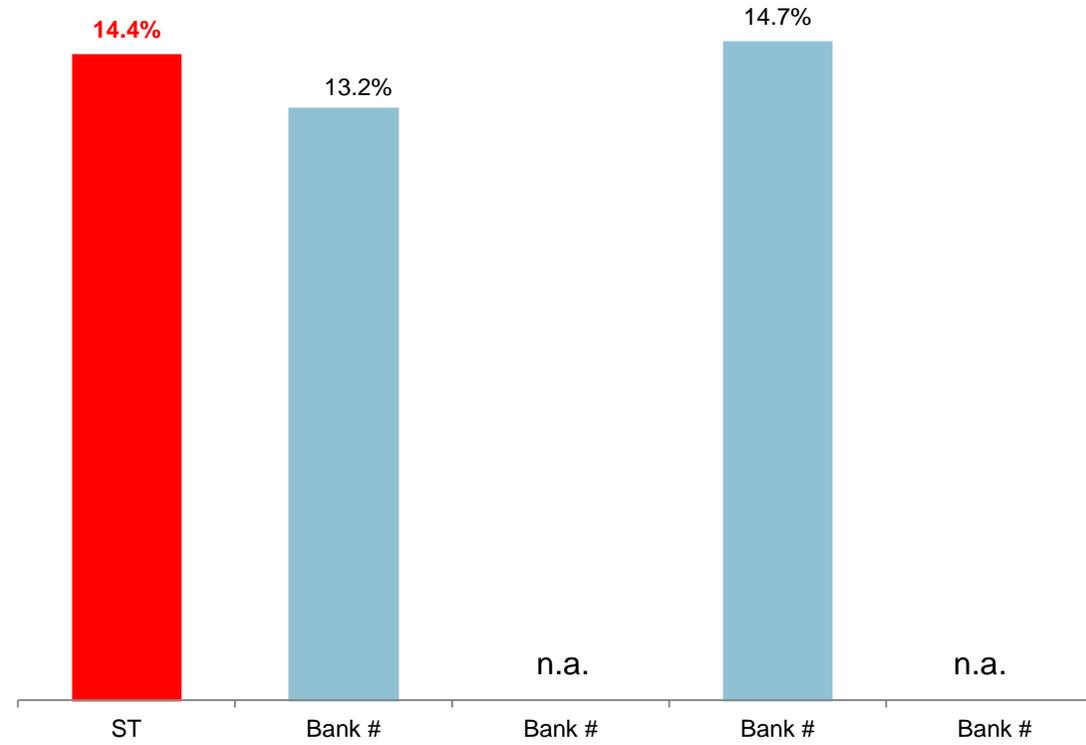


As at Dec/18

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### CET 1 (full implemented)

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*As at Dec/18*

# Appendix



06

## Santander Totta, SGPS

<b>Balance Sheet</b> (million euros)	<b>Dec-18</b>	Dec-17	<b>Var.</b>
Cash, cash balances at central banks and other demand deposits	2,507	1,698	+47.6%
Financial assets held for trading, at fair value through profit or loss, and at fair value through other comprehensive income	10,254	8,476	+21.0%
Financial assets at amortised cost	40,272	40,581	-0.8%
Of which:			
Loans to Customers	39,296	39,646	-0.9%
Investments in subsidiaries, joint ventures and associates	111	122	-8.8%
Tangible assets	347	354	-1.9%
Intangible assets	31	37	-16.3%
Tax assets	684	479	+42.6%
Non-current assets held for sale	30	87	-65.6%
Other assets	804	1,335	-39.7%
<b>Total Assets</b>	<b>55,040</b>	<b>53,169</b>	<b>+3.5%</b>
Financial liabilities held for trading	4,416	3,958	+11.6%
Financial liabilities at amortised cost	44,495	43,434	+2.4%
Deposits from Central Banks and Credit Institutions	3,050	3,081	-1.0%
Customer deposits	33,438	31,458	+6.3%
Debt securities issued	4,323	4,543	-4.9%
Of which: subordinated debt	8	8	+0.0%
Other financial liabilities	3,685	4,352	-15.3%
Provisions	298	178	+67.2%
Technical provisions	743	412	+80.4%
Tax liabilities	261	238	+9.7%
Other liabilities	661	917	-27.9%
<b>Total Liabilities</b>	<b>50,875</b>	<b>49,137</b>	<b>+3.5%</b>
Share capital attributable to ST SGPS shareholders	4,163	4,030	+3.3%
Non controlling interests	2	2	-13.5%
<b>Total Equity</b>	<b>4,165</b>	<b>4,032</b>	<b>+3.3%</b>
<b>Total Equity and Total Liabilities</b>	<b>55,040</b>	<b>53,169</b>	<b>+3.5%</b>

Note: Following the entry into force of IFRS 9, Santander Totta SGPS applied the guidelines of Regulation (EU) 2017/1443 of June 29, 2017, for the financial position statement

## Santander Totta, SGPS

<b>Proforma Income Statement*</b> (million euros)	<b>Dec-18</b>	<b>Dec-17</b>	<b>Var.</b>
<b>Net interest income (without dividends)</b>	<b>866.3</b>	<b>696.9</b>	<b>+24.3%</b>
Dividends from equity instruments	1.7	2.9	-42.5%
<b>Net interest income</b>	<b>868.0</b>	<b>699.8</b>	<b>+24.0%</b>
Net commissions	372.4	331.1	+12.5%
Other banking income	-25.4	-14.7	+72.2%
Insurance activity	19.8	11.0	+80.4%
<b>Commercial revenue</b>	<b>1,234.8</b>	<b>1,027.2</b>	<b>+20.2%</b>
Gain/loss on financial transactions	26.4	120.5	-78.1%
<b>Operating income</b>	<b>1,261.1</b>	<b>1,147.7</b>	<b>+9.9%</b>
Total operating expenses	(621.1)	(527.9)	+17.6%
<b>Net operating income</b>	<b>640.1</b>	<b>619.7</b>	<b>+3.3%</b>
Impairment, net provisions and other	56.4	(29.0)	-
<b>Income before taxes and MI</b>	<b>696.5</b>	<b>590.8</b>	<b>+17.9%</b>
Taxes	(216.6)	(154.2)	+40.4%
Minority interests	0.0	(0.2)	-
Other non recurrent results	20.1	0.0	-
<b>Consolidated net income</b>	<b>500.0</b>	<b>436.3</b>	<b>+14.6%</b>

(\*) Not audited

# 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  
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