

# Portugal

## Q1'18 Earnings Presentation



# Disclaimer

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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.

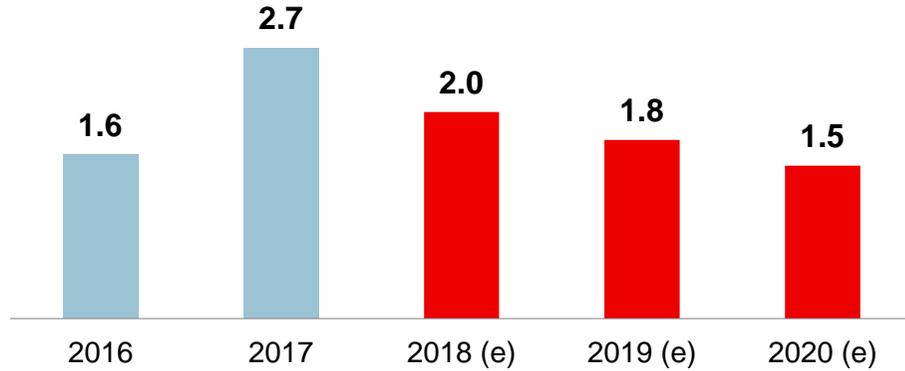
# Macroeconomic environment and financial system

01

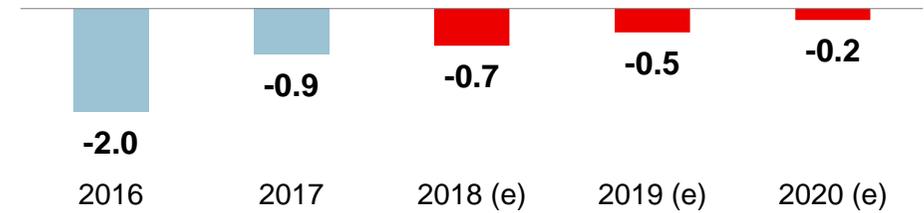


# Shinning perspectives for economic fundamentals...

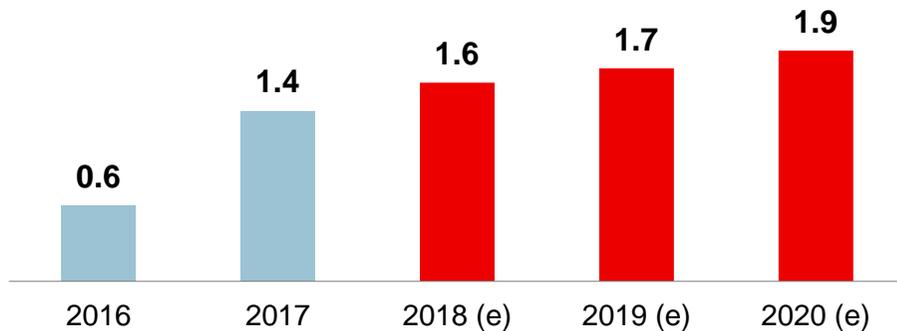
**Annual GDP Growth (real, %)**



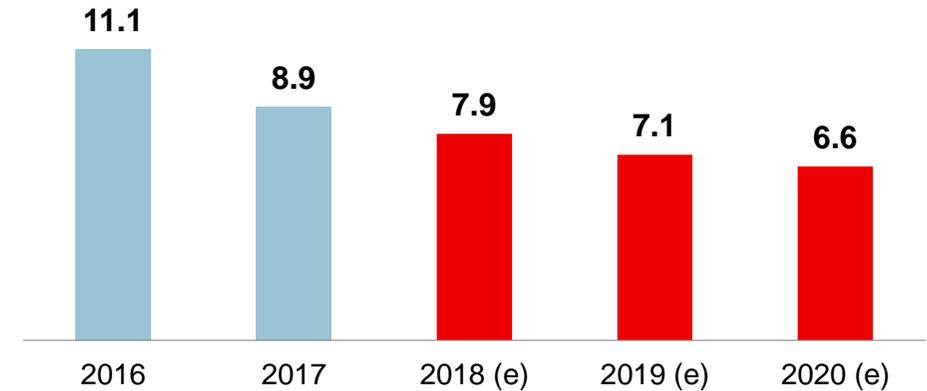
**Fiscal Balance (% of GDP)**



**Annual inflation rate (%)**



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



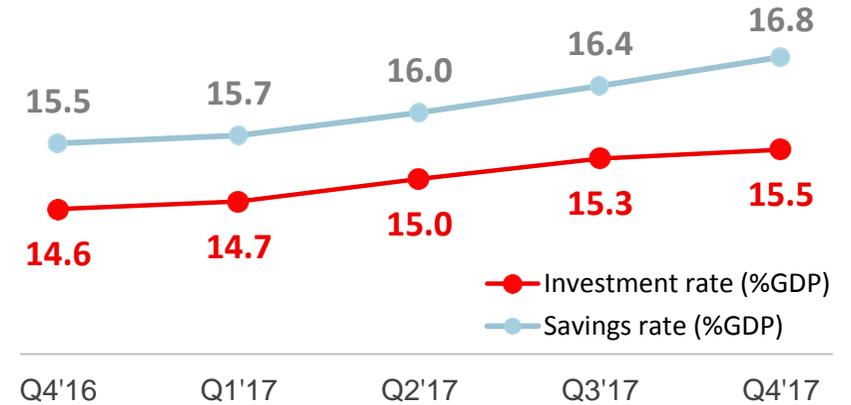


# ... as competitiveness improves and the economy deleverages...

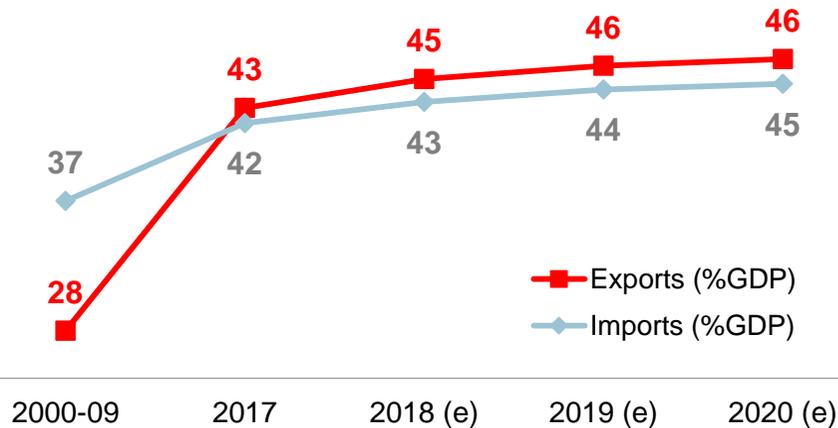
## Consumer dynamics



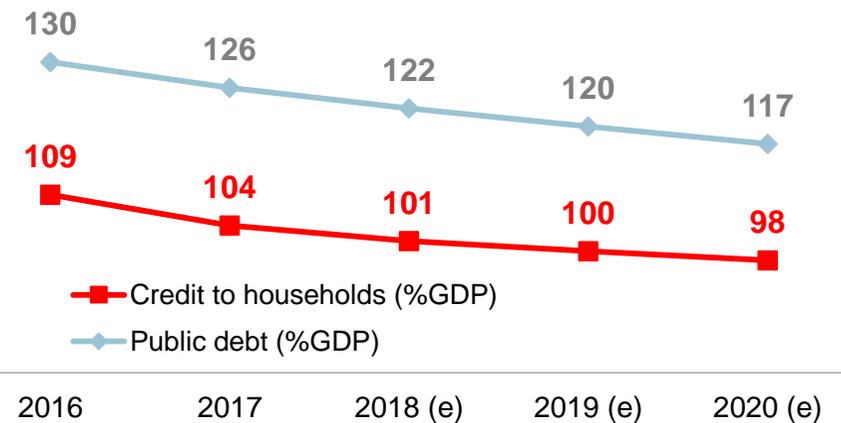
## Investment dynamics (total economy)



## Tradable sector dynamics



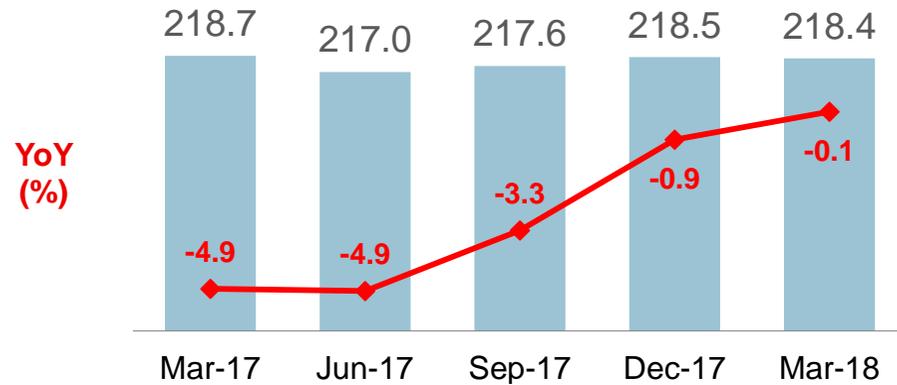
## Deleveraging dynamics





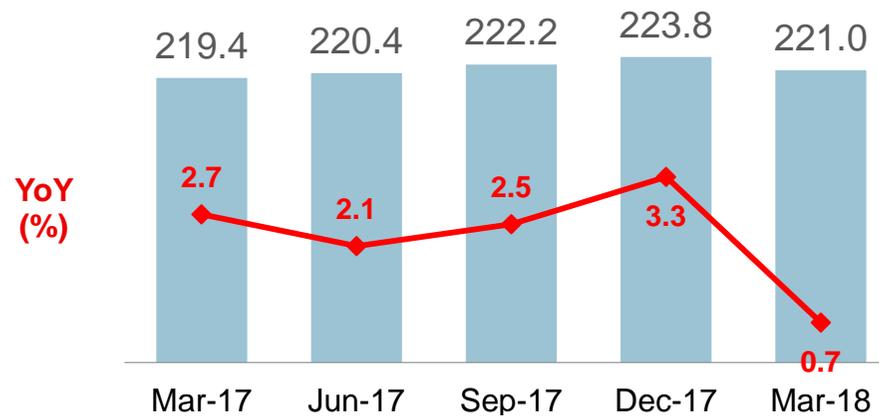
## ... and the financial system continues improving its resilience.

### Total loans (EUR bn)



- ▶ The 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 moderate their dynamics as households consumption smoothly rebounds, and corporates finance their investments with own funds

# Strategy and business



02

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



## STRATEGIC PRIORITIES

- ▶ Operational and technology integration of ex-Banco Popular Portugal

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- ▶ 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

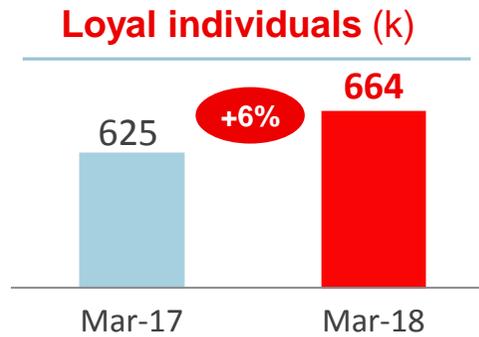
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- ▶ Improve efficiency and cost of credit

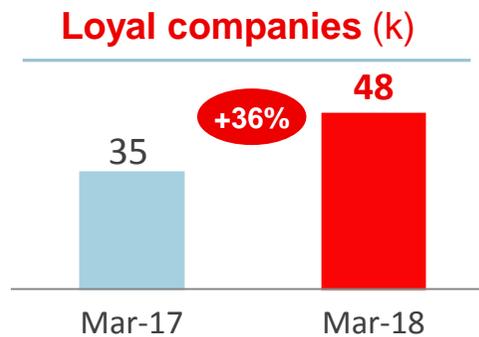
	KEY DATA	Mar'18	YoY Var.
	Gross loans	37,418	+30.1%
	Deposits	35,114	+17.9%
	Attributable profit	126.9	+1.1%
	RoTE	12.7%	-2.6bps
	Efficiency ratio	46.4%	-0.8pp
	Loans' market share	18.3%	+4.1pp
	Deposits' market share	15.2%	+1.5pp
	Loyal customers (k)	712	+7.9%
	Digital customers (k)	653	+24.5%
	Branches	676	+7.8%
	Employees	7,018	+12.6%



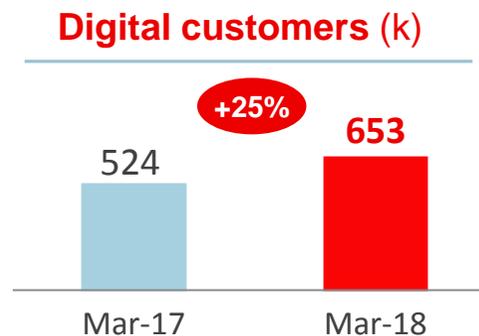
# Dynamic growth in the most valuable customer segments



- ▶ The number of loyal customers continues growing, levered by the focus on the 1|2|3 strategy



- ▶ ...while the focus on corporates is reflected in the increase of customers, aligned with the strong market shares in new loans



- ▶ The number of digital customers continues increasing, as we increase the digital functionalities available for both household and corporate clients (CrediSimples, mutual funds, new Corporate mobile app)

# The integration of Popular Portugal is on track as scheduled and in an efficient way

## Popular Portugal integration

## Market recognition

### Branches

Change of branch brand image completed



### System Documentation

Rebranding concluded on the 17th January

### Social Media

Platforms rebranding completed on the 19th January (e.g. Facebook, LinkedIn, YouTube)



### Digital Channels

Rebrand of website and mobile app finished on the 9th January

### Head Office

Change of Head Office brand image finished



### Sponsorship and Advertising

Rebranding of campaigns ongoing



### Payment Methods

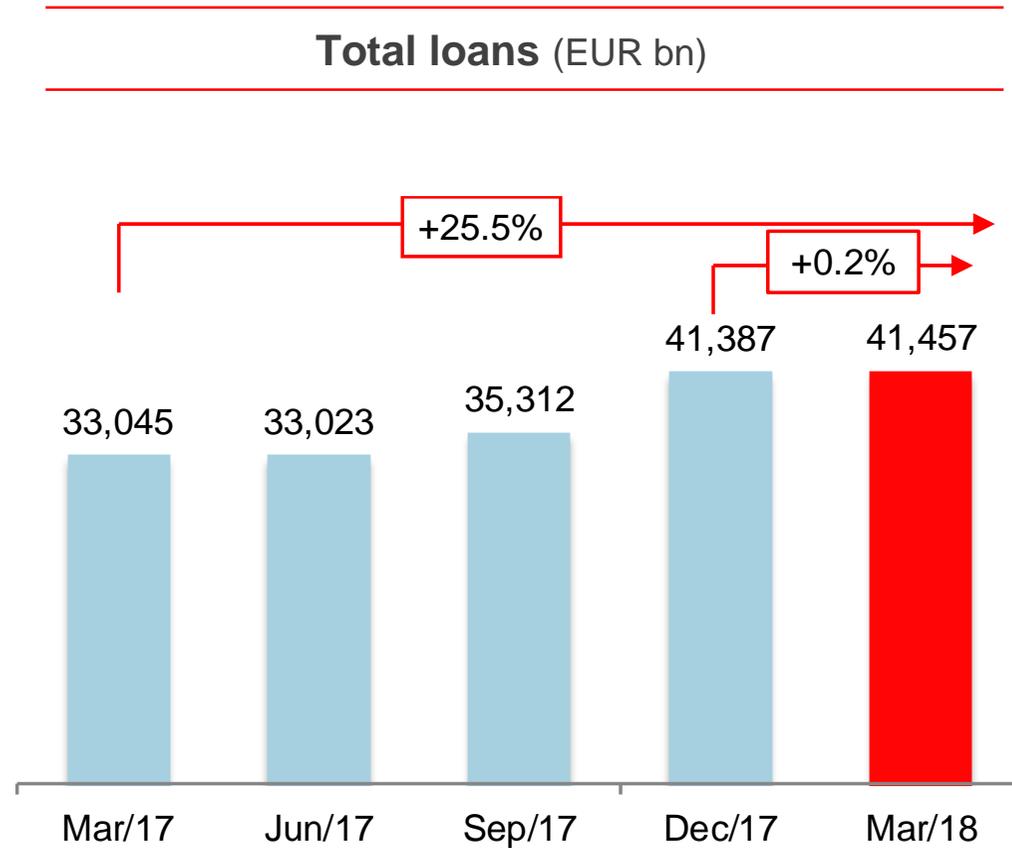
- Paychecks and ATMs: concluded
- POS: ongoing
- Cards: pending conclusion of WiZink deal



DBRS upgraded Bank's rating to A



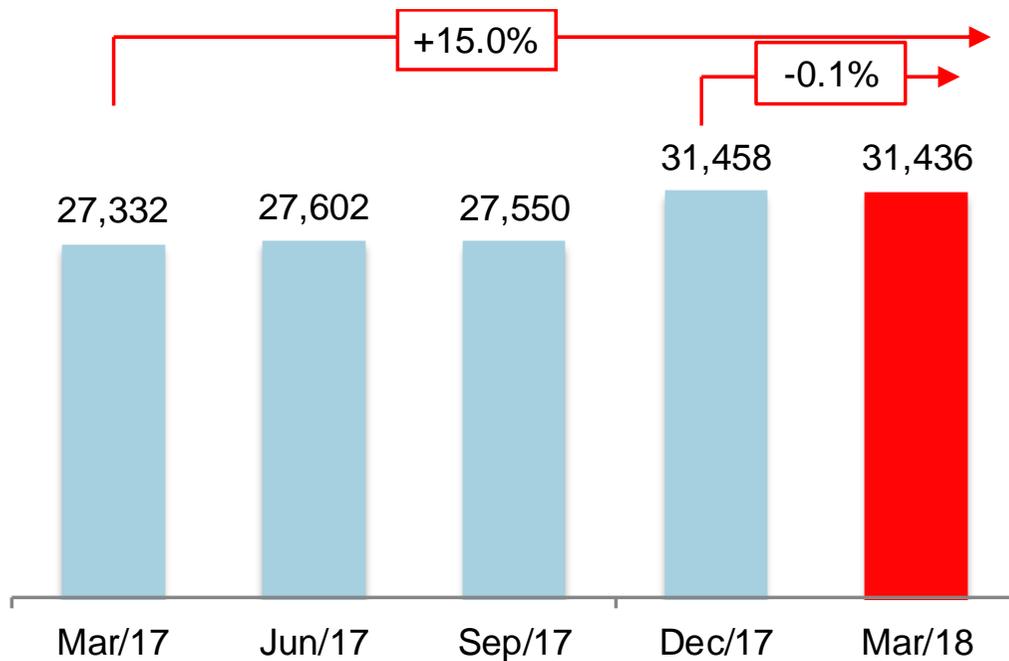
# Loans are flat in QoQ, but the mortgage book increased by 0.3%



	Mar-18	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>21,470</b>	<b>+12.9</b>	<b>+0.2</b>
Mortgage	19,153	+12.5	+0.3
Consumer and other	2,317	+16.7	-1.2
<b>Corporates</b>	<b>19,212</b>	<b>+46.1</b>	<b>+0.1</b>
<b>Other</b>	<b>775</b>	<b>-11.8</b>	<b>+2.6</b>
<b>Total</b>	<b>41,457</b>	<b>+25.5</b>	<b>+0.2</b>

# Deposits are flat QoQ, while off balance sheet resources increased 5.5%

**Total deposits** (EUR bn)



	Mar-18	YoY (%)	QoQ (%)
<b>Deposits</b>	<b>31,436</b>	<b>+15.0</b>	<b>-0.1</b>
<b>Off Balance Sheet Resources</b>	<b>5,530</b>	<b>+26.4</b>	<b>+5.5</b>
Investment Funds	2,127	+40.6	+9.4
Insurance and other	3,403	+18.8	+3.2
<b>Total Customer Funds</b>	<b>36,966</b>	<b>+16.6</b>	<b>+0.7</b>

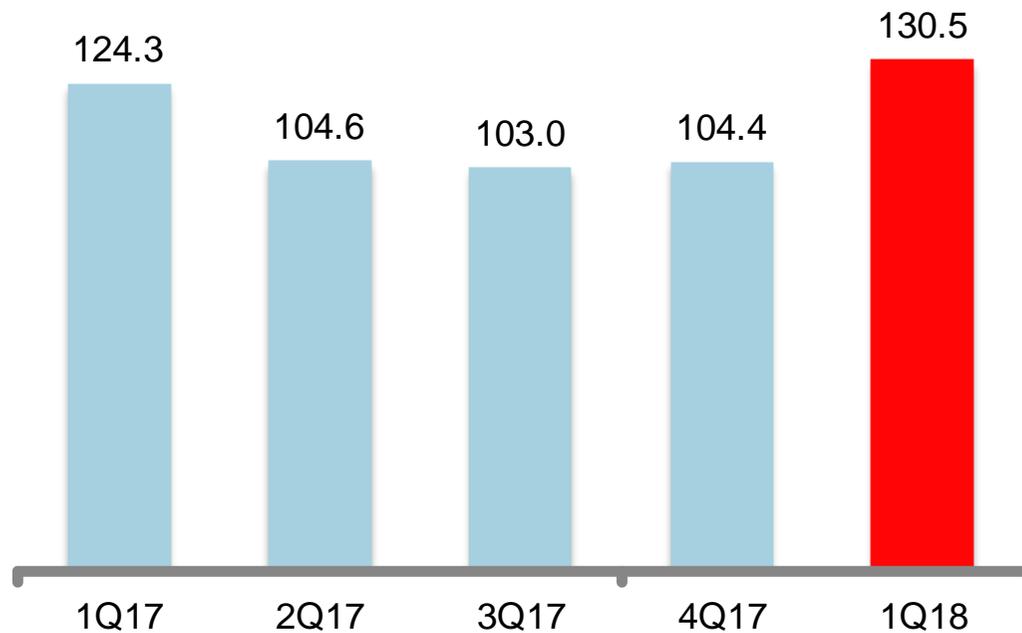
Results



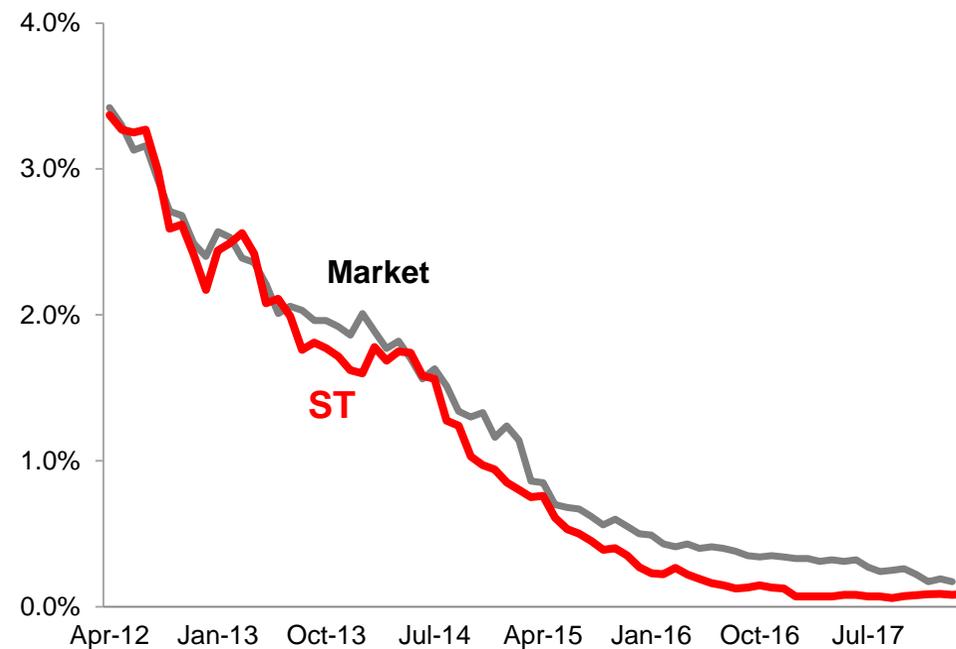
03

# NII improved, benefitting from stable loan book and lower rates on deposits

Net interest income (EUR mn)

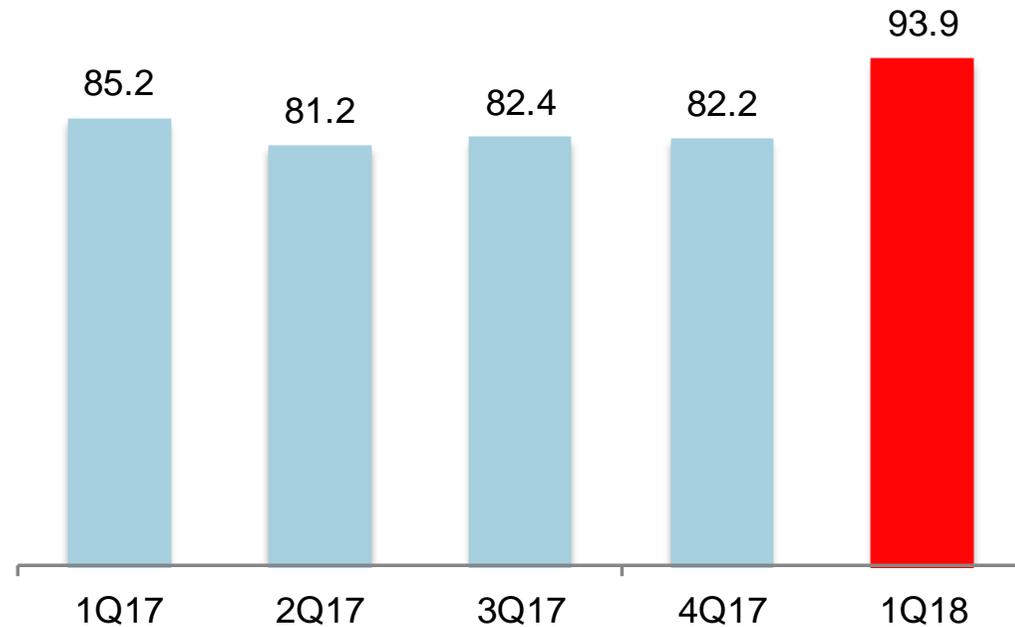


Household deposits interest rates (%)



# Fees evolved positively, with QoQ growth in insurance, credit and means of payment

**Net fees (EUR mn)**

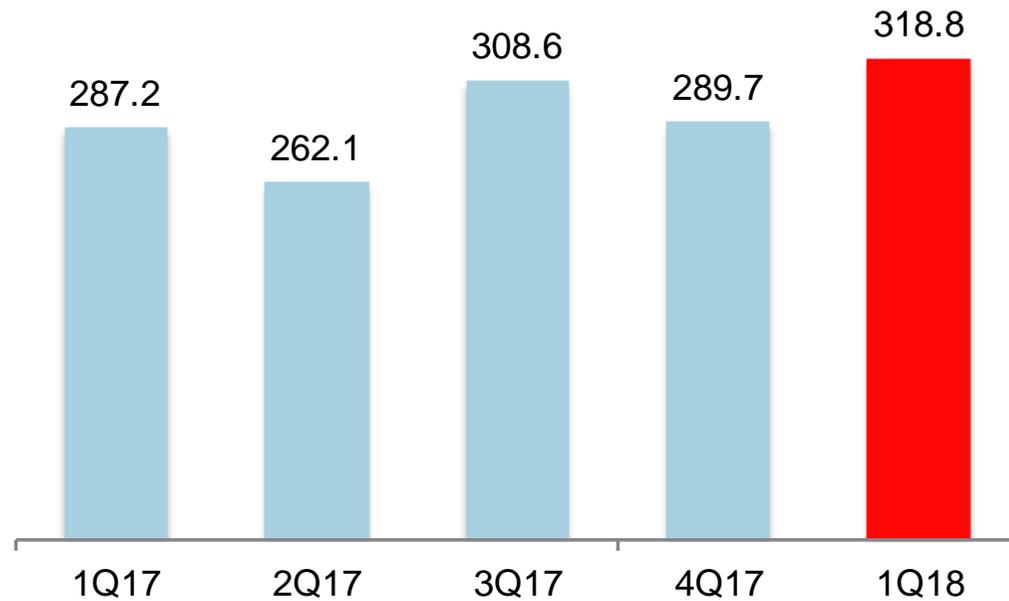


	Mar-18	Mar-17	YoY (%)	QoQ (%)
Credit	20.8	22.5	-7.7	+8.9
Credit cards	21.4	20.7	+3.0	+7.2
Mutual funds	6.0	4.4	+34.7	+1.9
Insurance	24.7	24.9	-1.0	+10.9
Other	21.1	12.6	+67.4	+1.0
<b>Total</b>	<b>93.9</b>	<b>85.2</b>	<b>+10.2</b>	<b>+14.2</b>

Note: "Other" includes BaPop commissions

# Sustained improvement in gross income, supported by commercial revenue

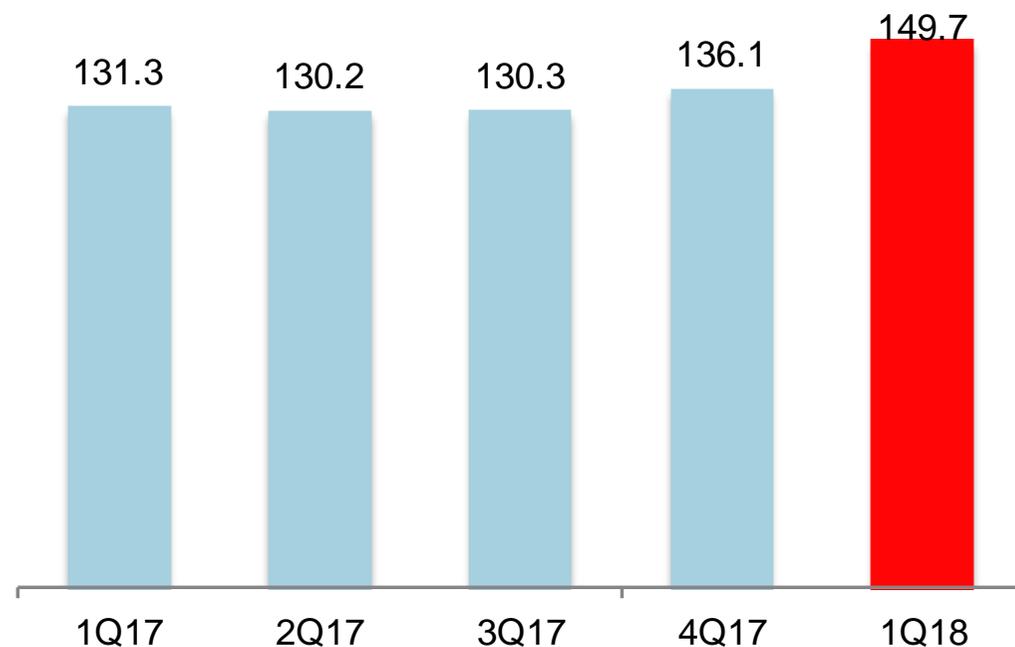
Gross income (EUR mn)



	Mar-18	Mar-17	YoY (%)	QoQ (%)
Net interest income	231.2	171.7	+34.6	+27.6
Net Fees	93.9	85.2	+10.2	+14.2
<b>Subtotal</b>	<b>325</b>	<b>+257.0</b>	<b>+26.5</b>	<b>+23.4</b>
Other	-6.2	30.3	-	-
<b>Gross income</b>	<b>318.8</b>	<b>287.2</b>	<b>+11.0</b>	<b>+10.1</b>

# Operating expenses increase with the integration of former Banco Popular Portugal

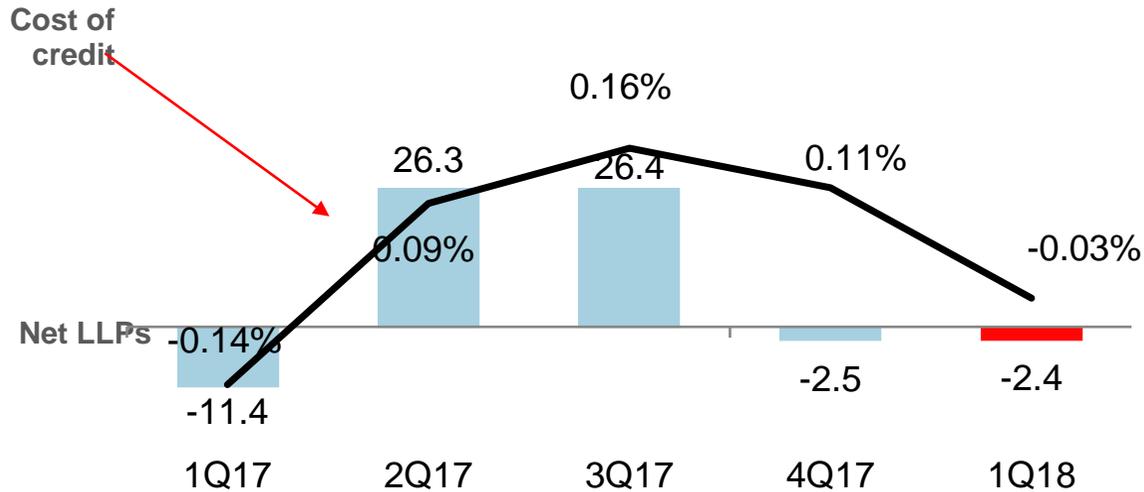
Operating expenses (EUR mn)



	Mar-18	Mar-17	YoY (%)	QoQ (%)
General and admin. expenses	139.2	121.7	+14.4	+9.8
Depreciation and amortization	10.6	9.6	+9.9	+12.3
<b>Total</b>	<b>149.7</b>	<b>131.3</b>	<b>+14.0</b>	<b>+10.0</b>
Efficiency ratio <i>(with amortisations)</i>	47.0%	45.7%	+1.2pp	+1.0pp
Number of branches	676	627	+49	-0.9
Number of employees	6,866	6,131	+735	+0.7

# Still low cost of credit, despite the inclusion of the ex-Popular Portugal portfolio

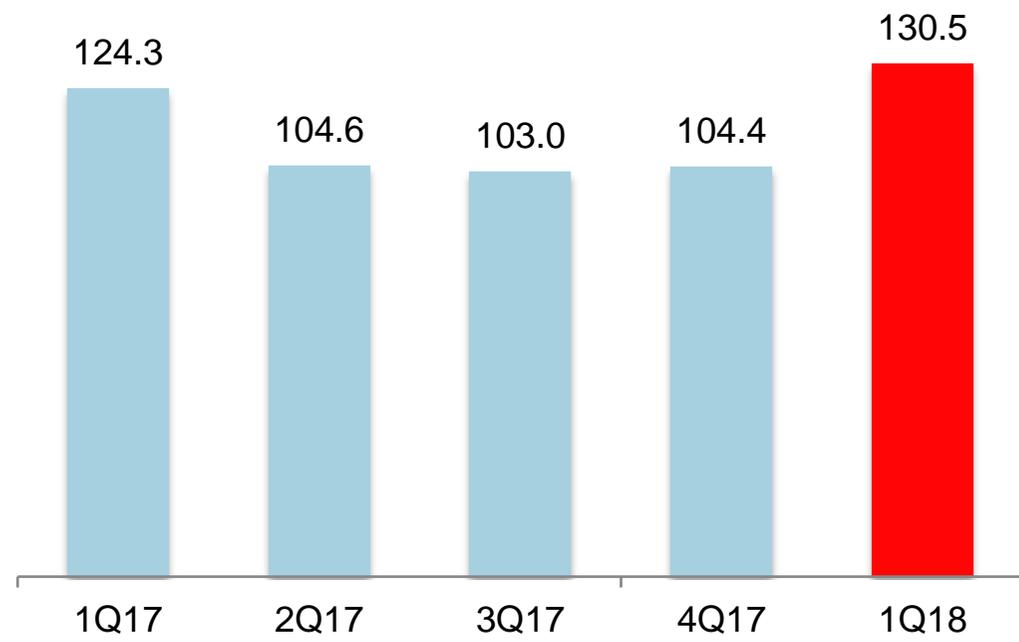
LLPs and cost of credit (EUR mn, %)



	Mar-18	Mar-17	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>169</b>	<b>+155.9</b>	<b>+8.5</b>	<b>+10.1</b>
LLPs	-2.4	-11.4	-78.7	-2.5
<b>Net op. Income after LLPs</b>	<b>172</b>	<b>+167.3</b>	<b>+2.5</b>	<b>+9.9</b>
NPE ratio	5.4%	5.7%	-0.3pp	-0.3pp
NPE coverage ratio	57.0%	63.3%	-6.4pp	+1.6pp

# Profit increased with the improvement in commercial revenue and despite the impact of ex-Popular Portugal on costs

**Attributable profit (EUR mn)**



	Mar-18	Mar-17	YoY (%)	QoQ (%)
<b>Profit before taxes</b>	<b>173.2</b>	<b>159.6</b>	<b>+8.5</b>	<b>+10.6</b>
Taxes and MI	42.6	35.3	+20.8	-18.3
<b>Net income</b>	<b>130.5</b>	<b>124.3</b>	<b>+5.0</b>	<b>+25.0</b>

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

### Market Environment & Financial System

- ▶ Economic activity continues to expand at a solid pace, led by exports and investment. GDP should grow 2% in 2018
- ▶ The Government has reduced the fiscal deficit to 0.9% in 2017, and aims to reduce it further in 2018
- ▶ Improvement in the financial system, but credit dynamics affected by NPL management

### Strategy & Business

- ▶ Following the integration of Banco Popular Portugal we have the opportunity to strengthen 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, despite the integration of ex-Popular Portugal

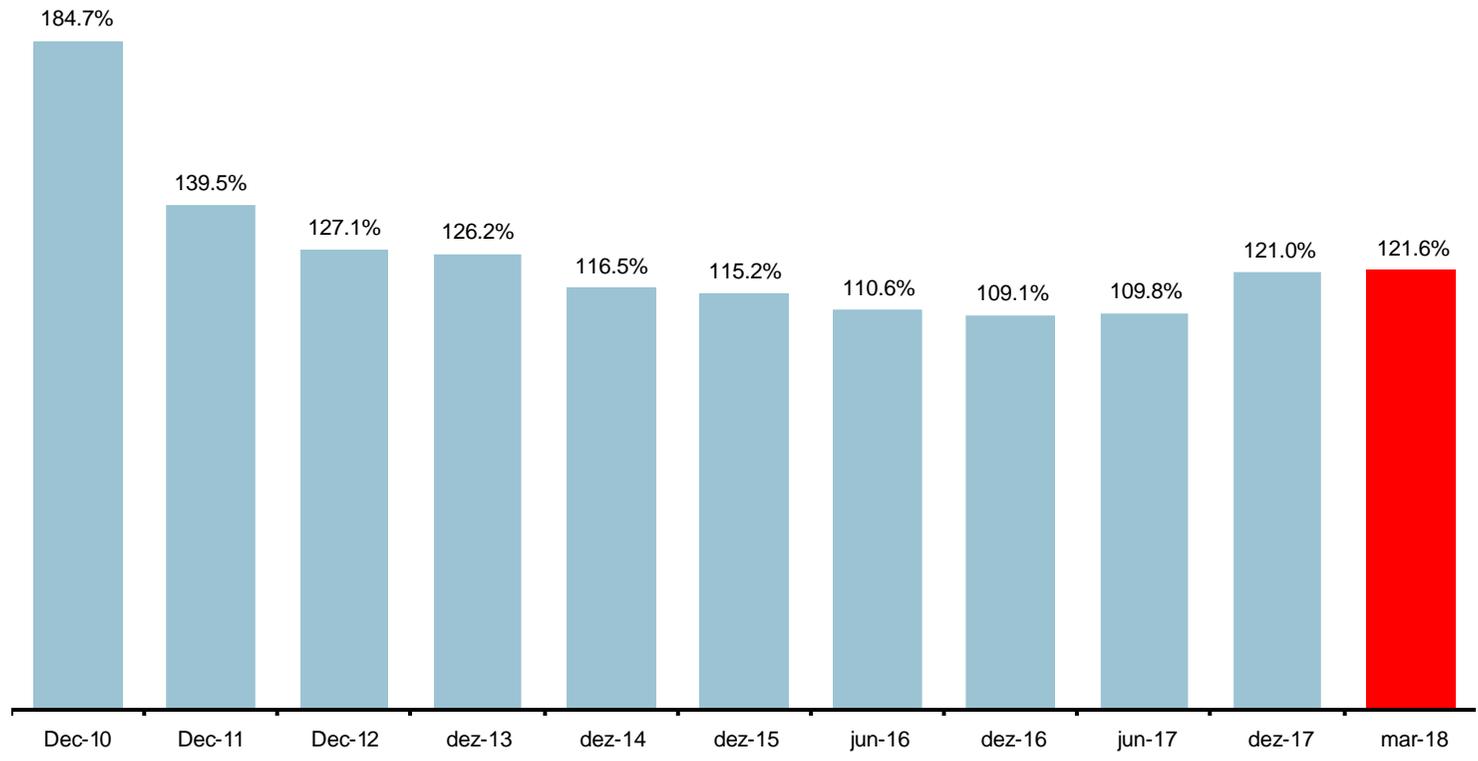
### Results

- ▶ YoY comparison hampered by the high sovereign book gains registered in Q1'17
- ▶ Improvement in commercial revenues and lower costs, as synergies begin to produce effects
- ▶ Stabilisation of the loan book, considering the management of credit from ex-Popular

# Financial and liquidity management

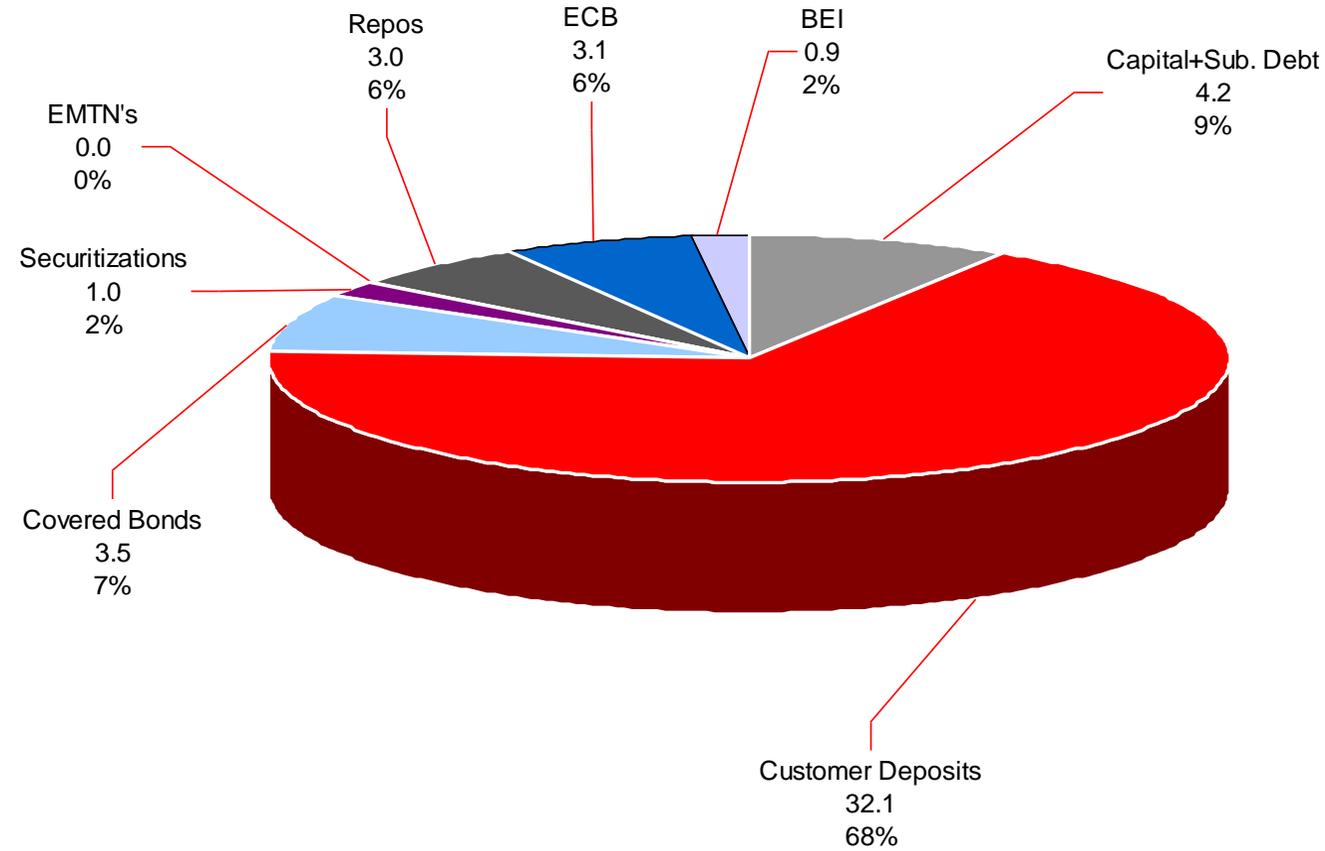
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**Loan to Deposit Ratio**



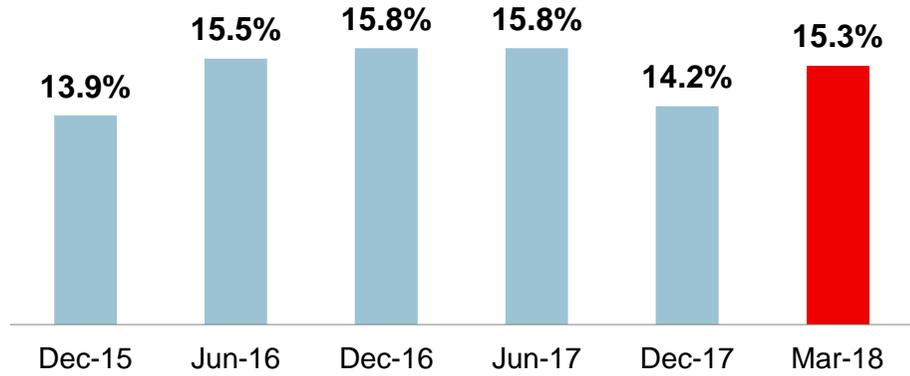
*According to international authorities criteria*

# Funding structure

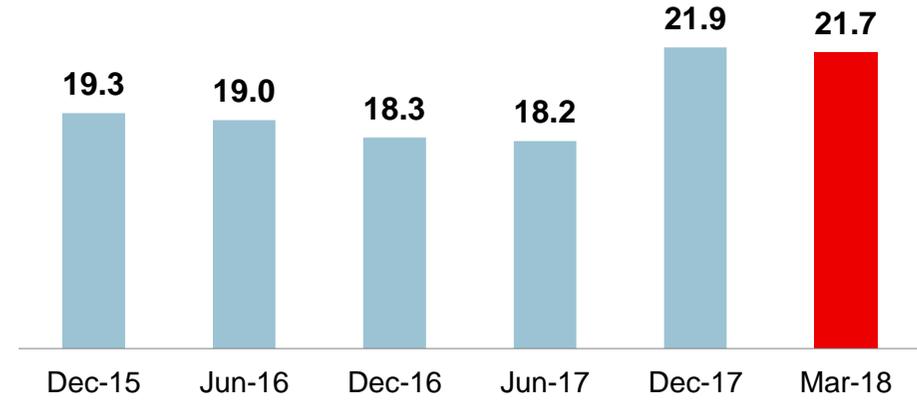


As of Mar/18

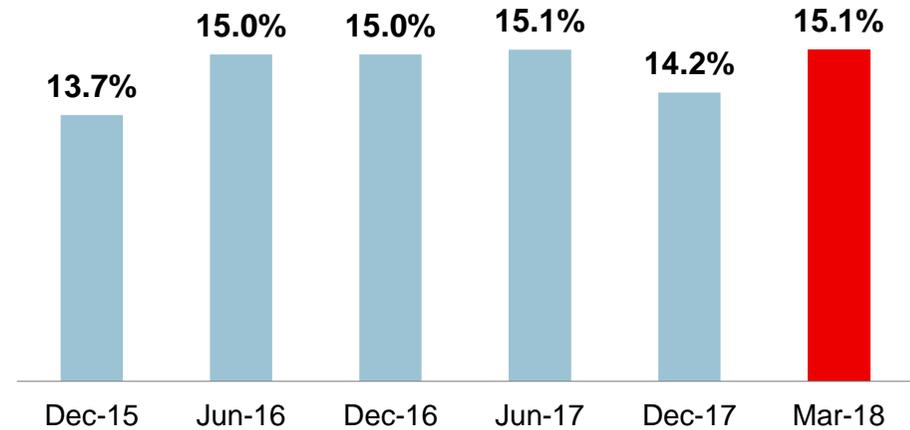
### CET 1 – phasing in



### RWA (bn€)



### CET 1 – full implemented



In Dec/17 impact of Popular Portugal integration

# Benchmarking

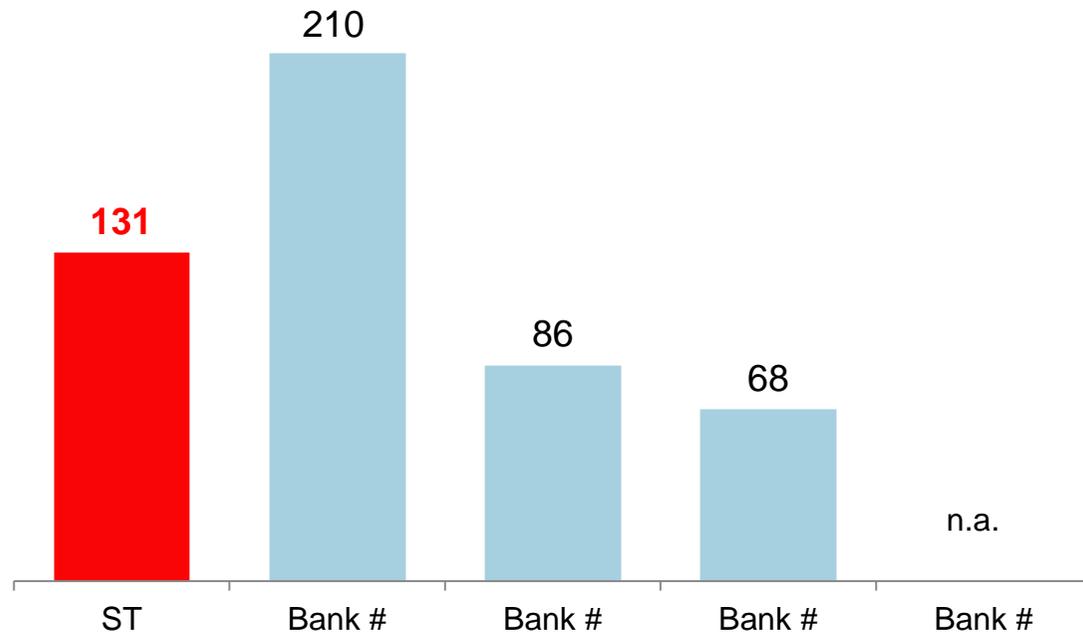


05

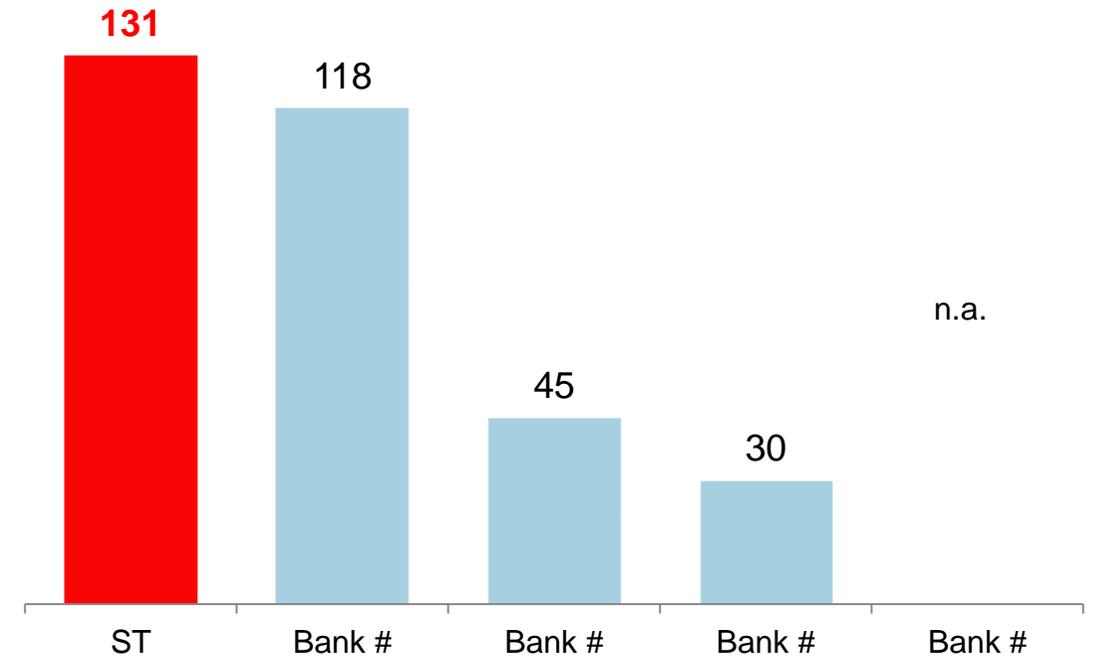
# Results

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

Net income – Consolidated (M€)



Net income – Domestic (M€)

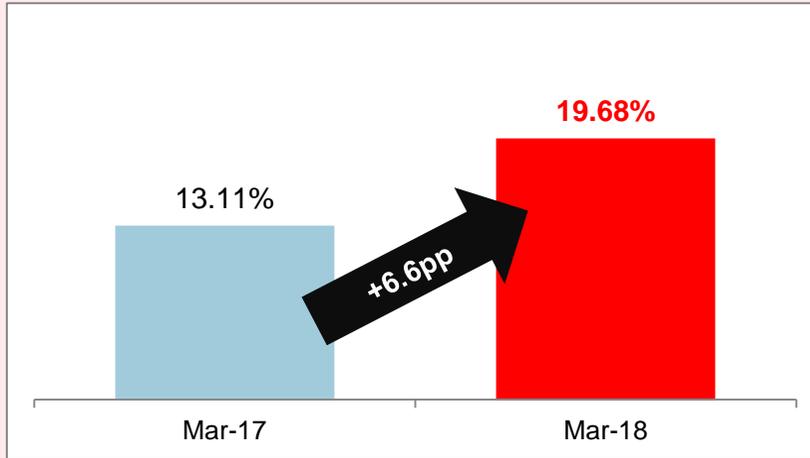


As at Mar/18

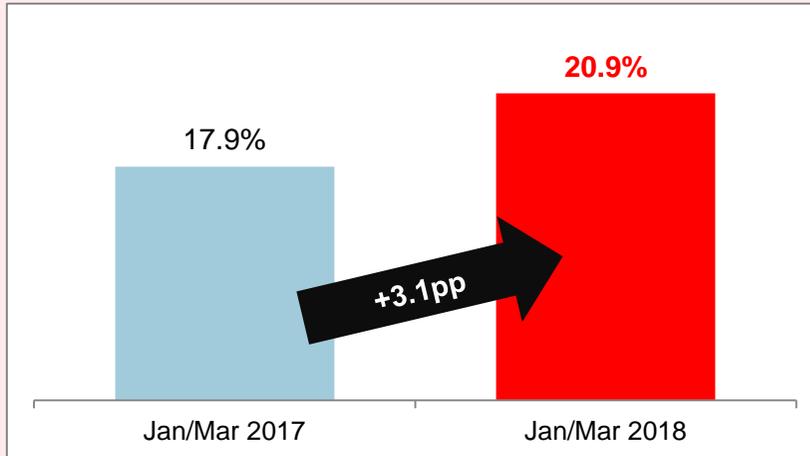
# Market Shares

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Stock

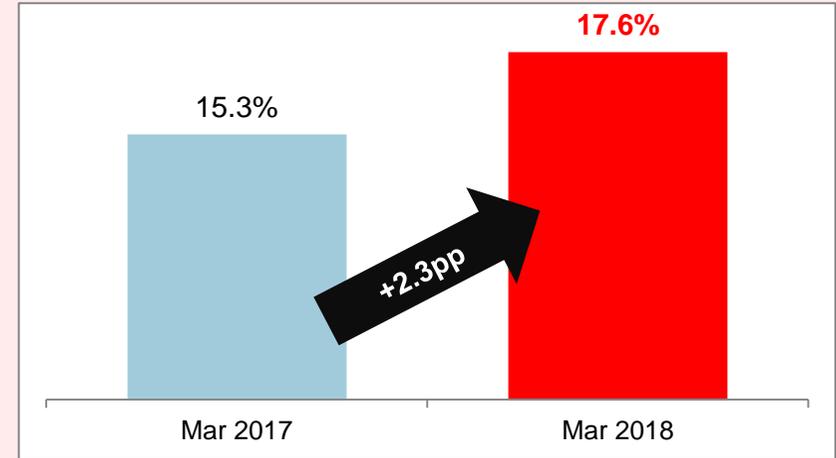


Production

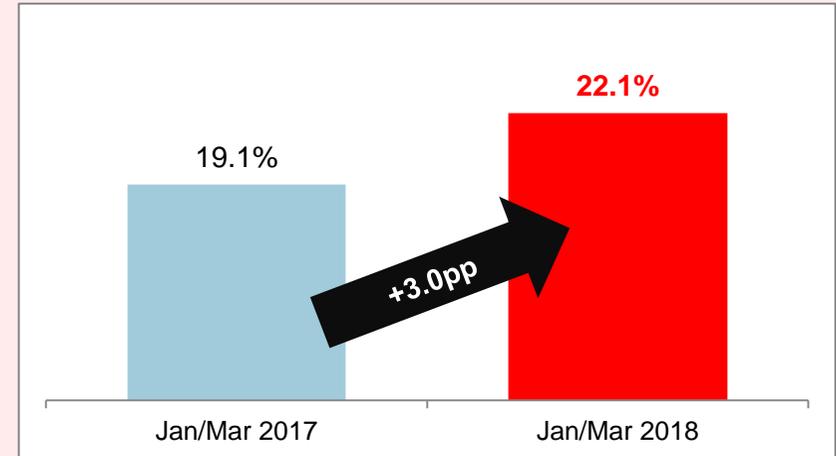


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Stock

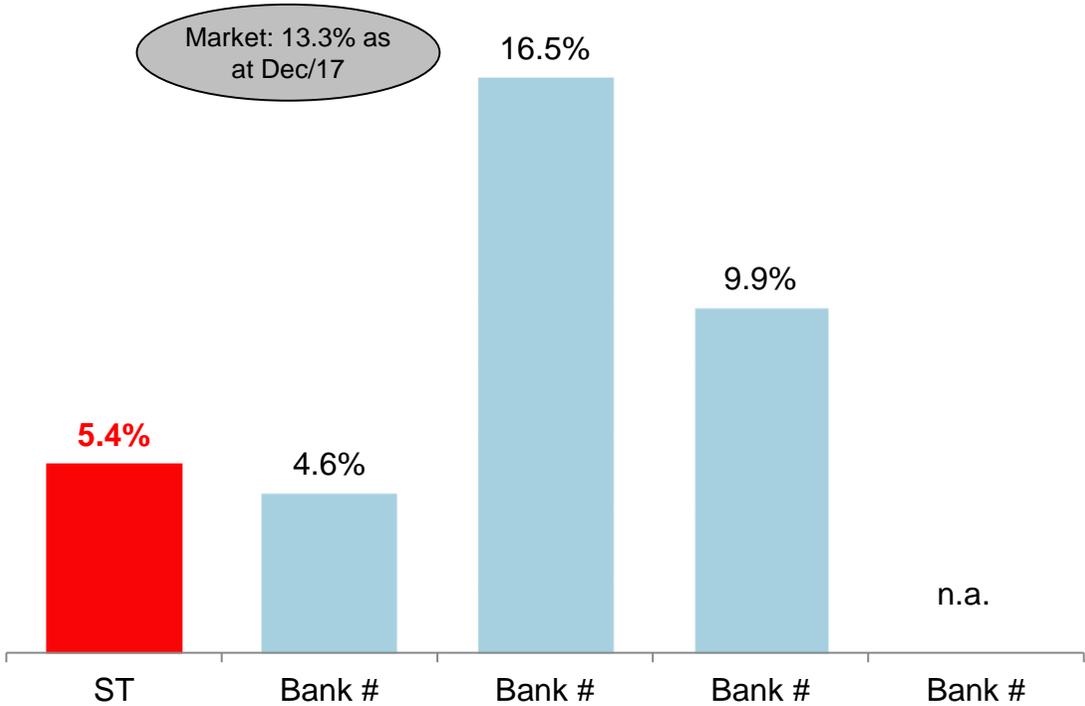


Production

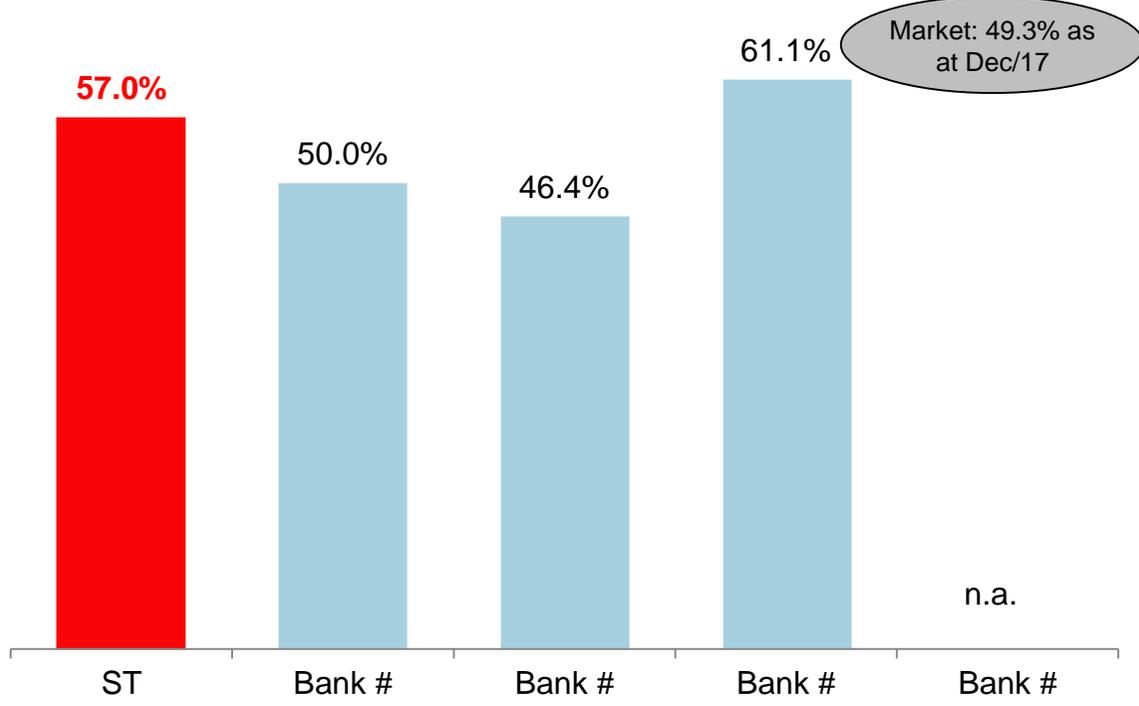


# Asset Quality

## NPE Ratio



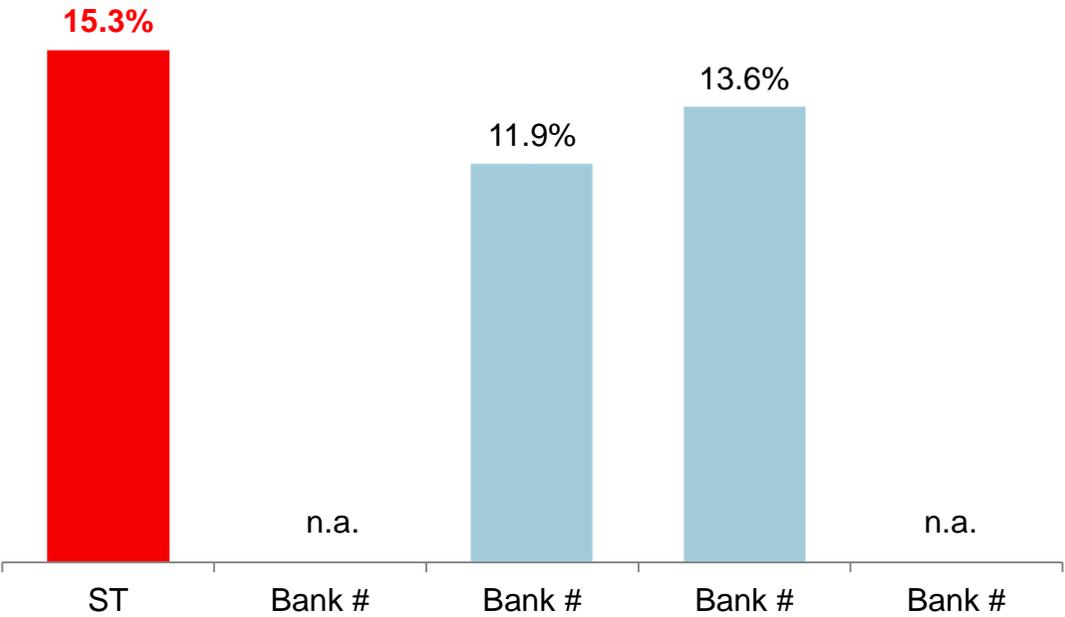
## NPE Coverage Ratio



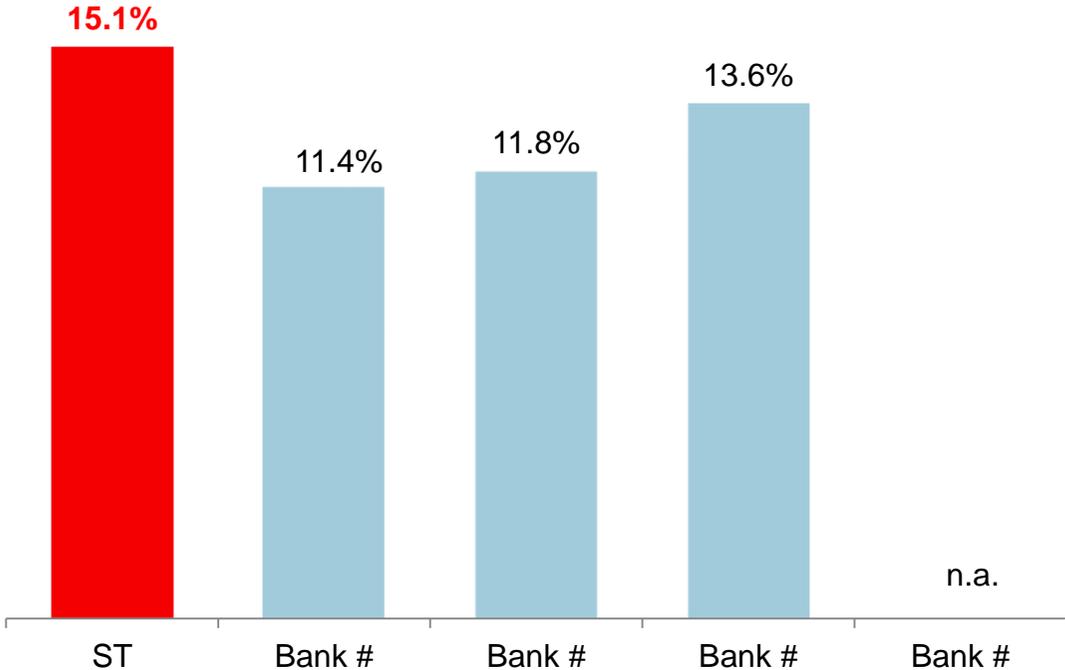
As at Mar/18

# Capital

## CET 1 (phasing in)



## CET 1 (full implemented)



As at Mar/18

# Appendix



06

# Balance Sheet

## Santander Totta, SGPS

<b>Balance Sheet</b> (million euros)	<b>mar-18</b>	mar-17	<b>Var.</b>
Cash, cash balances at central banks and other demand deposits	1.762	1.971	-10,6%
Financial assets held for trading, at fair value through profit or loss, and at fair value through other comprehensive income	9.824	8.022	+22,5%
Financial assets at amortised cost	40.673	33.069	+23,0%
Of which:			
Loans to Customers	39.793	31.517	+26,3%
Investments in subsidiaries, joint ventures and associates	126	101	+24,6%
Tangible assets	351	304	+15,6%
Intangible assets	34	35	-5,6%
Tax assets	569	390	+45,7%
Non-current assets held for sale	82	133	-38,3%
Other assets	889	1.033	-14,0%
<b>Total Assets</b>	<b>54.310</b>	<b>45.058</b>	<b>+20,5%</b>
Financial liabilities held for trading	4.568	3.923	+16,5%
Financial liabilities at amortised cost	44.205	36.333	+21,7%
Deposits from Central Banks and Credit Institutions	3.061	3.081	-0,7%
Customer deposits	31.436	27.332	+15,0%
Technical provisions	716	317	+125,9%
Debt securities issued	4.440	3.715	+19,5%
Of which: subordinated debt	8	8	+0,0%
Other financial liabilities	4.552	1.889	+141,0%
Provisions	212	219	-3,4%
Tax liabilities	393	116	>200%
Other liabilities	746	663	+12,5%
<b>Total Liabilities</b>	<b>50.125</b>	<b>41.254</b>	<b>+21,5%</b>
Resources from other institutions	4.183	3.803	+10,0%
Non controlling interests	2	2	+25,3%
<b>Total Equity</b>	<b>4.186</b>	<b>3.805</b>	<b>+10,0%</b>
<b>Total Equity and Total Liabilities</b>	<b>54.310</b>	<b>45.058</b>	<b>+20,5%</b>

# Income Statement

## Santander Totta, SGPS

<b>Income Statement*</b> (million euros)	mar-18	mar-17	Var.
<b>Net interest income (without dividends)</b>	<b>231,2</b>	<b>171,7</b>	<b>+34,6%</b>
Net interest income	231,2	171,8	+34,6%
Net commissions	93,9	85,2	+10,2%
Other banking income	-21,0	-10,2	+105,3%
Insurance activity	5,8	2,5	+126,7%
<b>Commercial revenue</b>	<b>309,9</b>	<b>249,3</b>	<b>+24,3%</b>
Gain/loss on financial transactions	8,9	37,9	-76,5%
<b>Operating income</b>	<b>318,8</b>	<b>287,2</b>	<b>+11,0%</b>
Total operating expenses	(149,7)	(131,3)	+14,0%
Personnel expenses	(87,6)	(79,2)	+10,5%
General expenses	(51,6)	(42,5)	+21,5%
Depreciation	(10,6)	(9,6)	+9,9%
<b>Net operating income</b>	<b>169,1</b>	<b>155,9</b>	<b>+8,5%</b>
Impairment, net provisions and other	4,1	3,7	+10,1%
<b>Income before taxes and MI</b>	<b>173,2</b>	<b>159,6</b>	<b>+8,5%</b>
Taxes	(42,8)	(35,2)	+21,4%
Minority interests	0,1	(0,1)	-263,0%
<b>Consolidated net income</b>	<b>130,5</b>	<b>124,3</b>	<b>+5,0%</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



FTSE4Good

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