

 **Portugal**

H1'19 Earnings Presentation



Disclaimer

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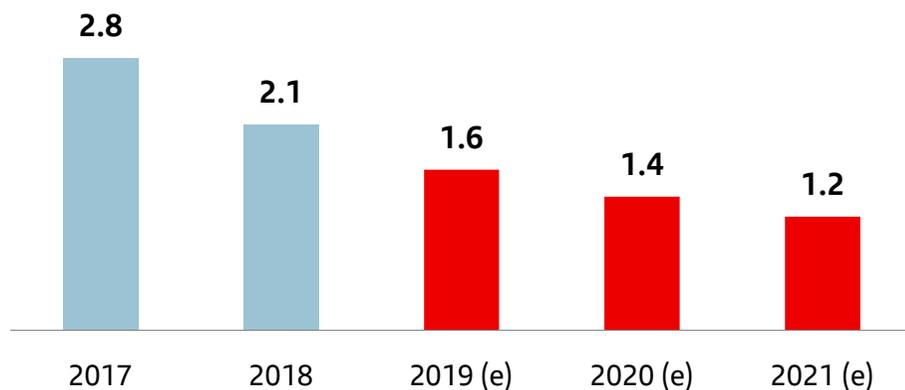
The information contained herein is in accordance with the Bank of Portugal's criteria. Unless otherwise stated, data in this presentation refers to consolidated figures for Santander Totta SGPS, the group's holding company in Portugal. BST is Santander Totta SGPS' main operating unit, aggregating the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

Macroeconomic environment and financial system

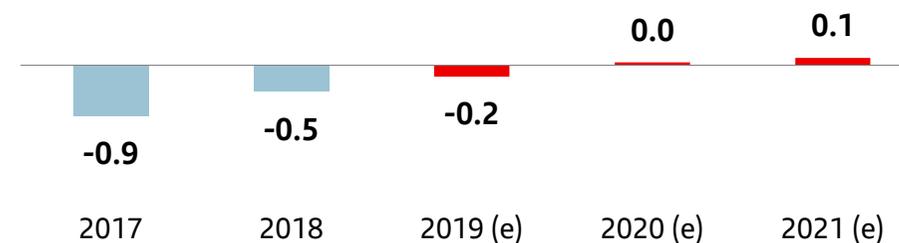
01

As the business cycle matures, labor and prices developments should stabilise

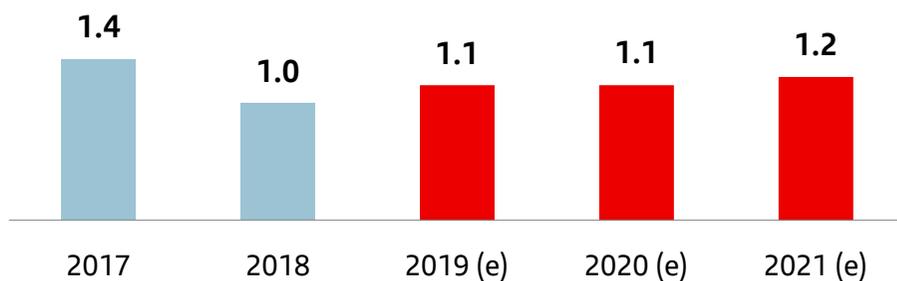
Annual GDP Growth (real, %)



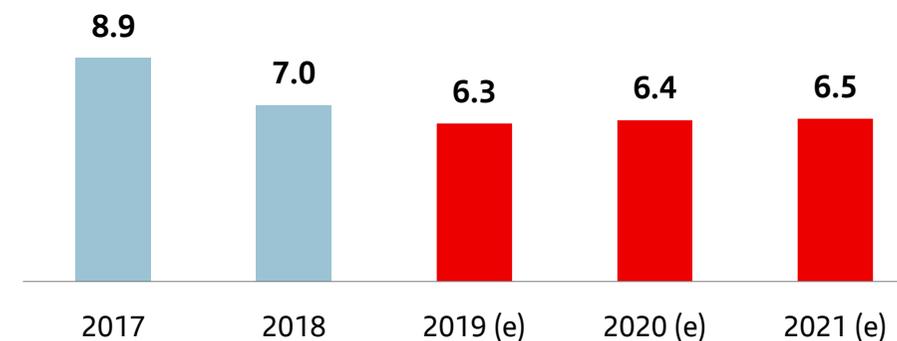
Fiscal Balance (% of GDP)



Annual inflation rate (%)

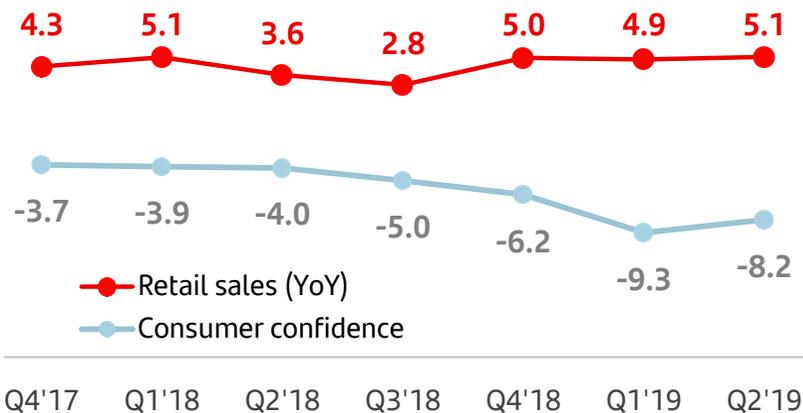


Unemployment Rate (% , annual average)

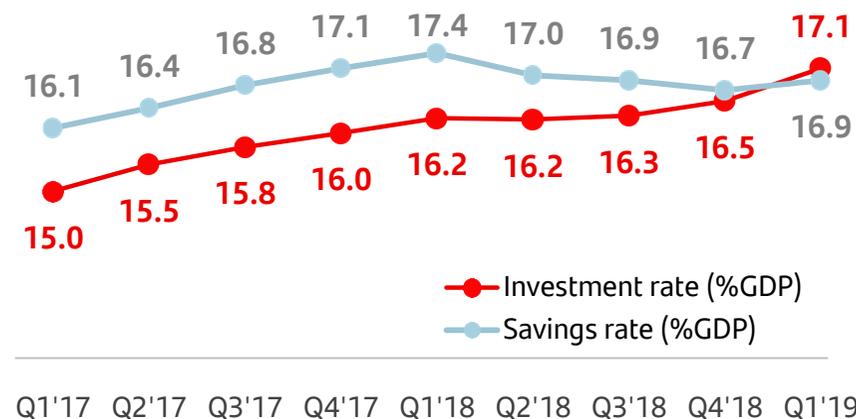


Deleveraging continues, with investment impulse aligned with savings dynamics

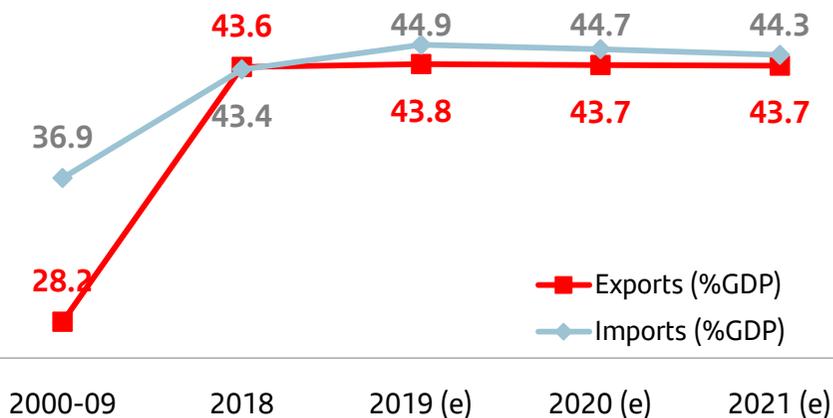
Consumer dynamics



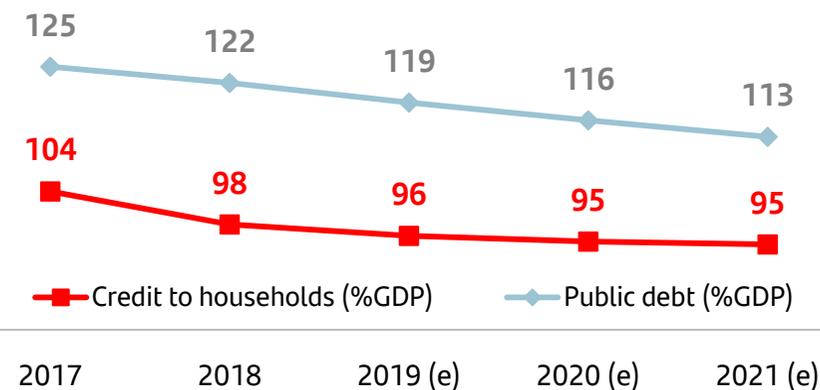
Investment dynamics (total economy)



Tradable sector dynamics

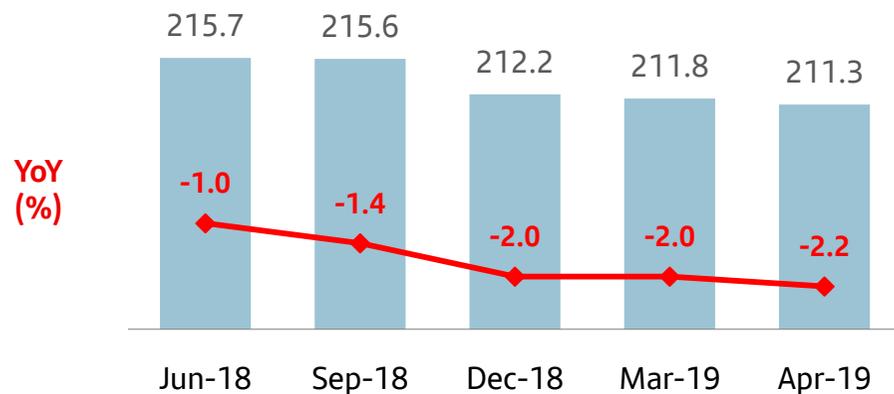


Deleveraging dynamics

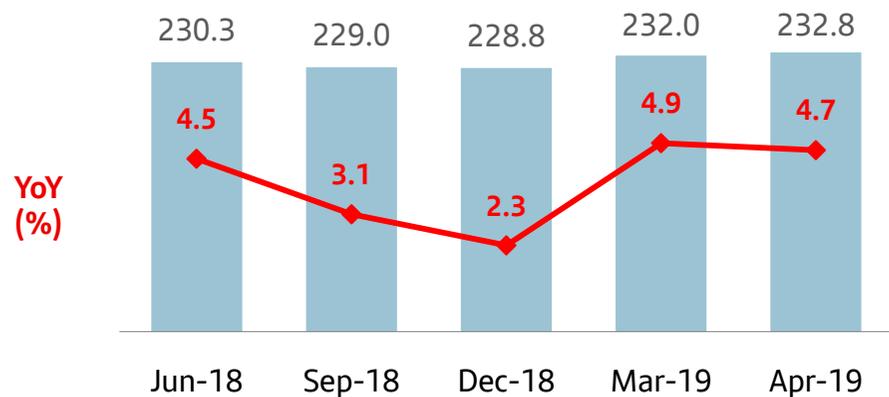


Deleveraging continues, but at a slower pace in 1H19

Total loans (EUR bn)



Total deposits (EUR bn)



- ▶ The Financial System continues reducing its NPL ratio, mainly driven by NPL corporates exposure, while demand for new loans remains subdued despite the low rates environment.
- ▶ The economy continues to deleverage but indebtedness still remains a constraint for the private sector credit growth
- ▶ Deposits continue to increase, driven by corporates excess liquidity, while households deposits evolve at smoother pace, even as deposit rates remain at minimum levels.

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
- ▶ Continue gaining profitable market share, improving our position as leading private bank and leveraging our position in the corporate sector, especially in SMEs
- ▶ Improve efficiency and maintain a low cost of credit
- ▶ Maintain a solid capital position, managing it in line with the new regulatory requirements

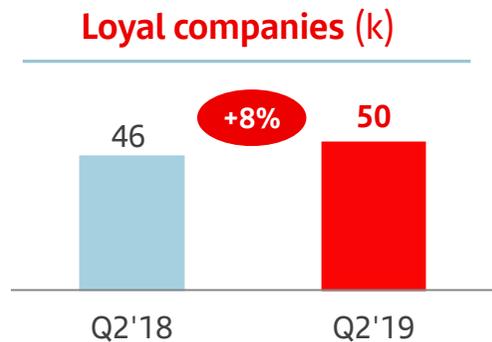
KEY DATA (local criteria)

| | H1'19 | YoY Var. |
|---|--------|----------|
|  Gross loans ¹ | 40,581 | -2.0% |
|  Deposits ¹ | 34,889 | +4.4% |
|  Attributable profit | 275.9 | +4.6% |
|  RoTE ² | 12.5% | +98bps |
|  Efficiency ratio | 42.8% | -470bps |
|  Loans' market share ³ | 18.1% | -24bps |
|  Deposits' market share ³ | 15.5% | +8bps |
|  Loyal customers ⁴ | 768 | +4.9% |
|  Digital customers ⁴ | 756 | +12.6% |
|  Branches ⁵ | 555 | -17.4% |
|  Employees | 6,330 | -5.4% |

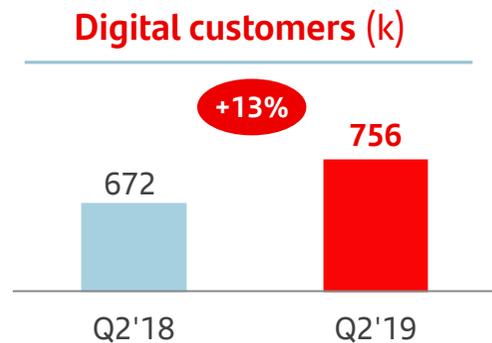
We continue to grow in the most valuable customer segments



- ▶ Sustained growth in the number of loyal customers, not only backed by the focus on the 1|2|3 strategy...



- ▶ ... but also in the corporate segment, where the evolution of loyal customers is aligned with the strong market shares in new loans' origination



- ▶ The commercial and digital transformation allows for continued availability of digital functionalities for both households and corporates and is supporting the increase in the number of digital customers

Retail and digital services



Consumer Loans

The Bank launched a campaign focusing on the offer of personal loans, for travel, car purchase or house improvements. The offer is also available through digital channels, under CrediSimples.



Corporate Reputation

Santander is the bank with the best corporate reputation in 2019, according to Merco Empresas. The Bank is also the best ranked in terms of More Responsible Companies and Best Corporate Governance.

Residents Abroad

Seasonal campaign reinforcing the bond with customers residing abroad, at the time they return to Portugal for the Summer Break.



FUNCHAL | 25, 27 e 28 de Junho | Praça do Município



Best Bank in Portugal

Santander was awarded Best Bank in Portugal, in 2019, for the 17th time, in view of its strong franchise, profitability and sound capital position.



Há um país que espera por si e um banco que o acompanha

Santander Advance Portugal

The Santander Advance Box was in Funchal (Madeira), in June, reinforcing its commitment with the Region, where the Bank has a leading position. As usual, there were various presentations and debates with local authorities and companies, discussing the economic potential of the region.



Personal insurance

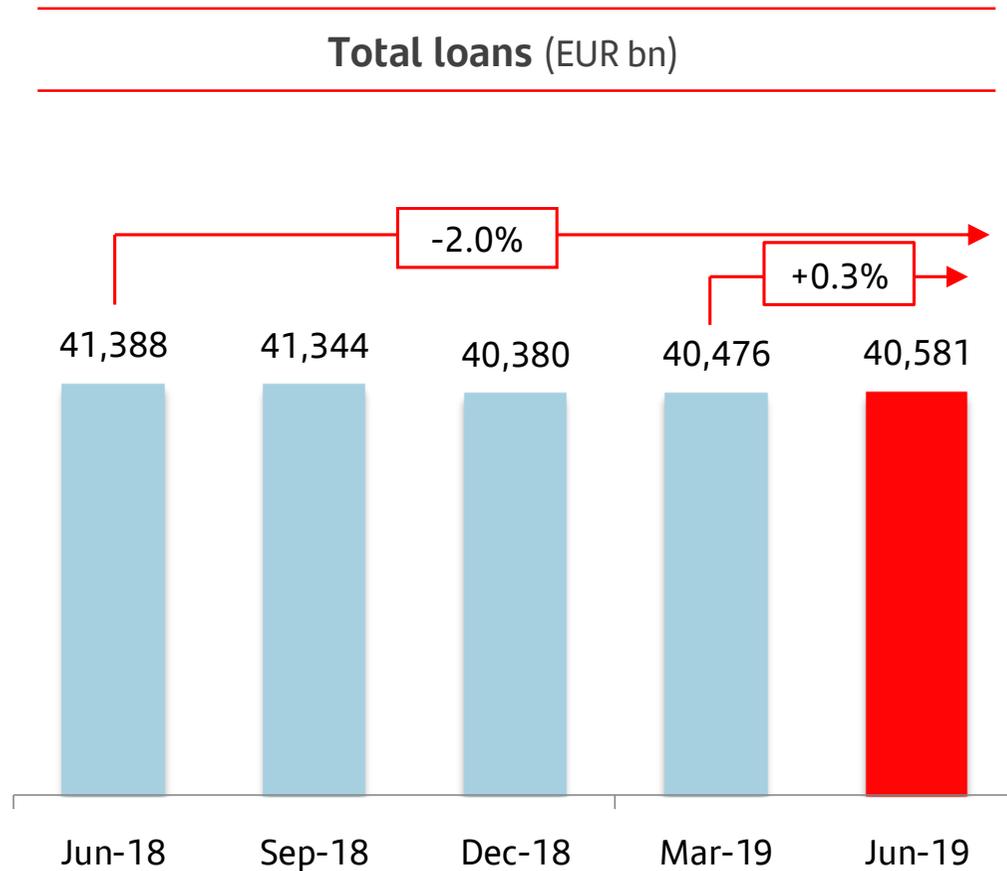
Santander is committed to provide products that protect our Customers and their families everyday and in every dimension of their lives, including healthcare, auto, and home.



Santander Universities

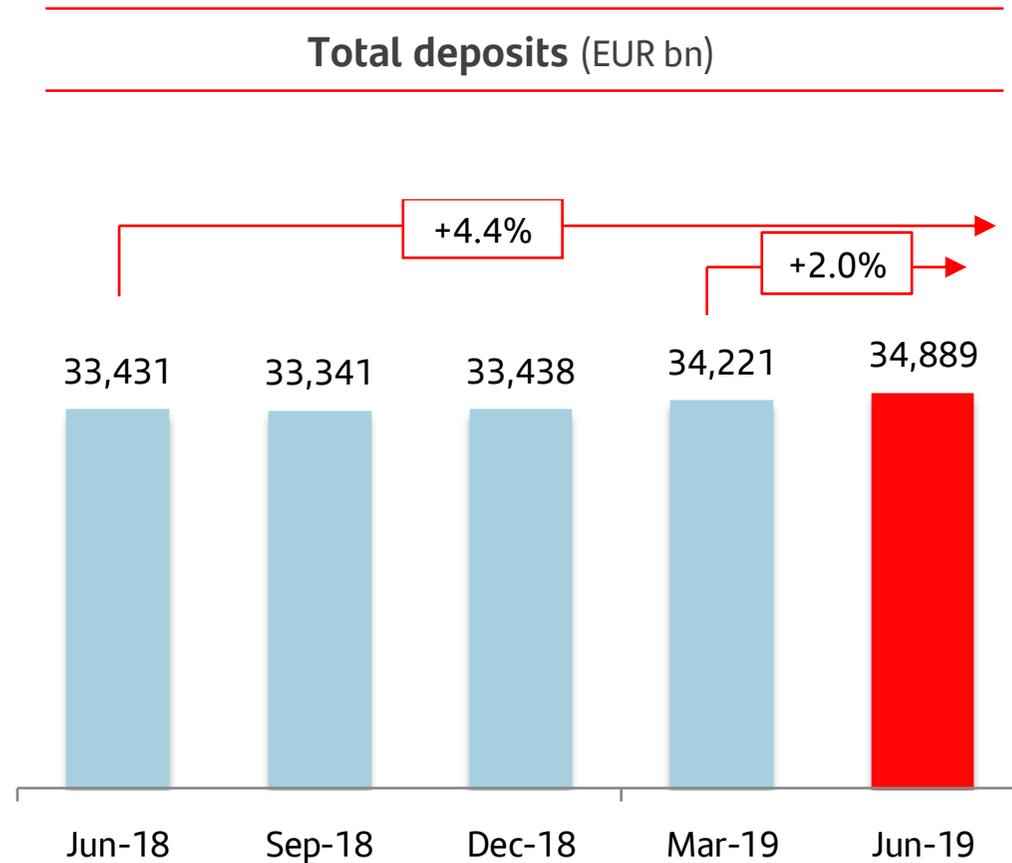
The Bank has simplified its commercial offer for college students, including a debit card with competitive conditions for this segment, especially for those who travel or go on Erasmus.

The loan book improved QoQ, led by corporate loans. YoY decline reflects the sale of non productive portfolios



| | Jun-19 | YoY (%) | QoQ (%) |
|--------------------|---------------|--------------|--------------|
| Individuals | 21,603 | +0.3 | -0.0 |
| Mortgage | 19,535 | +1.4 | -0.1 |
| Consumer and other | 2,068 | -9.2 | +0.5 |
| Corporates | 18,286 | -4.0 | +1.2 |
| Other | 692 | -12.1 | -12.9 |
| Total | 40,581 | -2.0 | +0.3 |

Customer funds continue to evolve at sustained pace



| | Jun-19 | YoY (%) | QoQ (%) |
|------------------------------------|---------------|-------------|-------------|
| Deposits | 34,889 | +4.4 | +2.0 |
| Off Balance Sheet Resources | 7,014 | +5.3 | +1.6 |
| Investment Funds | 2,809 | +4.0 | +4.1 |
| Insurance and other | 4,204 | +6.3 | -0.0 |
| Total Customer Funds | 41,902 | +4.5 | +1.9 |

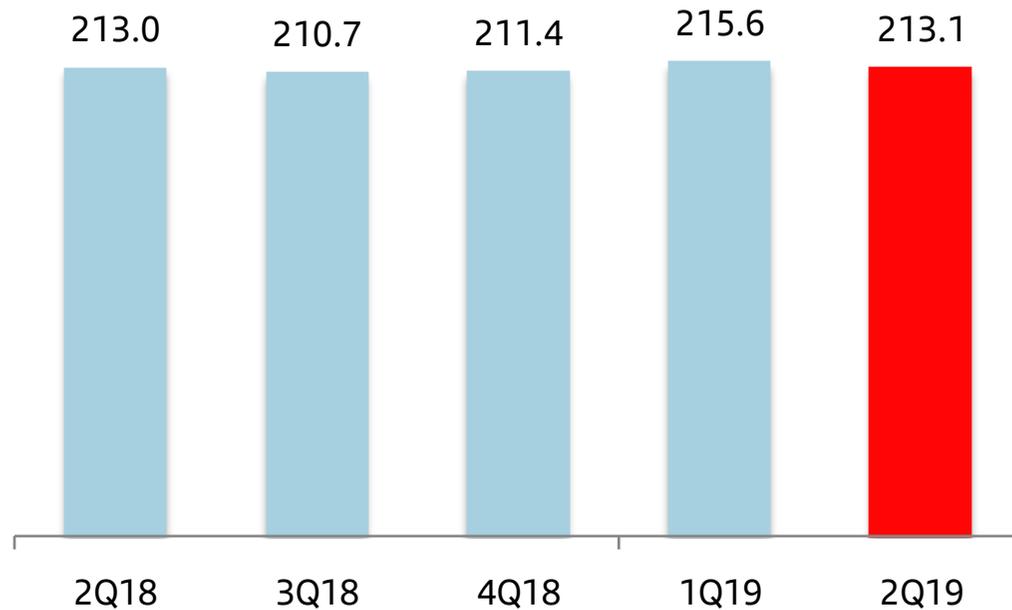
Results



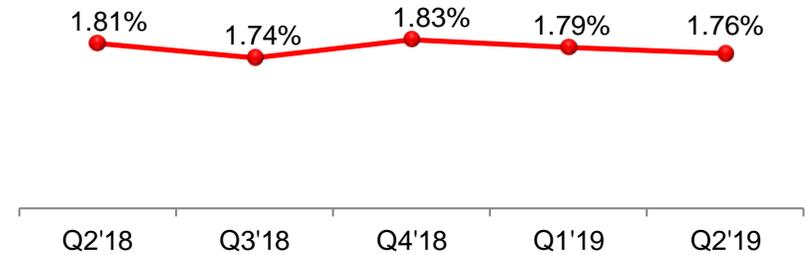
03

NII was flat YoY, in line with the YoY dynamic of the stock of credit

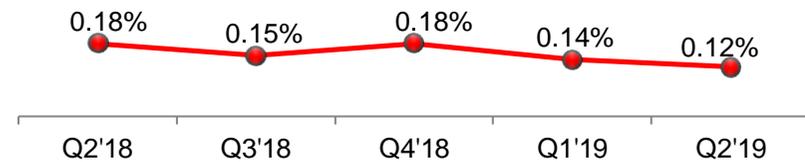
Net interest income (EUR mn)



Yield on loans (%)

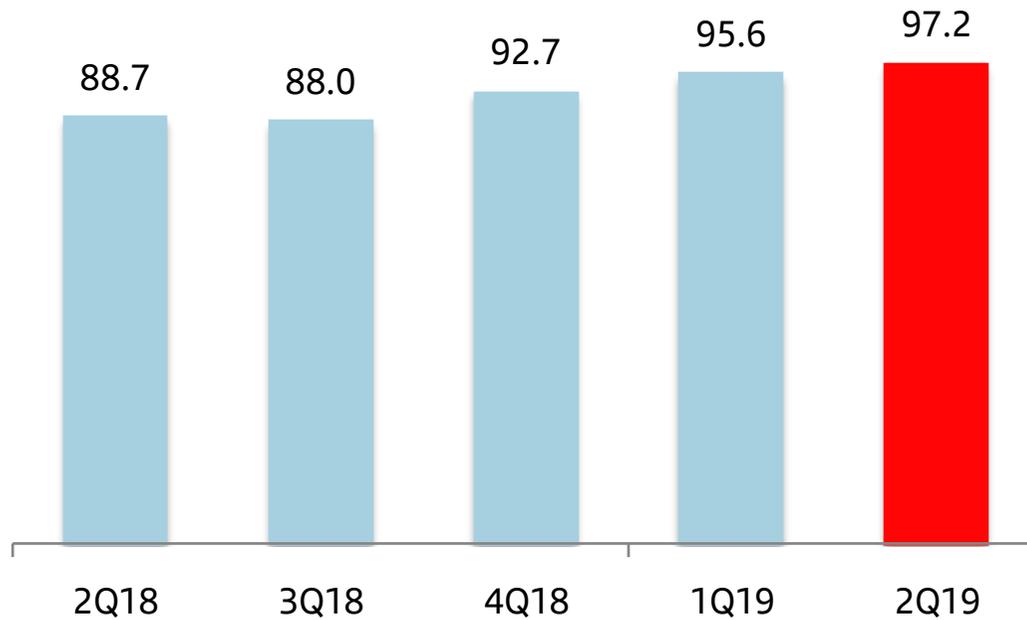


Cost of deposits (%)



Net fees improved YoY boosted by credit cards

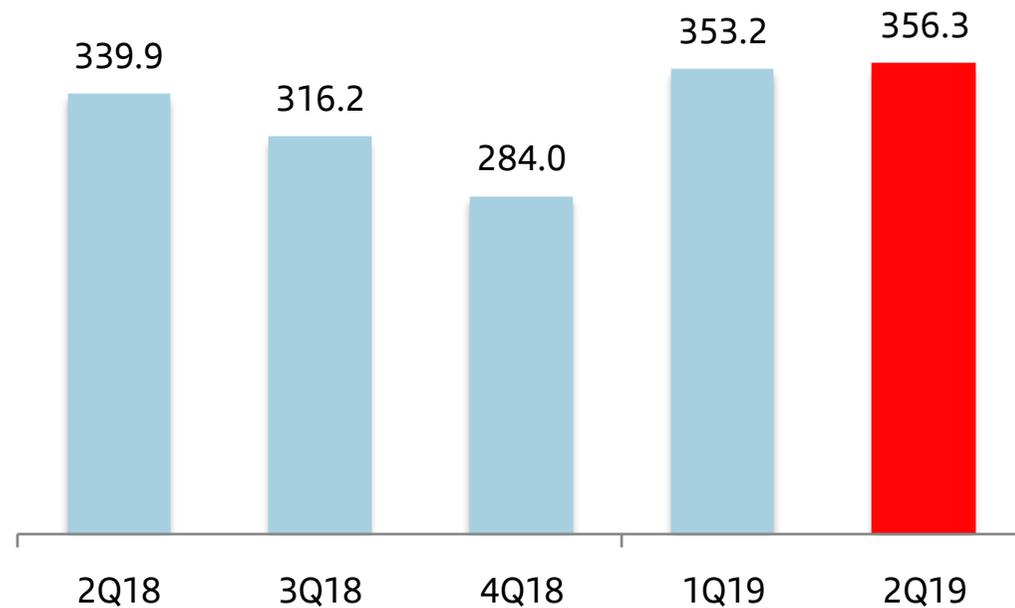
Net fees (EUR mn)



| | Q2'19 | Q2'18 | YoY (%) | QoQ (%) |
|--------------|--------------|--------------|-------------|-------------|
| Credit | 49.2 | 46.5 | +5.8 | +12.6 |
| Credit cards | 49.0 | 43.5 | +12.6 | -0.2 |
| Mutual funds | 12.4 | 12.1 | +2.2 | +2.3 |
| Insurance | 52.3 | 49.0 | +6.7 | +1.2 |
| Other | 29.9 | 31.1 | -3.7 | -13.9 |
| Total | 192.8 | 182.2 | +5.8 | +1.6 |

Gross income improved, driven by gains on financial transactions from ALCO portfolio sales

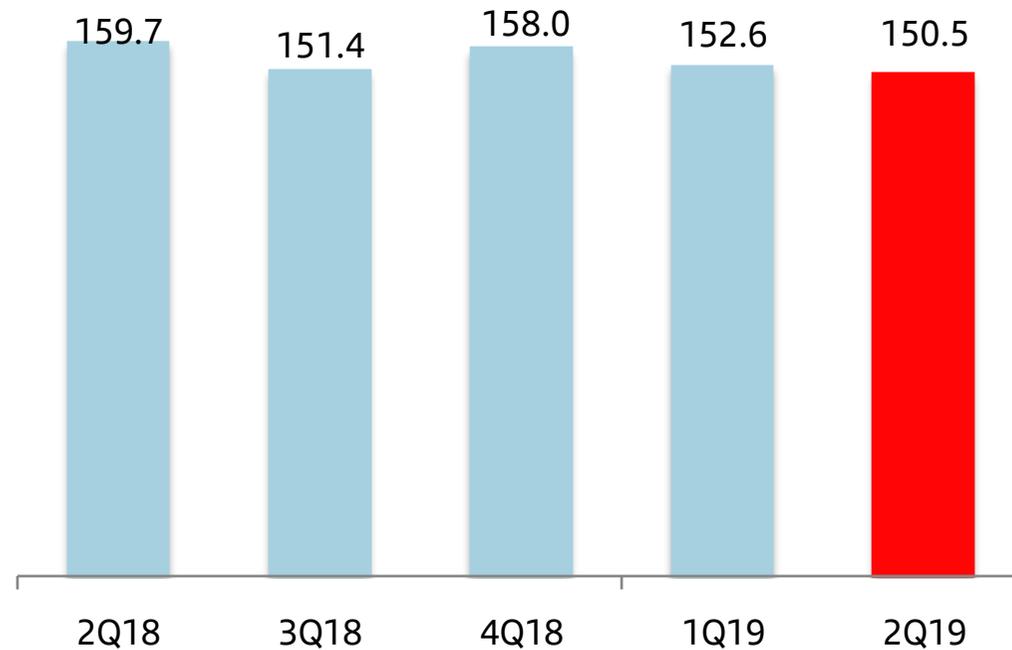
Gross income (EUR mn)



| | Q2'19 | Q2'18 | YoY (%) | QoQ (%) |
|---------------------|--------------|--------------|-------------|-------------|
| Net interest income | 428.7 | 444.1 | -3.5 | -1.2 |
| Net Fees | 192.8 | 182.2 | +5.8 | +1.6 |
| Subtotal | 622 | 626 | -0.8 | -0.3 |
| Other | 86.5 | 32.3 | +168.1% | +10.0% |
| Gross income | 708.1 | 658.6 | +7.5 | +0.9 |

Sustained decline in costs, aligned with the optimisation of the commercial structure

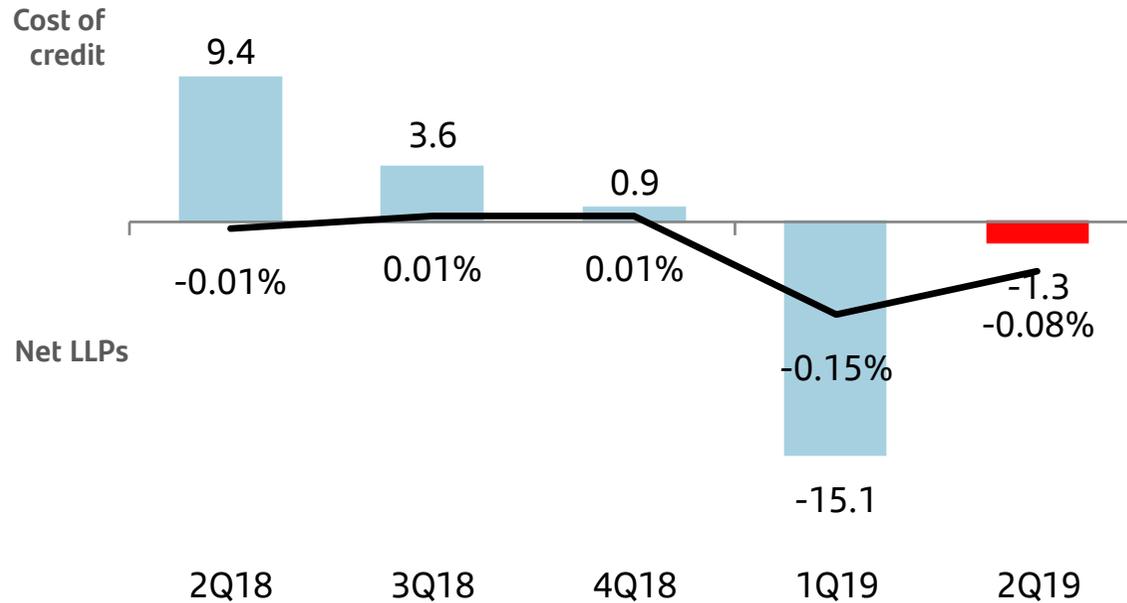
Operating expenses (EUR mn)



| | Q2'19 | Q2'18 | YoY (%) | QoQ (%) |
|---------------------------------------|--------------|--------------|-------------|-------------|
| General and admin. expenses | 278.7 | 292.2 | -4.6 | -1.4 |
| Depreciation and amortization | 24.4 | 20.9 | +16.5 | -1.0 |
| Total | 303.1 | 313.1 | -3.2 | -1.4 |
| Efficiency ratio (with amortisations) | 42.8% | 47.5% | -4.7pp | -0.5pp |
| Number of branches | 555 | 672 | -117 | -1.1 |
| Number of employees | 6,330 | 6,690 | -360 | -1.0 |

The cost of credit remained at minimum levels

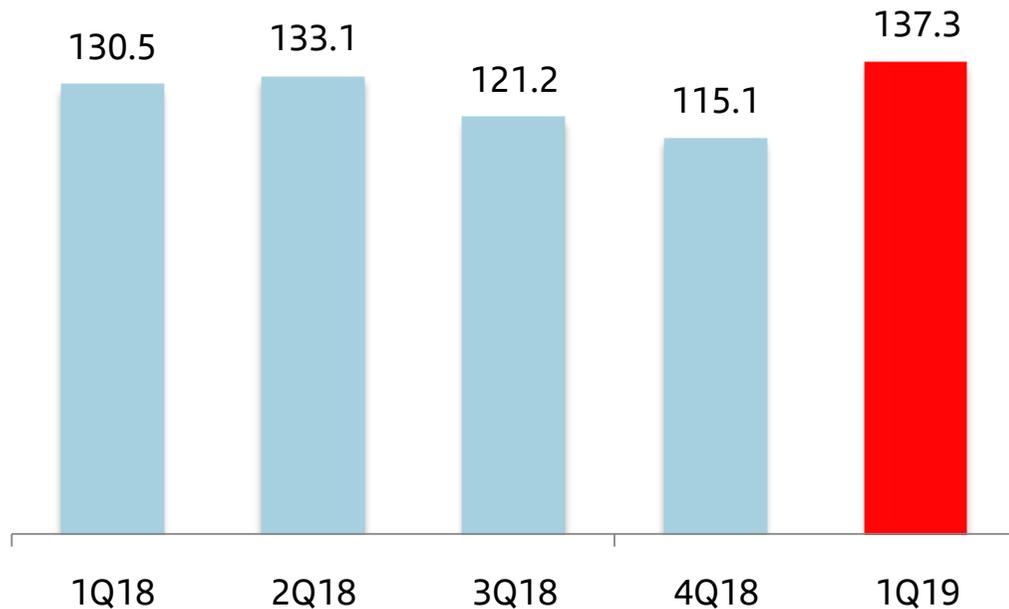
LLPs and cost of credit (EUR mn, %)



| | Q2'19 | Q2'18 | YoY (%) | QoQ (%) |
|----------------------------------|--------------|--------------|--------------|-------------|
| Net Operating Income | 405.0 | 345.5 | +17.2 | +2.6 |
| LLPs | 16.5 | 1.7 | +860.4 | -91.1 |
| Net op. Income after LLPs | 421.5 | 347.3 | +21.4 | -4.0 |
| NPE ratio | 3.3% | 4.9% | -1.6pp | -0.5pp |
| NPE coverage ratio | 53.3% | 54.6% | -1.3pp | +2.2pp |

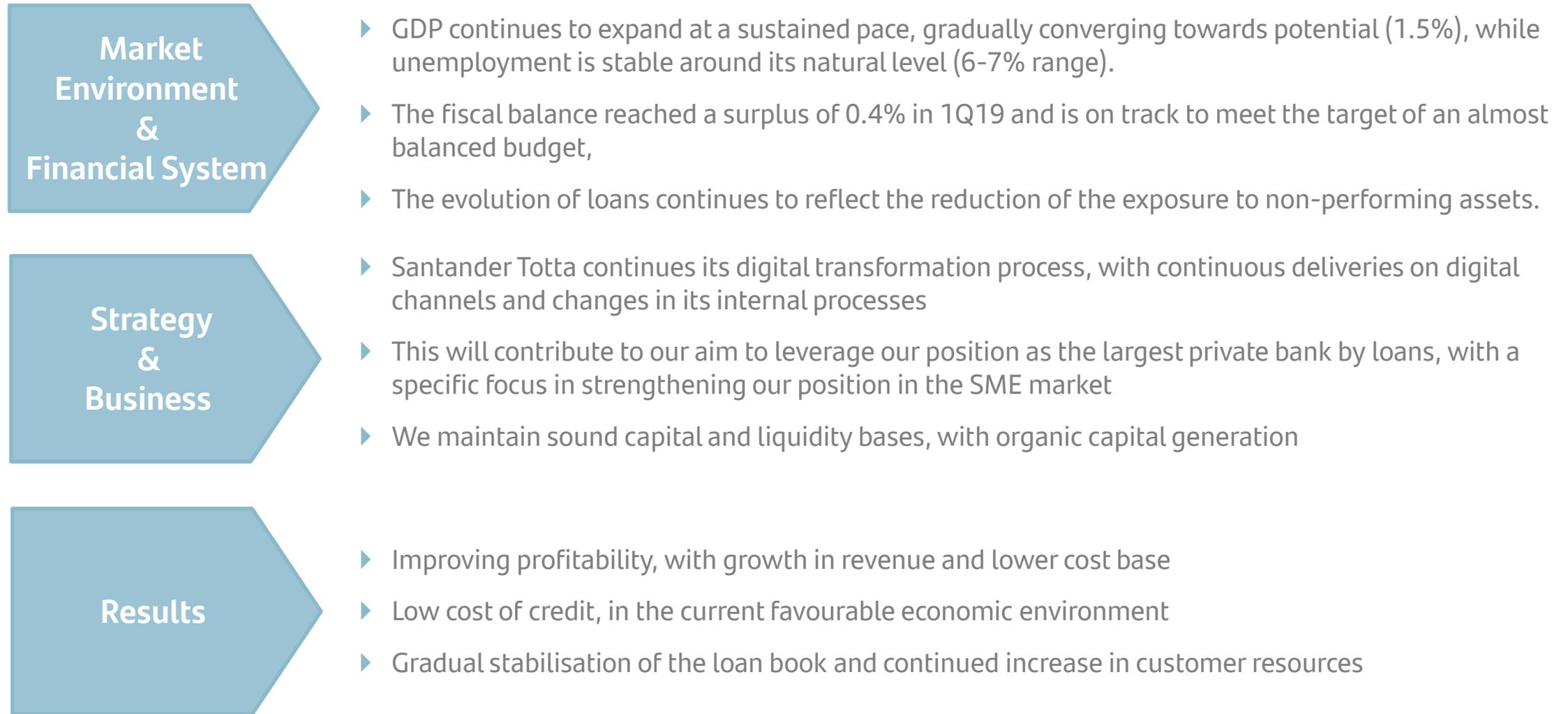
Net income increased 5%, reflecting lower operating costs, higher revenues and subdued cost of credit

Attributable profit (EUR mn)



| | Q2'19 | Q2'18 | YoY (%) | QoQ (%) |
|--------------------------------|--------------|--------------|--------------|-------------|
| Profit before taxes | 410.7 | 353.5 | +16.2 | -7.7 |
| Taxes and MI | 134.8 | 109.9 | +22.6 | -23.3 |
| Other non recurrent net income | 0.0 | 20.1 | - | - |
| Net income | 275.9 | 263.6 | +4.6 | +0.9 |

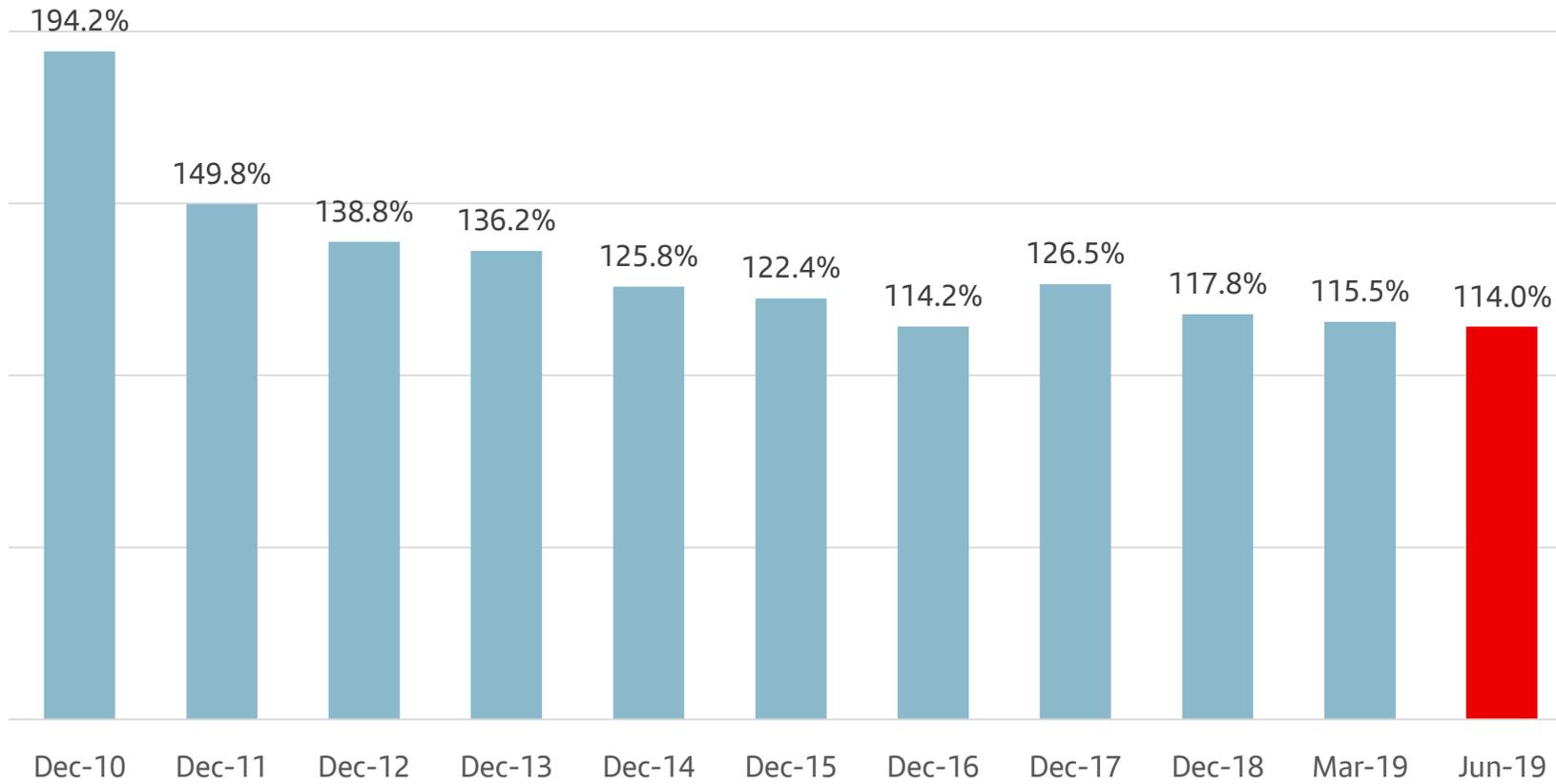
Strong results and stable business

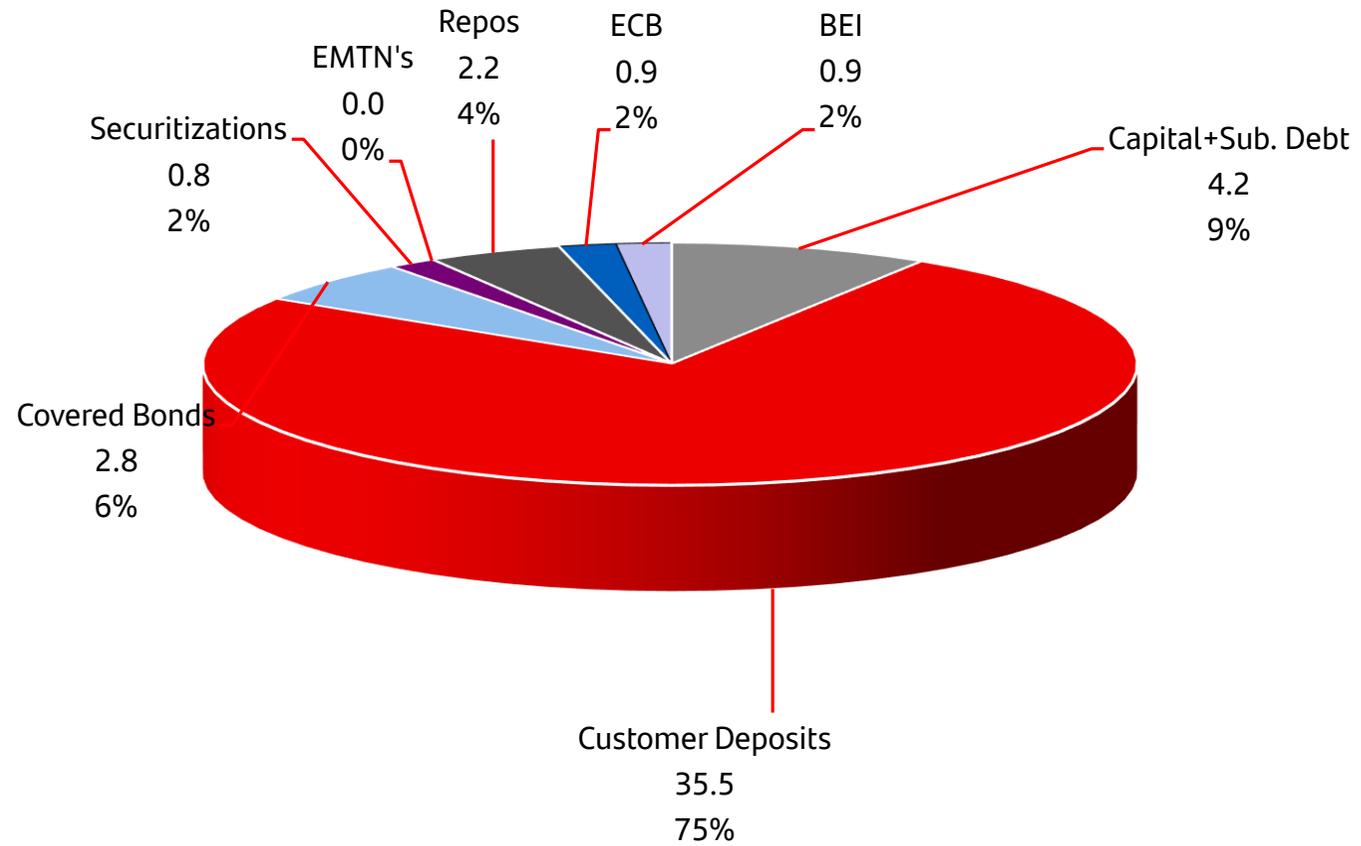


Financial and liquidity management

04

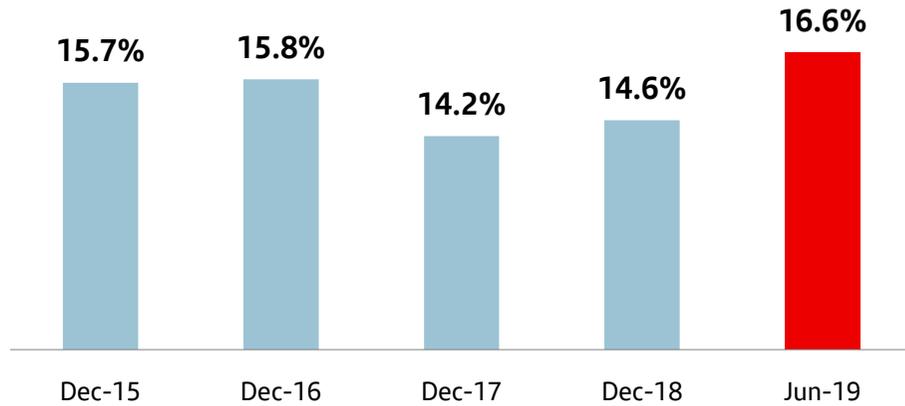
Loans to Deposit Ratio



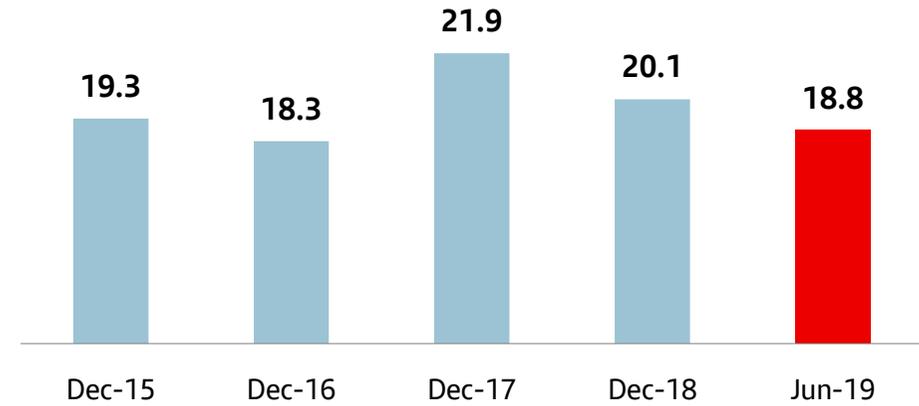


As of Jun/19

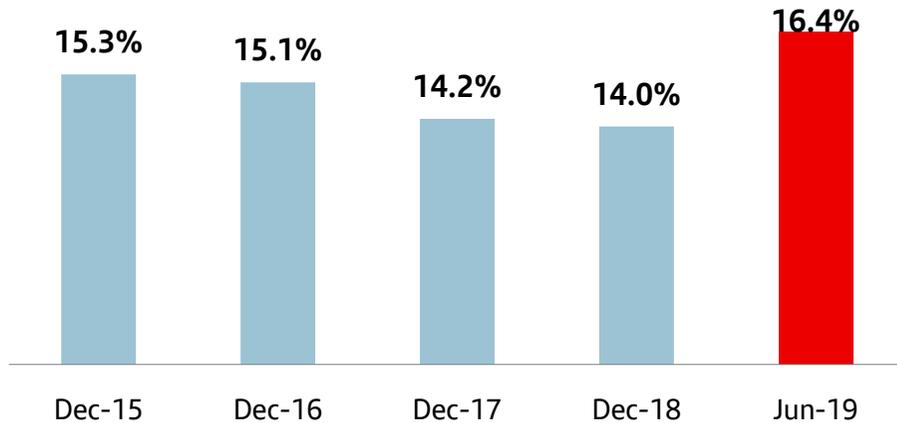
CET 1 – phasing in



RWA (bn€)



CET 1 – full implemented



In Dec/17 impact of Popular Portugal integration

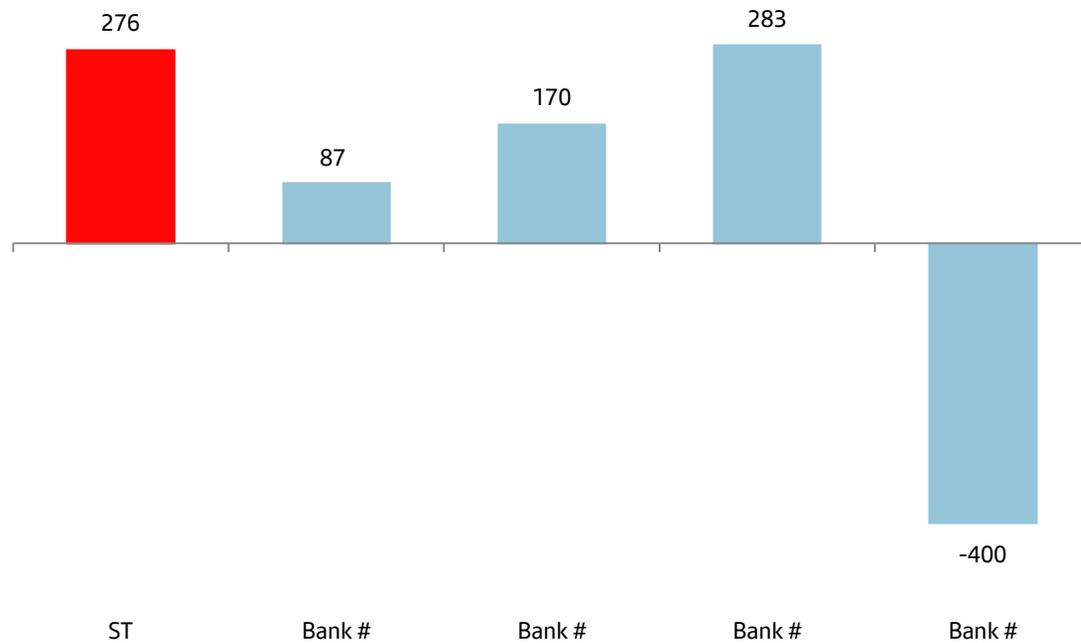
Benchmarking



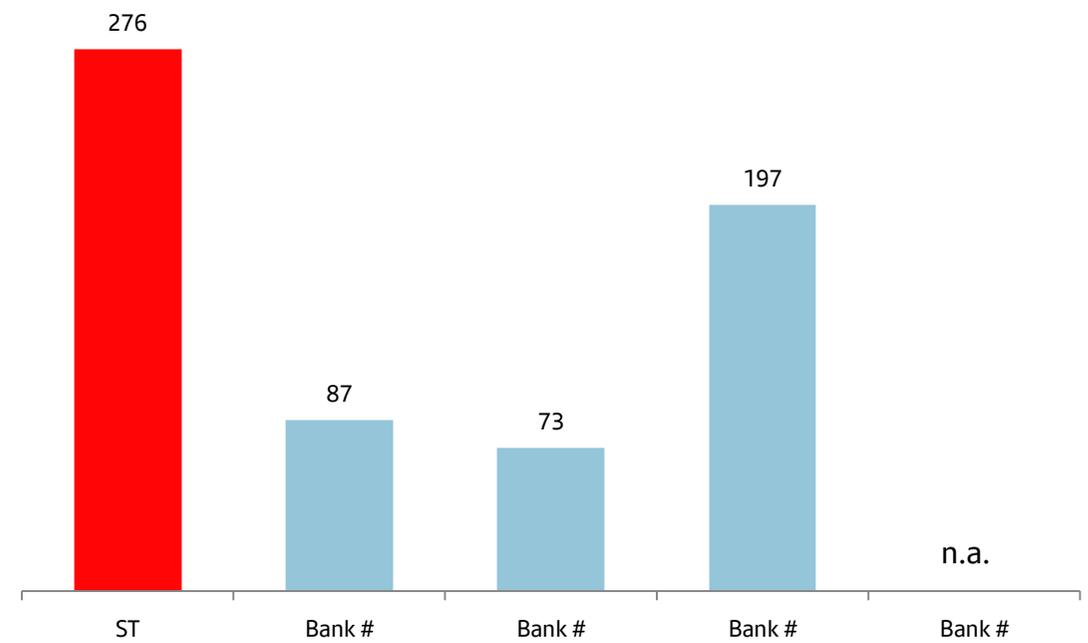
05

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

Net Income – Consolidated (M€)



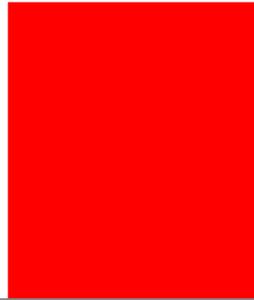
Net Income – Domestic (M€)



As at Jun/19

Corporates – New Production

20.5%



Jan/May 2019

Corporates – Stock

18.4%



May 2019

Mortgages – New Production

18.9%



Jan/May 2019

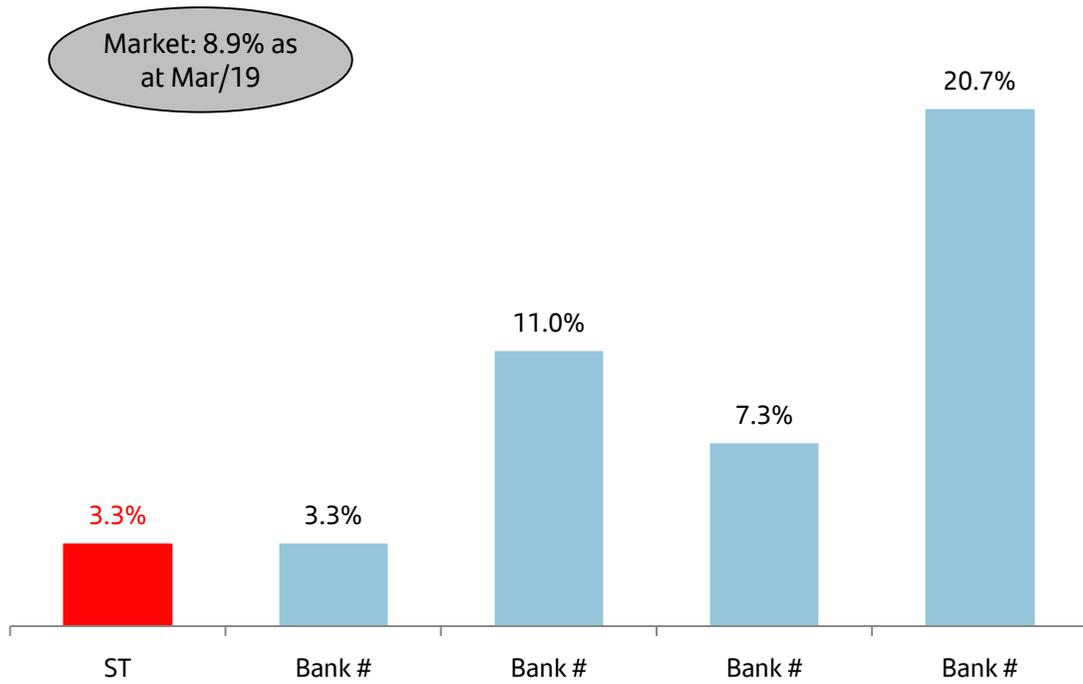
Mortgages – Stock

18.1%

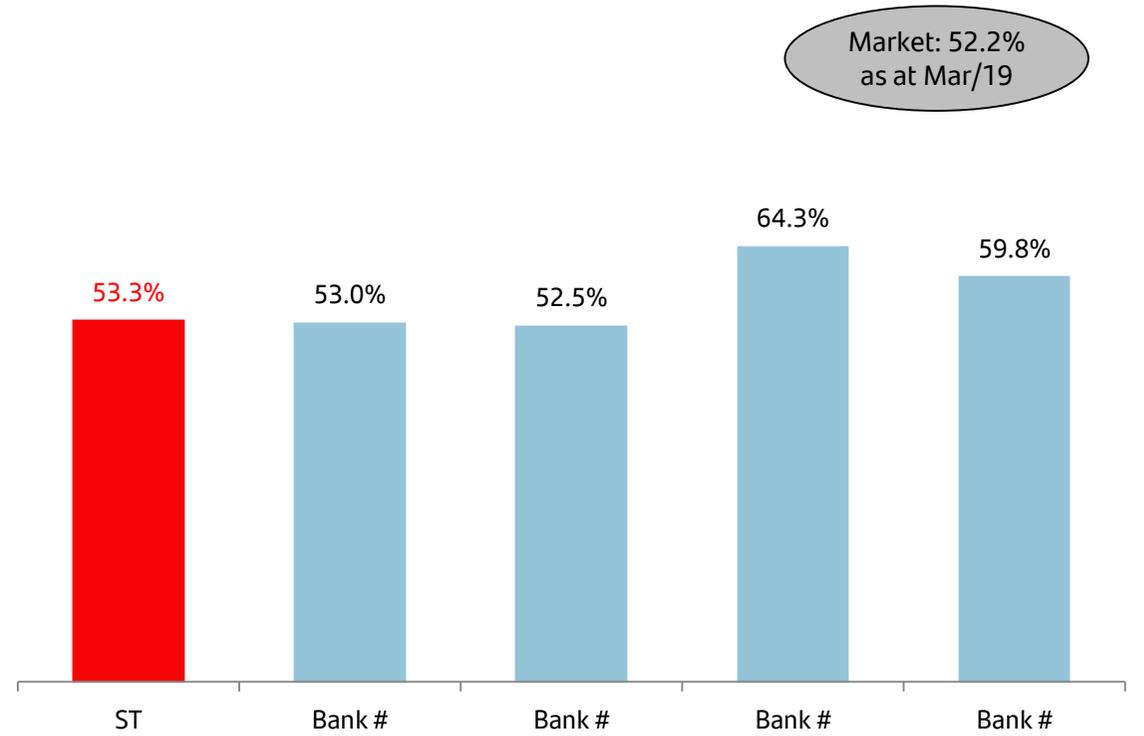


May 2019

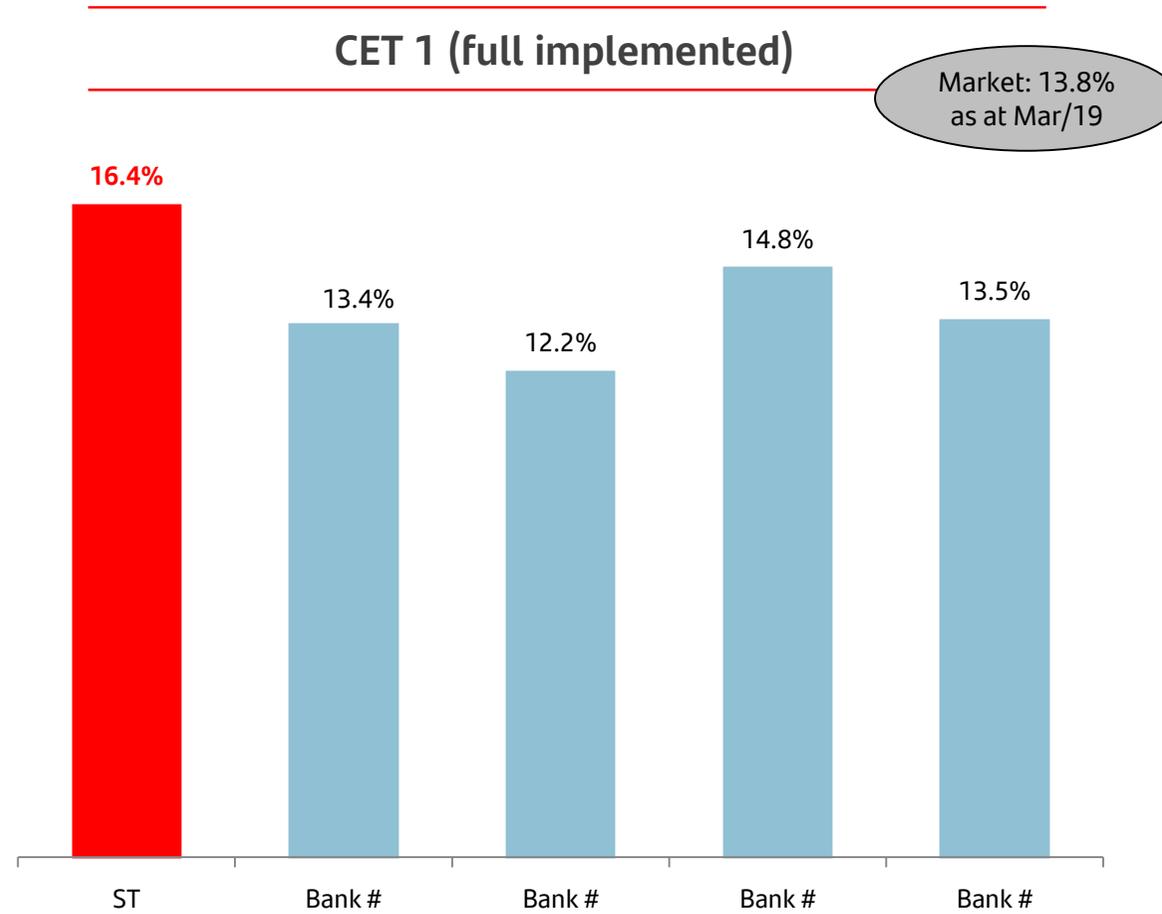
NPE Ratio



NPE Coverage Ratio



As at Jun/19



As at Jun/19

Appendix



06

Santander Totta, SGPS

| Balance Sheet (million euros) | Jun-19 | Jun-18 | Var. |
|---|---------------|---------------|--------------|
| Cash, cash balances at central banks and other demand deposits | 2,937 | 3,114 | -5.7% |
| Financial assets held for trading, at fair value through profit or loss, and at fair value through other comprehensive income | 11,014 | 9,384 | +17.4% |
| Financial assets at amortised cost | 40,586 | 40,978 | -1.0% |
| Of which: | | | |
| Loans to Customers | 39,627 | 39,947 | -0.8% |
| Investments in subsidiaries, joint ventures and associates | 107 | 106 | +0.1% |
| Tangible assets | 667 | 681 | -2.0% |
| Intangible assets | 33 | 31 | +6.8% |
| Tax assets | 672 | 852 | -21.2% |
| Non-current assets held for sale | 66 | 77 | -14.5% |
| Other assets | 652 | 748 | -12.8% |
| Total Assets | 56,735 | 55,972 | +1.4% |
| Financial liabilities held for trading | 1,136 | 1,360 | -16.4% |
| Other financial liabilities mandatory at fair value through profit or loss | 3,442 | 3,039 | +13.3% |
| Financial liabilities at amortised cost | 45,419 | 45,303 | +0.3% |
| Resources from Central Banks and Credit Institutions | 6,733 | 7,242 | -7.0% |
| Customer deposits | 34,889 | 33,431 | +4.4% |
| Debt securities issued | 3,479 | 4,398 | -20.9% |
| Of which: subordinated debt | 8 | 8 | +0.0% |
| Other financial liabilities | 319 | 232 | +37.3% |
| Provisions | 280 | 496 | -43.5% |
| Technical provisions | 762 | 726 | +5.0% |
| Tax liabilities | 443 | 326 | +35.7% |
| Other liabilities | 1,016 | 716 | +41.8% |
| Total Liabilities | 52,499 | 51,967 | +1.0% |
| Share capital attributable to ST SGPS shareholders | 4,234 | 4,004 | +5.8% |
| Non controlling interests | 2 | 2 | +3.3% |
| Total Shareholders' Equity | 4,236 | 4,005 | +5.8% |
| Total Shareholders' Equity and Total Liabilities | 56,735 | 55,972 | +1.4% |

Santander Totta, SGPS

| Proforma Income Statement* (million euros) | Jun-19 | Jun-18 | Var. |
|---|---------------|---------------|---------------|
| Net interest income (without dividends) | 428.7 | 444.1 | -3.5% |
| Dividends from equity instruments | 1.6 | 1.3 | +25.3% |
| Net interest income | 430.4 | 445.5 | -3.4% |
| Net commissions | 192.8 | 182.2 | +5.8% |
| Other banking income | -26.9 | -20.4 | +31.8% |
| Insurance activity | 12.0 | 10.2 | +17.3% |
| Gain/loss on financial transactions | 99.8 | 41.2 | +142.5% |
| Operating income | 708.1 | 658.6 | +7.5% |
| Total operating expenses | (303.1) | (313.1) | -3.2% |
| Personnel expenses | (174.2) | (180.0) | -3.2% |
| General expenses | (104.5) | (112.2) | -6.8% |
| Depreciation | (24.4) | (20.9) | +16.5% |
| Net operating income | 405.0 | 345.5 | +17.2% |
| Impairment, net provisions and other | (0.2) | (1.4) | -83.4% |
| Equity | 5.9 | 9.4 | -36.7% |
| Income before taxes and MI | 410.7 | 353.5 | +16.2% |
| Taxes | (134.7) | (110.0) | +22.5% |
| Minority interests | (0.1) | 0.1 | - |
| Other non recurrent results | 0.0 | 20.1 | -100.0% |
| Consolidated net income | 275.9 | 263.6 | +4.6% |

(*) 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
**Dow Jones
Sustainability Indices**
In Collaboration with RobecoSAM



FTSE4Good