

## **Santander in Portugal returns net income of €527.3 million (+5.5% yoy)**

*"We finished 2019 with the best result ever generated in Portugal. This growth is the result of our strategy of being the best bank operating in the country but, with our concern to have an impact on society, we engage in Responsible Banking.*

*"Our customers have grown and responded to the challenges we launched and we have therefore received several distinctions recognizing the same outcome – that is, Best Bank in Portugal and Brand with Best Reputation.*

*"Our employees also wear the Santander colours and the result was the distinction, for the third consecutive year, as the Best Bank to Work For in Portugal.*

*"To achieve all our goals we have also simplified our offer and modernized our processes through new digital tools - such as the Mortgage Loan platform – or task automation using robotics. These are new ways of working that already incorporate a part of what we expect in the future for the sector in which we operate.*

*"Focusing on maximizing customer experience, our commercial and digital strategy has already originated new ideas to continue to achieve sustained growth of the Bank's results".*

*Pedro Castro e Almeida, Executive Chief Officer of Banco Santander Portugal*

Lisbon, January 30, 2020

### **Highlights**

- At the end of 2019 the **net income** of Santander Totta, SGPS, amounted to €527.3 million, a yoy growth of 5.5% growth.
- Customer resources totalled €42.5 billion, a growth of 6.1% compared to the same period last year, **reflecting the 5.2% increase of deposits and of the 10.6% increase of off-balance sheet funds**. During the quarter deposits increased by 0.7%.
- **Loans to customers amounted to €40.0 billion**, a decrease of 1.0% compared to December 2018, as result of the management of the non-productive portfolios. Excluding this effect, the loan portfolio would have been virtually unchanged in year-on-year terms.

- The **market shares of new loans to companies and mortgage loans** amounted to **19.8%** and **19.9%** respectively, up to the end of November.
- The number of **loyal customers** and the number of **digital customers** increased by **2.6%** and **5.6%** respectively, in yoy terms.
- **Operating income increased by 7.0%**, reflecting the good performance of commissions, of the insurance business and of net income on financial operations.
- The **cost-to-income ratio stood at 45.0%**, an improvement of 4.6pp compared to December 2018, the result of the growth of operating income (7.0%) and of the reduction of operating costs (2.9%).
- The **CET 1 ratio stood at 15.2%** (fully implemented), an increase of 1.2pp compared to the end of December 2018.
- Throughout 2019 Santander in Portugal was recognised for its financial performance, the reputation of its brand and its customer service, and also as employer, by several national and international entities. Emphasis is given to the following distinctions: **"Best Bank in Portugal"**, awarded by the London publication *Euromoney*, **"Bank of the Year in Portugal"** by *The Banker* magazine of the *Financial Times* group and **"Best Bank in Portugal"** by the US magazine *Global Finance*.
- The Santander brand continued to be outstanding for its strength, reputation and trust. During 2019, Santander was distinguished in several rankings and studies as the **"Brand with Best Reputation"**.
- Recently, as a reflection of the work in support of the internationalization of companies, under the *Euromoney* awards for international business, the Bank was distinguished as the **"Best Trade Finance Bank in Portugal"**, the winner in the **"Market Leader"** and the **"Best Service"** categories.
- During 2019 Santander in Portugal invested about **€7.2 million in community support projects**, through sustainability and Santander Universidades' actions. Through this investment, **the Bank** directly and indirectly supported **more than 300 associations** in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly, with **a direct impact on 28,649 people** in the local community.
- In January 2020, Banco Santander **scored the highest in the Bloomberg Gender Equality Index (GEI)**, which reflects Santander's constant commitment to facilitate an inclusive environment for all employees and promote gender equality in society.
- Santander in Portugal has the **sector's best ratings**. The Bank's current long-term debt rating notations in comparison with the levels of the Portuguese Republic are as follows: Fitch – BBB+ (Portugal – BBB); Moody's – Baa3 (Portugal – Baa3); S&P – BBB (Portugal – BBB); and DBRS – A (Portugal – BBB high).

## Key Indicators

<b>Balance Sheet</b> (million euros)	<b>Dec-19</b>	<b>Dec-18</b>	<b>Var.</b>
Net assets	56,079	55,028	+1.9%
Total Gross Loans	39,984	40,380	-1.0%
Resources	42,484	40,036	+6.1%
Net interest income (without dividends)	855.8	866.3	-1.2%
Net comissions	380.5	363.0	+4.8%
Operating income	1,344.5	1,256.1	+7.0%
Total operating expenses	(604.4)	(622.5)	-2.9%
Net operating income	740.0	633.5	+16.8%
Income before taxes and MI	739.8	673.8	+9.8%
Consolidated net income	527.3	500.0	+5.5%

<b>RATIOS</b> (million euros)	<b>Dec-19</b>	<b>Dec-18</b>	<b>Var.</b>
ROE	12.7%	12.4%	+0.3 p.p.
Efficiency ratio (incl. depreciation)	45.0%	49.6%	-4.6 p.p.
CET 1 ratio fully implemented	15.2%	14.0%	+1.2 p.p.
Non-Performing Exposure ratio(1)	3.3%	4.2%	-0.8 p.p.
Non-Performing Exposure coverage ratio	53.1%	51.0%	+2.1 p.p.
Cost of Credit	-0.02%	0.01%	-0.03 p.p.

<b>OTHER DATA</b> (million euros)	<b>Dec-19</b>	<b>Dec-18</b>	<b>Var.</b>
Number of employees in Portugal	6,188	6,437	-249
Total Branches and Corporate Centers in Portugal	505	535	-30

### **RATING** (long term debt)

FitchRatings	BBB+
Moody's	Baa3
Standard & Poor's	BBB
DBRS	A

<sup>(1)</sup> According to EBA criteria

## External recognition

Throughout 2019 Santander in Portugal was recognised for its financial performance, the reputation of its brand, customer service and as employer by several national and international entities.

In the last quarter of the year, the Bank was named "Bank of the Year in Portugal" by the London magazine *The Banker*. The *Euromoney* and *Global Finance* publications also distinguished the Bank with the "Best Bank in Portugal" award during 2019.

In the Private Banking area *Euromoney* highlighted Santander as the "Best Private Banking Services Overall 2019" and, in turn, the North American magazine *Global Finance* elected Santander as the "Best Private Bank 2020" in Portugal during the last quarter of the year. The British publication *World Finance* also highlighted Santander as the "Best Retail Bank in Portugal 2019".

Recently, as a recognition of the work in support of the internationalization of companies, under the *Euromoney* awards for international business, the Bank was distinguished as the "Best Trade Finance Bank in Portugal", winner in the "Market Leader" and "Best Service" categories.

In customer service, the Bank was considered "5-Star Bank 2019" in the Major Banks category in a study covering various dimensions conducted on national consumers. It was also recognised in the telephone attendance service as the "Best Contact Centre 2019" in the Banking sector, by the Portuguese Contact Centres Association (APCC).

The Santander brand continued to be outstanding for its strength, reputation and trust. During 2019 Santander was distinguished as the "Banking Brand with Best Reputation" in the reputation ranking prepared by consultants *Onstrategy* and in the Marktest Reputation Index (MRI) as "Most Reputable Banking Brand" and "Company having best corporate reputation" in the Merco study, by a panel of different stakeholders, involving a total of 12 sources of information.

In the People Management area the Bank was also recognized for its commitment to employees, having been considered the "Best Bank to Work For in Portugal" for the third consecutive time and, simultaneously, the "2nd Best Large Company" (over 1,000 employees) to work for in the country by the Great Place to Work Institute. In the third quarter of 2019 Santander was included in the world's Great Place to Work list.

## Results

At the end of December 2019, Santander Totta, SGPS (referred to as "Bank" or "Santander in Portugal" in this press release) returned net income of €527.3 million, a year-on-year growth of 5.5%.

Operating income grew by 7.0% yoy, while operating costs decreased 2.9%, thus contributing to the improvement of operating income (up 16.8%), as well of as the cost-to-income ratio (down 4.6pp).

Net interest income totalled €855.8 million, a decrease of 1.2% in year-on-year terms, reflecting the current economic and competitive context, marked by great pressure on prices in an environment of low interest rates and subdued demand for credit.

Net commissions amounted to €380.5 million, an increase of 4.8% compared to December 2018, justified by the favourable evolution of means of payment and insurance commissions.

The other results of the banking business amounted to -€21.2 million, largely reflecting the contributions to the Single and National Resolution Funds. The results of the insurance business, in turn, amounted to €21.6 million, a yearly increase of 9.2%.

The results of financial transactions amounted to €95.2 million, including also the results of the management of the public and private debt portfolios.

Operating costs amounted to €604.4 million, an annual decrease of 2.9%, reflecting the 3.6% reduction of personnel costs and 5.9% of general expenses. Depreciation increased 18.6% in year-on-year terms, a figure that also reflects the adoption of IFRS 16 as from January 1, 2019.

The impairment dynamic reflects, on the one hand, the low level of entries into default arising from the current context of low interest and unemployment rates and, on the other, the dynamic of past-due loan recoveries and the capital gains on sales of non-performing loans.

The favourable dynamic of revenues and operating costs in 2019 contributed to a further improvement in the cost-to-income ratio to 45.0%, a decrease of 4.6pp yoy.

Pre-tax income and minority interests amounted to €739.8 million, up 9.8% yoy.

### Balance Sheet and Business

At the end of December 2019, the loan portfolio (gross) amounted to €40.0 billion, a decrease of 1.0% from the same period 2018. This performance reflects the impact of sales of non-performing loan portfolios during the past twelve months, while the loan portfolio, purged of the effects of these operations, would have remained virtually unchanged from the amount observed in December 2018.

Mortgage loans amounted to €19.7 billion, an increase of 0.6% over the same period last year, and consumer credit amounted to €1.7 billion, a growth of 4.4% compared to the end of 2018. Compared to the preceding quarter, growths amounted to 0.5% and 2.9%, respectively.

Loans and advances to companies amounted to €17.7 billion at the end of December 2019, their performance compared to December 2018 conditioned by the sale of non-productive loan portfolios during the year.

<b>Credit</b> (million euros)	<b>Dec-19</b>	<b>Dec-18</b>	<b>Var.</b>
<b>Credit (gross)</b>	<b>39,984</b>	<b>40,380</b>	<b>-1.0%</b>
<i>from which</i>			
<b>Credit to Individuals</b>	<b>21,788</b>	<b>21,640</b>	<b>+0.7%</b>
Mortgage	19,654	19,543	+0.6%
Consumer credit	1,707	1,635	+4.4%
<b>Credit to SME's</b>	<b>17,654</b>	<b>18,197</b>	<b>-3.0%</b>

The Non-Performing Exposure (NPE) ratio, calculated in accordance with the EBA criterion, stood at 3.3%, a decrease of 0.8pp compared to December 2018, the respective coverage standing at 53.1%.

Customer funds amounted to €42.5 billion, a year-on-year increase of 6.1% compared to the same period of the preceding year, reflecting the positive contributions of the evolution of deposits (up 5.2% to €35.2 billion) and of off-balance resources (up 10.6%). The dynamic of the latter was largely explained by the evolution of the mutual funds marketed, which grew 18.2% compared to December 2018, while insurance and other resources recorded an annual increase of 5.8%.

<b>Resources</b> (million euros)	<b>Dec-19</b>	<b>Dec-18</b>	<b>Var.</b>
Customers' Resources	42,484	40,036	+6.1%
On-balance sheet resources	35,183	33,438	+5.2%
Deposits	35,183	33,438	+5.2%
Off-balance sheet resources	7,301	6,598	+10.6%
Investment funds managed or marketed by the Bank	3,066	2,595	+18.2%
Insurance and other resources	4,235	4,003	+5.8%

### Liquidity and Solvency

Santander in Portugal's policy is to maximise the available liquidity buffer to cope with any unexpected events having an impact on the Bank's liquidity situation. During 2019 continuity was given to the strengthening of the solid liquidity position, with an increase of customer deposits by €1.7 billion, a reduction of the (net) exposure to the Eurosystem to levels close to zero (about €0.3 billion) and an increase of the liquidity buffer by €2.6 billion to a total of €11.6 billion.

The LCR (Liquidity Coverage Ratio), calculated in accordance with the CRD IV rules, stood at 136%, thus meeting the regulatory requirements on a fully-implemented basis.

The Common Equity Tier 1 (CET 1) ratio, calculated in accordance with the CRR/CDR IV rules, stood at 15.2% (fully implemented) and 15.4% (phased-in) in December 2019, reflecting the capacity for organic generation of capital, as well as the management of risk-weighted assets. The Bank maintains high capitalization levels, maintaining a very comfortable margin over and above the minimum requirements imposed by the ECB under the SREP (in 2019, CET1 of 9.0%, Tier 1 of 10.5% and Total of 12.5%, in full).

<b>Capital (fully implemented)</b> (million euros)	<b>Dec-19</b>	<b>Dec-18</b>
Common Equity Tier 1	2,818	2,805
Tier 1	3,418	3,405
Total Capital	3,491	3,427
<b>Risk Weighted Assets (RWA)</b>	<b>18,504</b>	<b>20,052</b>
<b>CET 1 ratio</b>	<b>15.2%</b>	<b>14.0%</b>
Tier 1 ratio	18.5%	17.0%
Total Capital Ratio	18.9%	17.1%

### Commercial Banking

#### Individuals and Businesses

In 2019 the Bank maintained its strategy of improvement of the business model through the development and implementation of new digital solutions and process simplification. A new Branch concept was adopted, called the Work Café, which consists of a space "open" to society and to the market, which enhances the relationship of the customers both with the Bank and among themselves. In 2019 two spaces were inaugurated, one in Lisbon and one in Coimbra and, in January 2020, a third was opened in Espinho.

With regard to the customer base, in 2019 there was an increase of 17,400 new loyal customers, with a major contribution by university segment customers. With regard to the number of digital customers, users of the Santander App and/or NetBanco, the increase of 38,000 users led to a total of more than 775,000 customers, or 45% of the loyal customer base in 2019.

Also to be highlighted is the ongoing positive evolution of the Mundo 123 customers (customers having an account, a card and insurance protection), now standing at 272,400 customers, an increase of 29,000 over the year. Mundo 123 is a multiproduct solution directed at individual customers that, in addition to the advantages of the 123 account, can provide an additional set of benefits, via cash-back, in the Mundo 123 card account.

The strategy underpinned by the soundness of the Bank and the trust of the customers, responding to development needs and support in the achievement of their projects, has resulted in an increase in loan origination, with a positive impact of €276 million on the loan portfolio.

In 2019, there was a growth of the pace of mortgage loan origination over the year, amounting to about €2 billion, equivalent to a 20% market share in the period from January to November. Personal-loan production, in turn, amounted to €529 million, with emphasis on the "CrediSimples" online solution, which accounted for 21% of production.

With regard to resources, the evolution was very favourable, with a sustained increase, especially associated with the diversification in favour of off-balance sheet resources (mostly in mutual funds), compared to the amount observed at the end of 2018. As a result, this strategy of diversification of resources, emphasis is given to the growth of the number of customers with retirement savings products, up by 33,300. In turn, in terms of autonomous protection insurance, there was an increase of 43,400 policies, an 8% growth over the same period last year.

The Business segment continues to be of significant strategic importance for the Bank, which resulted in a set of actions aimed at providing customers with a high value-added offer, in which digitization and customer experience are of particular relevance. An example of this was the launch, in March, of the new "CrediSIMPLES Business" digital offering, a solution that allows customers to contract loans online via NetBanco Companies, through which around 3,500 operations were realized, also contributing to the annual growth of production by 27% to €2.65 billion. In October, Mundo 123 was extended to the Business segment, with a modular solution for the customers' cash management in this segment, in which customers can combine the Conta 123 Business with credit card, current account and/or POS in keeping with their needs. The segment's turnover grew by 7.6% compared to 2018.

The Foreigners and Residents abroad area also strengthened its focus both on support for the Portuguese and Portuguese descendants living abroad, through its representation office network in 6 countries (South Africa, Germany, Canada, France, United Kingdom, Switzerland and Venezuela), as well as in promotion and in attracting customers and business among foreigners who choose Portugal to invest and establish their non-habitual residence.

In particular, acknowledging the growing interest of foreigners in living and/or investing in Portugal, Santander in Portugal has paid special attention to this cluster, giving rise to the capillarity of the Santander Group as a Global Bank, streamlining processes and creating conditions to meet the specific needs of these customers, as well as the development of financial product and service solutions allowing the Bank to support foreign customers who invest in Portugal.

## **Companies and Institutionals**

In 2019 Banco Santander in Portugal maintains the focus on supporting the Business sector through a comprehensive financial offer and a non-financial offer that aims to strengthen the qualifications of companies, rendering the relationship with customers increasingly global and ever closer.

The Santander Companies Non-Financial Solutions are a differentiating offering that is outstanding in the financial market, at the disposal of companies and entrepreneurs, allowing the ongoing training of their staff and employees, support to internationalisation and strengthening presence in the digital area. They also encourage among young people their employability through an internship scholarship programme.

Under the internship scholarship programme 209 internships were awarded in a business environment over the year under review, making this programme a true platform for access to the employment market for the final-year university students, with more than 35% of the youths involved in the programme having maintained their connection with the company with which they carried out their internship, reflecting their suitability to meet the needs of the companies.

In relation to classroom training, the offer was extended and also directed at the Agribusiness, Tourism and Social Economy business segments. Thus, by the end of 2019, in addition to the Business Management programme, 9 sectoral-management programmes were organised, three linked to the social economy sector (Lisbon and Porto), three to the Agro sector (Lisbon, the Azores and Mirandela) and three to the Tourism sector (Madeira, Algarve and Porto), involving more than 330 companies and institutions, contributing to strengthening their competitiveness by improving the skills of their staff and employees.

The continuity of the offer of online training, in partnership with two certified entities of note in the market, allows free access to more than 15 courses in five different areas. The Bank provided a total of 101 licences through these platforms throughout 2019.

Consolidating the Bank's policy of proximity with companies, organizations, local associations and universities through the exchange of experiences, opinions and knowledge sharing with all participants, two Santander Empresas BOX events were held, one in Leiria and the other, for the first time, in Madeira.

The positioning and focus the Bank's support for companies is also to be seen in the number of transactions and amounts falling within the scope of the Mutual Guarantee Societies, to support investment projects or financing cash, in the most varied economic sectors, conferring leadership on Santander during several months in 2019.

Through the IFRRU 2020 line, in which Santander manages the market's biggest line, support has been maintained for the development of several urban rehabilitation projects promoted by companies and individuals.

Support for customer internationalization warrants a reference, and to this end it has specific tools to support international business, such as the Santander Trade portal and the International Desk. During 2019, Santander in Portugal was the international business partner of more than 7,000 companies on a monthly basis, an increase of 18% compared to 2018. The Bank achieved a market share of 18% in import trade, maintaining the sustained and permanent growth seen over the past 5 years.

The Bank continues to support the cash management of companies through factoring and confirming products for both the largest Portuguese companies and also for small and medium-sized enterprises, accompanying customers with solutions tailored to their business and to support the opening of new markets in a context of increasingly demanding requests by companies, providing via the NetBanco Empresas platform a generalist offering covering the entire range of sub-products existing in the market.

In the Institutional Customers segment, Santander in Portugal maintained its commitment to the customers of this segment, both with regard to public entities, with a strong presence in the Azores and Madeira Regions and with the Municipalities, as well to private entities, with a special focus on Religious Institutions and on the Social Economy, designing solutions tailored for these institutions in order to meet their needs. As a result, the segment performed well, especially in attracting Resources, with an increase of 13.1% compared to 2018.

### **Marketed Mutual Funds and Insurance**

The year under review was marked by the general appreciation of the financial markets, and thus Santander Asset Management (SAM) sought to manage its mutual funds (FIM) actively, with the goal of maximising the return for their participants. SAM closed the year with a market share of 17.9%, an increase of 0.8pp yoy. Real-estate investment funds totalled about €421 million at the end of 2019.

In the financial insurance area the focus was maintained on active management of open financial insurance, which recorded a net change of more than €160 million.

During 2019 the Protection Insurance area maintained its strategic priority of providing customers, in the various channels, with diverse, comprehensive solutions that contribute to their personal, family and corporate safety. Noteworthy is the launch of new products within the scope of health protection for individual customers (Safe Care Health, Live Longer Health), designed thinking of the growing concerns of the population in this area. Online contracting of protection insurance continued its growth tendency, accounting for about one third of the year's subscriptions.

"Safer every day" was the signature of the advertising campaign on television, in the press and via the digital channels, characterized by a message associated with customers' need for protection and that of their families, 365 days a year. Within the scope of this concept, throughout the year preferential conditions were granted on the acquisition of new protection insurance, directed at customers who already have at least one of these solutions.

### **Corporate and Investment Banking**

The year under review was marked by intense activity in the Corporate and Investment Banking area. In an adverse situation of continuation of negative interest rates and high pressure on spreads, the Bank strengthened its commitment to customers, exploring new investment opportunities. The new digital foreign-exchange contracting platform (via NetBanco Empresas) reveals the Bank's focus on innovation and digital transformation.

The loan portfolio decreased by 6.8% compared to the previous period, largely due to management of the balance sheet for a very small number of customers, further compounded by the scheduled repayments of structured transactions. Revenues, in the same period, increased 3.5% and the negative impact on net interest income was offset by the increase of revenues on non-recurring operations, with emphasis on the strengthening of financial advisory operations and on fixed-interest loans.

In the Global Debt Financing area, 2019 was marked by the conclusion of the first private issuance of debt in Portugal under the Project Finance regime, Santander having structured and placed a €270 million issue for Indaqua Feira. Several major financing operations were also concluded during the first half, involving a broad range of industries such as chemicals, transport, logistics and energy, with emphasis on the participation in financing the Finerge group in an amount in excess of €950 million, now considered the largest ever Portfolio

Finance in the onshore renewables sector in Portugal. In the Asset Finance area, too, Santander structured and financed the acquisition of an Airbus A330 Neo aircraft for TAP, contributing to the company's objectives of reduction of carbon emissions.

Attention is also drawn to various loans and refinancing in the real-estate sector, notably shopping malls and property development for residences and tourism apartments.

In the bond markets emphasis is given to the Bank's participation, as bookrunner, in the only issue of the year, for EDP, with a hybrid bond with a maturity of 60 years and an amount of €1 billion, and to the participation in the placement of the first rated bond issue for Sudaçor, with the guarantee of the Azores Autonomous Region.

In the Corporate Finance area there was intense activity related with mergers and acquisitions, with emphasis on the successful conclusion of operations in the energy, shopping centres and media sectors. The operations portfolio was strengthened, and several other advisory processes are underway involving transactions to be concluded in the coming months.

In Treasury, the activity of the Corporate and Commercial Banking area increased substantially, underpinned by sustained growth in interest-rate risk hedging and by enlargement of the offer of foreign-exchange transactions contracting alternatives.

In the matter of interest-rate risk management there was strong growth in fixed-rate transactions, by volume of loans and by number of transactions. The negative interest-rate levels in the euro area favoured the adoption, by customers, of risk-reduction strategies to cover potential future increases of financial charges, the Bank having presented alternatives for informed decision-making as to the best strategy in the interest-rate risk management policy.

In the foreign exchange area, 2019 showed a strong commitment to the improvement of the digital channels available for customers, the offer of which contributed to the significant growth seen in the currency area, in terms of number of transactions, trading volume and the number of active customers. Noteworthy is the release in January of a new foreign-exchange transactions contracting platform, which at the yearend already accounted for over 20% of the total number of foreign exchange spot transactions contracted in the Companies segment.

Order reception activity in Portugal fell sharply by trading volume in most financial instruments (between 23.2% and 42.2%), with the exception of bonds (public and private debt), the trading volume of which rose 26% during the year. Santander in Portugal's total Cash Equities activity accompanied this trend, but to a lesser extent, with a reduction of the volume traded, in year-on-year terms, in the order of 8%. In the online market, Santander's activity was penalised by the weight of trading in shares (91%), with a y-o-y reduction of volumes traded in the order of 8%, compared to a drop of about 2% of the total orders received in Portugal via the "Internet Site"<sup>1</sup>.

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<sup>1</sup> Source: CMVM, Monthly order reception indicators, December 2019

## Responsible Banking

Banco Santander is committed to society and to its mission to help businesses and families to thrive, changing people's lives and contributing to a greener future. In this connection Santander announced ten Responsible Banking goals that reflect its commitment to contribute to the United Nations Sustainable Development Goals and ensure that it carries on its business in a responsible manner:

1. To be among the 10 best companies to work for (in the major geographies)
2. Women on the Board of Directors
3. Women in management positions
4. Equal pay (Equal pay gap)
5. Financially empowered people
6. Green financing
7. Electricity used obtained from renewable sources
8. Elimination of single-use plastic at the central services and branches
9. Scholarships, internships and entrepreneurship programmes
10. People supported through our programmes of investment in the community

During 2019 Santander in Portugal invested about €7.2 million in community-support projects, through sustainability and Santander Universidades' actions. Through this investment, the Bank directly and indirectly supported more than 300 associations in projects related to education, protection of minors, health, disability, social inclusion and care for the elderly, with a direct impact on 28,649 people in the local community.

In higher education, the Bank has protocols with 50 of the leading Higher Education institutions in Portugal and awarded 1,700 scholarships – merit, social support, mobility, accommodation, research and training, including the new SANTANDER FUTURO, SANTANDER GLOBAL and SANTANDER Mais Perto programmes.

## Business Environment

In the last quarter of 2019, the world economy will have maintained its decelerating growth trend, the result of a synchronized slowdown in the developed and emerging economies, coupled with the intensification of the risks associated with trade tensions between the US and China (but which were reduced towards the end of the year); the uncertainty surrounding Brexit, with the subsequent election in December 2019, formalizing an orderly exit and making a start to the process of negotiation for future trade relations between the EU and the United Kingdom; and the growing geopolitical tension between the US and Iran, which worsened in January 2020, contributing to a rise of raw-material prices.

In the euro zone, the fourth quarter of 2019 will have continued the previous dynamic, characterized by a general trend of weak economic growth. Confidence of the economic agents is still weak across the board, with areas of tension: in France, the demonstrations against the new pension rules; in Germany, the trade tensions over strategic sectors, namely the automotive sector, which continues to adapt to the regulatory requirements of reduction of pollutant emissions; in Spain, the long period of political deadlock, with new elections in December; and in Italy, the permanent political instability.

In this economic environment, the ECB maintained an expansionary monetary policy in response to the anaemic growth rates and inflation, keeping the benchmark interest rate at 0% and the deposit rate at -0.5%, besides continuing the programme of acquisition of financial assets (quantitative easing), at the rate of €20 billion per month. In the US, the Federal Reserve maintained a moderate pro-cyclical monetary policy, lowering the benchmark interest rate to 1.5% -1.75%, in a framework of growth and inflation around 2%.

In Portugal, economic activity slowed in the third quarter, sharpening the deceleration profile, with exports and investment moderating, reversing the strong growth trend of the first half of the year. In the fourth quarter, the pace of growth will have remained in line with the previous quarter, though with private consumption benefitting from the Christmas period. Exports will benefit from a base effect associated with the strike at the Port of Setúbal the end of 2018.

Conditions in the employment market remain favourable, with the active population increasing, the employment rate at nearly 63% and the unemployment rate close to 6%. However, the unemployment stabilization signals are evident and may hover between 6% and 7%, with a GDP growth rate of around 1.5%.

The savings rate of the economy has maintained its upward trend and, in the third quarter of 2019, it stood at 18.6% of the GDP, allowing an increase of the investment rate to 18.3% of the GDP. In this sense, the economy maintains a net financing capacity of around 0.3pp of the GDP, a situation that has been maintained since 2013.

The levels of indebtedness of the economy continue their downward trend as a percentage of the GDP, with the private sector standing at 194% of the GDP (a reduction of more than 70pp of the GDP since 2012) and the public sector retreating to around 121% of the GDP, in the third quarter of 2019.

The budgetary balance in 2019 is set to show a deficit of about 0.1% of GDP, supported by a favourable evolution of tax revenues and social contributions, putting the tax burden at 35.6% of GDP. Public spending continued to grow but at a slower pace than revenues, in a general manner among the various types of public expenditure, with the exception of the charges with the service of the debt.

The resilient economic situation and the correction of the imbalances have supported a reduction in the perception of the sovereign risk, reflected in the minimum levels recorded across the entire yield curve. The 10-year sovereign debt was priced at 0.38%, a spread of 60 basis points against Germany (as of January 20, 2020). The risk notation of the Republic's credit rating assigned by the S&P, Fitch and Moody's agencies is BBB, BBB and Baa3 respectively. During October 2019 the DBRS agency revised the rating to BBB (high).

**Santander Totta, SGPS**

<b>Balance Sheet</b> (million euros)	<b>Dec-19</b>	<b>Dec-18</b>	<b>Var.</b>
Cash, cash balances at central banks and other demand deposits	3,500	2,507	+39.6%
Financial assets held for trading, at fair value through profit or loss, and at fair value through other comprehensive income	10,761	10,255	+4.9%
Financial assets at amortised cost	40,077	40,319	-0.6%
Of which:			
Loans to Customers	39,068	39,296	-0.6%
Investments in subsidiaries, joint ventures and associates	112	111	+0.8%
Tangible assets	629	644	-2.4%
Intangible assets	33	31	+8.5%
Tax assets	601	684	-12.1%
Non-current assets held for sale	44	30	+46.7%
Other assets	321	447	-28.1%
<b>Total Assets</b>	<b>56,079</b>	<b>55,028</b>	<b>+1.9%</b>
Financial liabilities held for trading	1,097	1,240	-11.5%
Other financial liabilities mandatory at fair value through profit or loss	3,432	3,176	+8.1%
Financial liabilities at amortised cost	45,017	44,494	+1.2%
Resources from Central Banks and Credit Institutions	6,171	6,533	-5.6%
Customer deposits	35,183	33,438	+5.2%
Debt securities issued	3,431	4,323	-20.6%
Of which: subordinated debt	8	8	+0.0%
Other financial liabilities	233	200	+16.3%
Provisions	234	298	-21.4%
Technical provisions	730	743	-1.8%
Tax liabilities	390	254	+53.5%
Other liabilities	915	651	+40.5%
<b>Total Liabilities</b>	<b>51,815</b>	<b>50,856</b>	<b>+1.9%</b>
Share capital attributable to ST SGPS shareholders	4,262	4,170	+2.2%
Non controlling interests	2	2	-15.4%
<b>Total Shareholders' Equity</b>	<b>4,264</b>	<b>4,172</b>	<b>+2.2%</b>
<b>Total Shareholders' Equity and Total Liabilities</b>	<b>56,079</b>	<b>55,028</b>	<b>+1.9%</b>

**Santander Totta, SGPS**

<b>Proforma Income Statement*</b> (million euros)	<b>Dec-19</b>	<b>Dec-18</b>	<b>Var.</b>
Net interest income (without dividends)	855.8	866.3	-1.2%
Dividends from equity instruments	1.8	1.7	+6.9%
<b>Net interest income</b>	<b>857.6</b>	<b>868.0</b>	<b>-1.2%</b>
Results from Associates	10.8	14.6	-25.8%
Net commissions	380.5	363.0	+4.8%
Other banking income	-21.2	-3.3	>200%
Insurance activity	21.6	19.8	+9.2%
Gain/loss on financial transactions	95.2	-5.9	-
<b>Operating income</b>	<b>1,344.5</b>	<b>1,256.1</b>	<b>+7.0%</b>
Total operating expenses	(604.4)	(622.5)	-2.9%
Personnel expenses	(346.0)	(358.9)	-3.6%
General expenses	(208.8)	(221.8)	-5.9%
Depreciation	(49.6)	(41.8)	+18.6%
<b>Net operating income</b>	<b>740.0</b>	<b>633.5</b>	<b>+16.8%</b>
Impairment	0.3	(6.2)	-
Net provisions and other	(0.5)	46.5	-
<b>Income before taxes and MI</b>	<b>739.8</b>	<b>673.8</b>	<b>+9.8%</b>
Taxes	(212.3)	(193.9)	+9.5%
Minority interests	(0.2)	0.0	-
Other non recurrent results	0.0	20.1	-100.0%
<b>Consolidated net income</b>	<b>527.3</b>	<b>500.0</b>	<b>+5.5%</b>

(\*) Not audited

**Santander Totta, SGPS**

In accordance with the definition contained in instructions 16/2004 of the Bank of Portugal with the changes in instruction 6/2018

<b>Ratios</b>	<b>Dec-19</b>	<b>Dec-18</b>	<b>Var.</b>
<b>Profitability</b>			
Income before taxes and MI/Average net assets	1.3%	1.2%	+0.1 p.p.
Operating income/Average net assets	2.4%	2.3%	+0.1 p.p.
Income before taxes and MI/Average equity	17.1%	16.5%	+0.6 p.p.
<b>Efficiency</b>			
Total operating expenses/Operating income	45.0%	49.6%	-4.6 p.p.
Personnel expenses/Operating income	25.7%	28.6%	-2.9 p.p.
<b>Transformation</b>			
Credit (net)/Deposits	111.3%	117.8%	-6.5 p.p.