

29 January 2020

# Portugal

## 2019 Earnings Presentation



# Important Information

## Non-IFRS and alternative performance measures

In addition to the financial information prepared in accordance with International Financial Reporting Standards (“IFRS”) and derived from our financial statements, this presentation contains certain financial measures that constitute alternative performance measures (“APMs”) as defined in the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) on 5 October 2015 (ESMA/2015/1415en) and other non-IFRS measures (“Non-IFRS Measures”). The financial measures contained in this presentation that qualify as APMs and non-IFRS measures have been calculated using the financial information from Santander Group but are not defined or detailed in the applicable financial reporting framework and have neither been audited nor reviewed by our auditors. We use these APMs and non-IFRS measures when planning, monitoring and evaluating our performance. We consider these APMs and non-IFRS measures to be useful metrics for management and investors to facilitate operating performance comparisons from period to period. While we believe that these APMs and non-IFRS measures are useful in evaluating our business, this information should be considered as supplemental in nature and is not meant as a substitute of IFRS measures. In addition, other companies, including companies in our industry, may calculate or use such measures differently, which reduces their usefulness as comparative measures. For further details of the APMs and Non-IFRS Measures used, including its definition or a reconciliation between any applicable management indicators and the financial data presented in the consolidated financial statements prepared under IFRS, please see the 2018 Annual Financial Report, filed with the Comisión Nacional del Mercado de Valores of Spain (CNMV) on 28 February 2019, as well as the section “Alternative performance measures” of the annex to the Banco Santander, S.A. (“Santander”) 2019 4Q Financial Report, published as Relevant Fact on 29 January 2020. These documents are available on Santander’s website ([www.santander.com](http://www.santander.com)).

The businesses included in each of our geographic segments and the accounting principles under which their results are presented here may differ from the included businesses and local applicable accounting principles of our public subsidiaries in such geographies. Accordingly, the results of operations and trends shown for our geographic segments may differ materially from those of such subsidiaries

## Forward-looking statements

Santander cautions that this presentation contains statements that constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by words such as “expect”, “project”, “anticipate”, “should”, “intend”, “probability”, “risk”, “VaR”, “RoRAC”, “RoRWA”, “TNAV”, “target”, “goal”, “objective”, “estimate”, “future” and similar expressions. 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 and our shareholder remuneration policy. 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. The following important factors, in addition to those discussed elsewhere in this presentation, could affect our future results and could cause outcomes to differ materially from those anticipated in any forward-looking statement: (1) general economic or industry conditions in areas in which we have significant business activities or investments, including a worsening of the economic environment, increasing in the volatility of the capital markets, inflation or deflation, and changes in demographics, consumer spending, investment or saving habits; (2) exposure to various types of market risks, principally including interest rate risk, foreign exchange rate risk, equity price risk and risks associated with the replacement of benchmark indices; (3) potential losses associated with prepayment of our loan and investment portfolio, declines in the value of collateral securing our loan portfolio, and counterparty risk; (4) political stability in Spain, the UK, other European countries, Latin America and the US (5) changes in laws, regulations or taxes, including changes in regulatory capital and liquidity requirements, including as a result of the UK exiting the European Union and increased regulation in light of the global financial crisis; (6) our ability to integrate successfully our acquisitions and the challenges inherent in diverting management’s focus and resources from other strategic opportunities and from operational matters while we integrate these acquisitions; and (7) changes in our ability to access liquidity and funding on acceptable terms, including as a result of changes in our credit spreads or a downgrade in our credit ratings or those of our more significant subsidiaries. Numerous factors could affect the future results of Santander and could result in those results deviating materially from those anticipated in the forward-looking statements. Other unknown or unpredictable factors could cause actual results to differ materially from those in the forward-looking statements.

# Important Information

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- 1. Macroeconomic environment and financial system**
- 2. Strategy and business**
- 3. Results**
- 4. Appendix**

# Macroeconomic environment and financial system

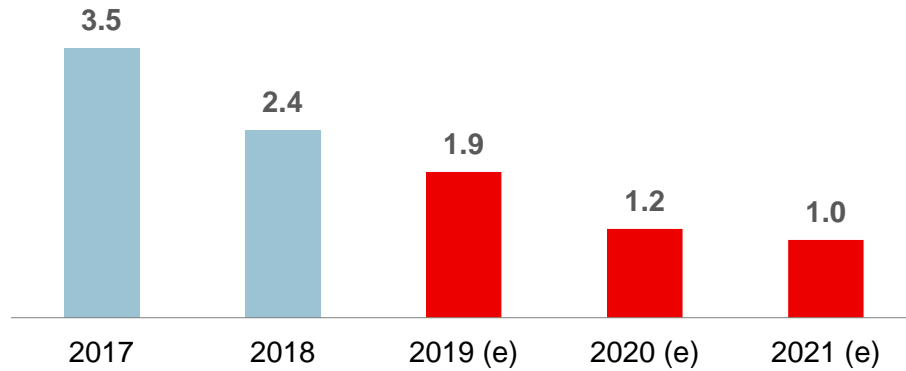


01

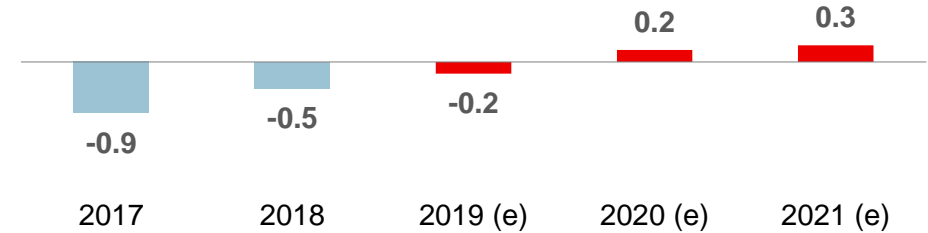


# Despite the external risks, grown remains resilient and unemployment low...

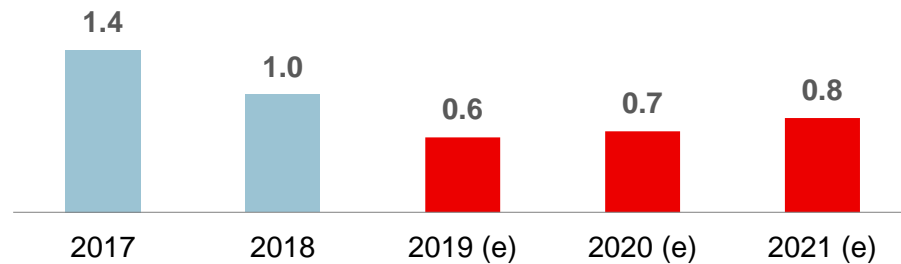
**Annual GDP Growth (real, %)**



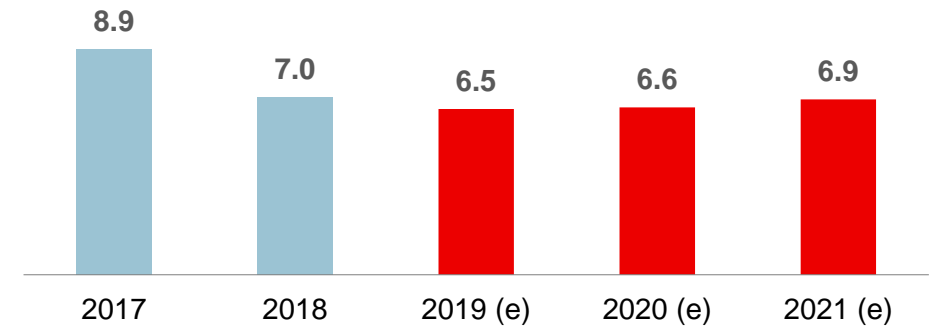
**Fiscal Balance (% of GDP)**



**Annual inflation rate (%)**



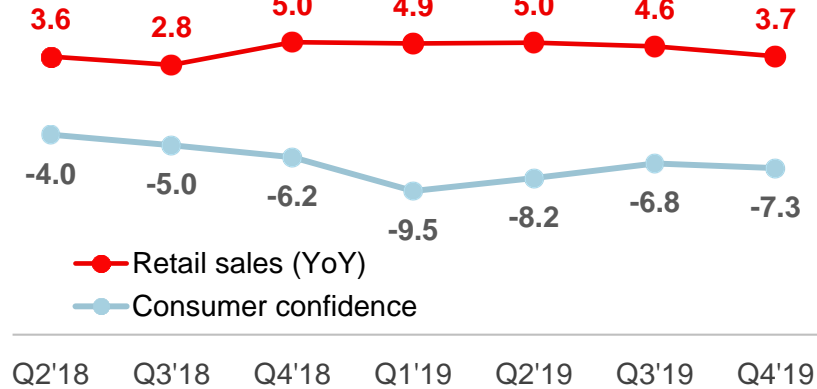
**Unemployment Rate (% , annual average)**



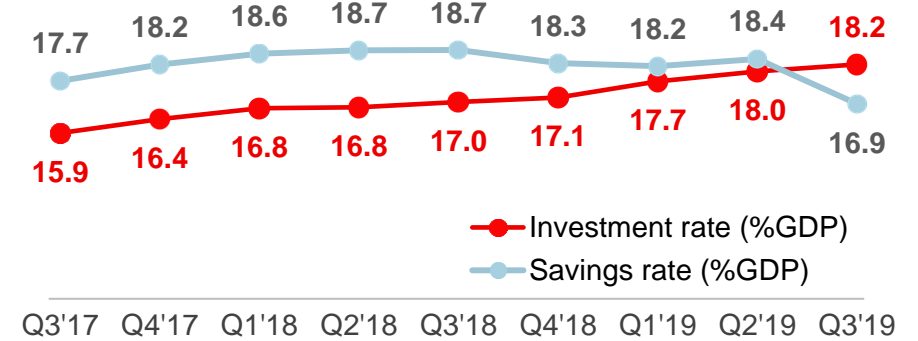


# ... driven by sustainable investment and exports

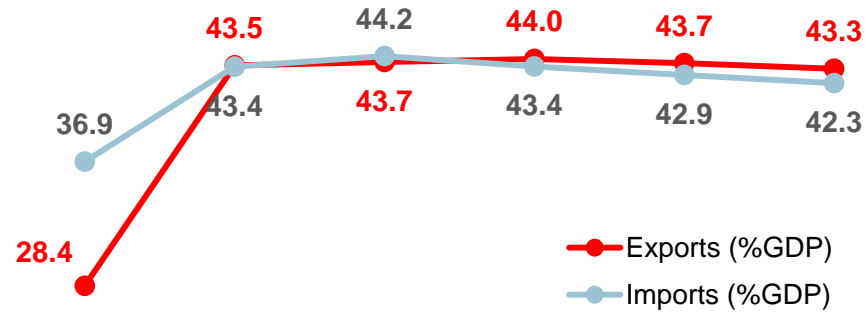
## Consumer dynamics



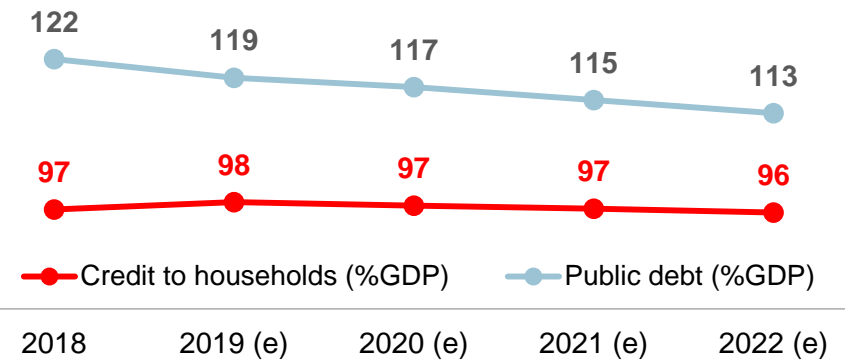
## Investment dynamics (total economy)



## Tradable sector dynamics



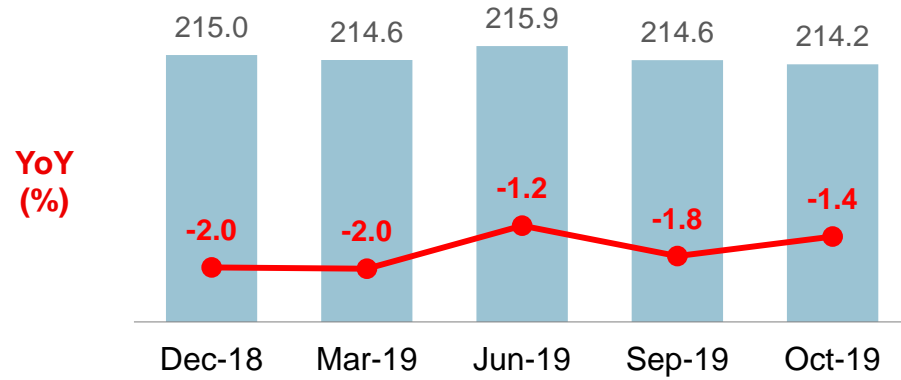
## Deleveraging dynamics





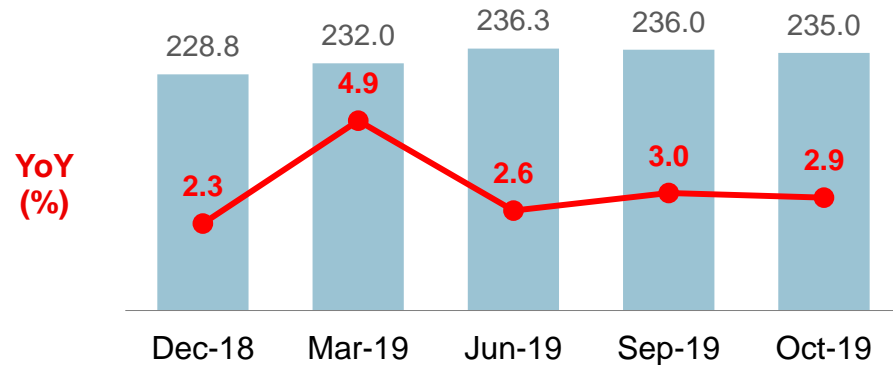
# Deleveraging at a slower pace, with improving loans to households

**Total loans** (EUR bn)



- ▶ The pace of deleveraging is moderating, in the context of (i) a lower NPL ratio at 7.7% as of September 19 (down from 17% in 2016); (ii) credit to households starting to rebound; and (iii) corporates credit demand remaining subdued.
- ▶ The high indebtedness levels and new macro prudential rules may constrain private sector credit growth.

**Total deposits** (EUR bn)



- ▶ Deposit growth is stabilising, as time deposits are falling at a moderate pace and overnight deposits are growing more slowly, in the context of a prolonged period of negative deposits rates.



# Strategy and business














02

# Santander Totta is the largest privately owned bank in Portugal by assets and loans



## STRATEGIC PRIORITIES

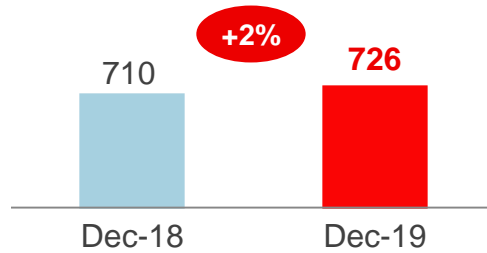
- ▶ Continue the transformation process of the Bank to simplify it, bring it closer to customers and make it more efficient
- ▶ Continue gaining profitable market share, improving our position as leading private sector bank and leveraging our position in the corporate sector, especially in SMEs
- ▶ Improve efficiency and maintain a low cost of credit
- ▶ Maintain a solid capital position, managing it in line with the new regulatory requirements

	KEY DATA	2019	YoY Var.
	Gross loans	36,321	-0.7%
	Deposits	39,258	+5.5%
	Underlying att. profit <sup>1</sup>	525	+9.6%
	RoTE <sup>2</sup>	12.8%	+77bps
	Efficiency ratio	45.3%	-258bps
	Loans' market share <sup>3</sup>	17.7%	-63bps
	Deposits' market share <sup>3</sup>	15.7%	+6bps
	Loyal customers <sup>4</sup>	778	+2.6%
	Digital customers <sup>4</sup>	775	+5.6%
	Branches	542	-5.2%
	Employees	6,582	-1.8%



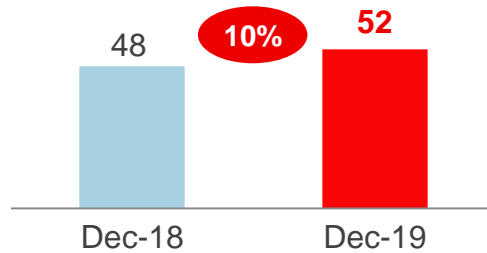
## We continue to grow in the most valuable customer segments

### Loyal individuals (k)



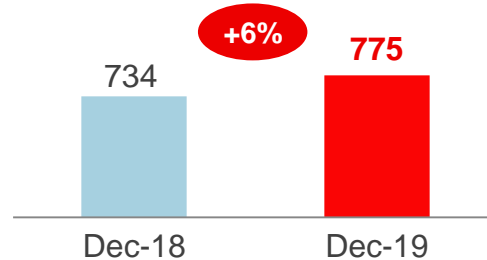
- ▶ Sustained growth in the number of loyal customers, backed by the focus on the 1 | 2 | 3 strategy...

### Loyal companies (k)



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

### Digital customers (k)



- ▶ The commercial and digital transformation, where process and product simplification is complemented by the continuous availability of digital functionalities, is supporting the increase in the number of digital customers



# Retail and digital services



Santander Portugal is **“Bank of the Year”** in Portugal, by “The Banker” and “Euromoney”, and **“Best Bank in Portugal”**, by “Global Finance”.

All institutions recognise Santander’s leadership position in the Portuguese Banking Sector, achieved under its customer oriented strategy and compromise with digital innovation.



## “Plano” Credit Card

Simple credit card offering, complementing the wider ecosystem of Mundo 123.

In 2019, **Mundo 123 customers** experiencing the full benefits increased by **16%**, to more than 270 thousand.



Santander Wallet na App Santander

**Santander Wallet** is a function in the Santander App that allows customers to safely buy, using their smartphones. It also allows customers to make online transfers to their phone contacts, through MB Way. Santander is continuously improving its digital offer, having reached **775 thousand digital customers**, a YoY growth of 5.6%.



Protecção 365 Vida  
Mais seguro da sua vida



Protecção 365 Saúde  
Mais seguro da sua saúde



Protecção 365 Casa  
Mais seguro da sua casa

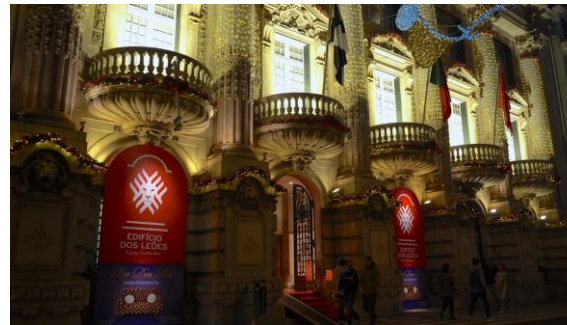


Protecção 365 Auto  
Mais seguro do seu carro

## “Protecção 365”

Full range of insurance to cover all the needs of our customers, 365 days a year. The life and housing offer is now complemented with improved offering in terms of healthcare and also auto insurance.

In 2019, insurance business grew 6%



The historical Head Office of Santander Portugal – **“Edifício dos Leões”**, in downtown Lisbon - has been converted into a Museum, showing the history of banking in Portugal, as well as the art collection of the Bank, complemented by temporary exhibitions by renowned artists.

## A Responsible and Sustainable Bank

In 2019, the traditional Christmas tree was replaced by real trees.

10,000 trees will be planted across the country, with the support of volunteers from the Bank.

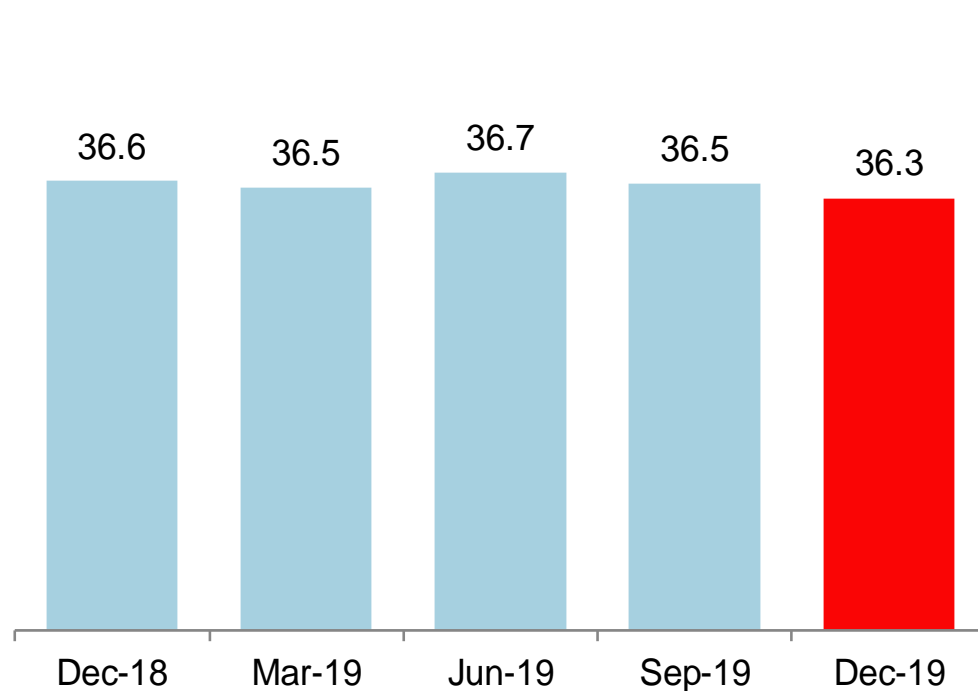
Santander is a signatory of the Compromise for the Sustainable Finance in Portugal.



# Loans to households are increasing, while loans to corporates declined with the disposal of non-productive assets



## Total loans (EUR bn)



	Dec-19	YoY (%)	QoQ (%)
<b>Individuals</b>	<b>21.8</b>	<b>+0.7</b>	<b>+0.6</b>
<i>of which:</i>			
Mortgage	19.7	+0.6	+0.5
Consumer credit	1.7	+4.5	+2.9
<b>Corporates</b>	<b>11.8</b>	<b>-1.2</b>	<b>-2.1</b>
<b>Other(*)</b>	<b>2.7</b>	<b>-8.8</b>	<b>-3.4</b>
<b>Total</b>	<b>36.3</b>	<b>-0.7</b>	<b>-0.6</b>
Loans to Corporates (**)	15.6	-2.8	-3.0
Total Loans (**)	40.1	-1.4	-1.1

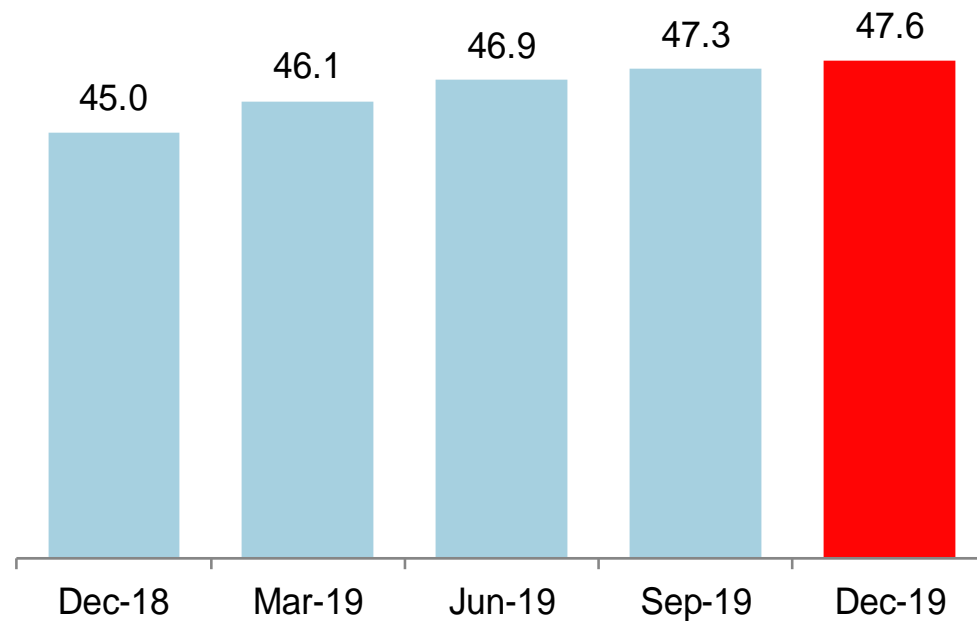
(\*) Includes Government, Institutional and other sectors

(\*\*) includes commercial paper

# Sustained growth in customer funds: deposits and in particular off-balance resources



**Total customer funds (EUR bn)**



	Dec-19	YoY (%)	QoQ (%)
Demand	17.5	+15.1	+2.0
Time and Savings	17.7	-2.9	-0.6
<b>Total Deposits</b>	<b>35.1</b>	<b>+5.3</b>	<b>+0.7</b>
Financial insurance	4.1	+7.1	-0.9
<b>Deposits &amp; financial insurance</b>	<b>39.3</b>	<b>+5.5</b>	<b>+0.5</b>
Securities placed	3.4	-20.5	-0.8
Investment funds and other	4.9	+39.4	+2.9
<b>Total Customer Funds</b>	<b>47.6</b>	<b>+5.7</b>	<b>+0.7</b>

Results

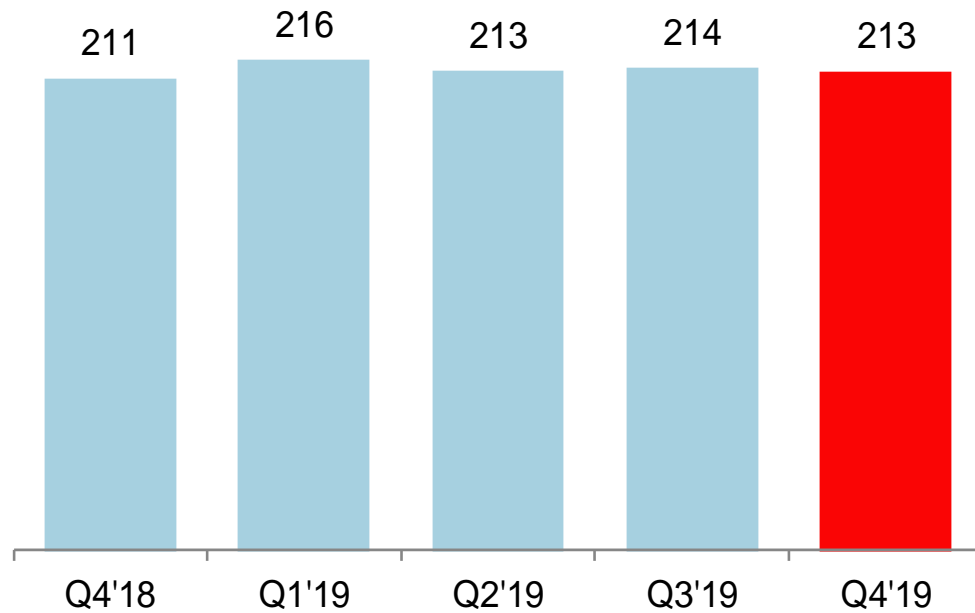


03



# NII broadly flat, constrained by the low interest rate environment

**Net interest income (EUR mn)**



**NIM<sup>1</sup> (%)**

Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
1.54	1.54	1.51	1.50	1.51

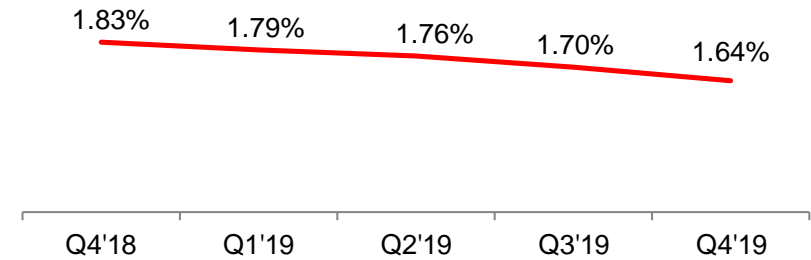
**Official interest rate<sup>2</sup> (%)**

Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
0.00	0.00	0.00	0.00	0.00

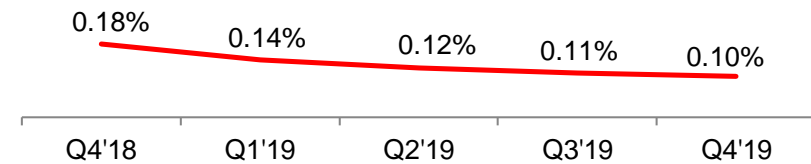


(1) Group criteria  
(2) Quarterly average

**Yield on loans (%)**



**Cost of deposits (%)**

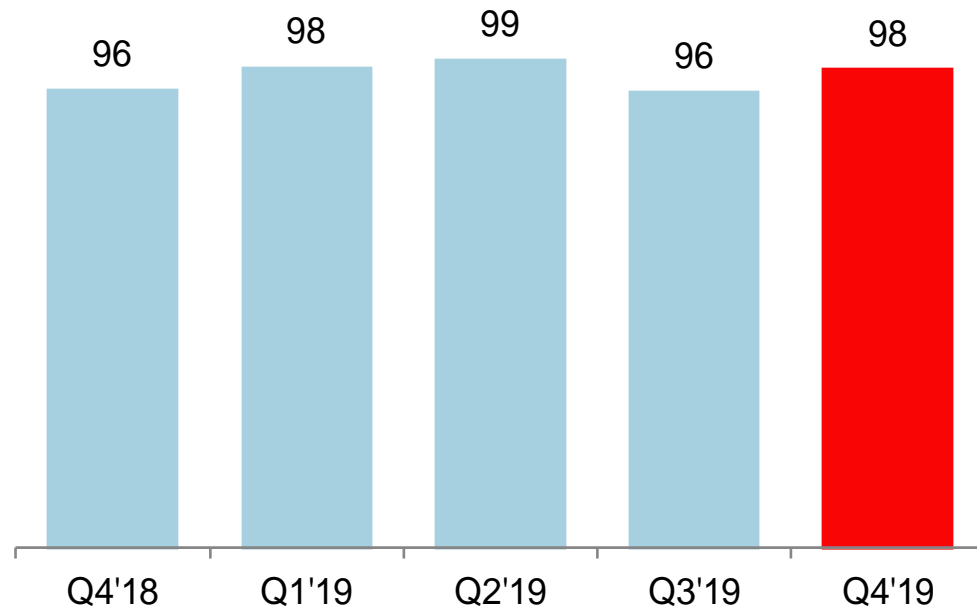




# Sustained growth in net fee income, led by revenues from cards, insurance and funds



**Net fee income** (EUR mn)

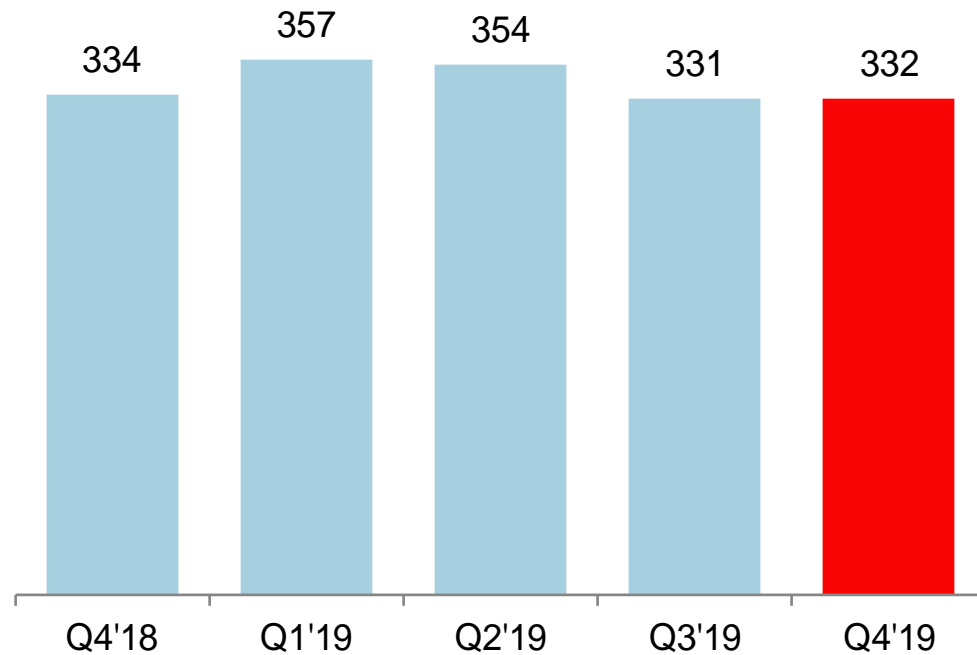


	2019	2018	YoY (%)	QoQ (%)
Credit	108	114	-5.2	+20.1
Credit cards	97	92	+5.6	-7.5
Mutual funds	27	26	+3.1	+4.9
Insurance	105	102	+2.7	+4.3
Other	53	42	+25.6	-21.3
<b>Total</b>	<b>390</b>	<b>377</b>	<b>+3.6</b>	<b>+2.3</b>



## Gross income improved, as fees reflect increased customer loyalty

Gross income (EUR mn)

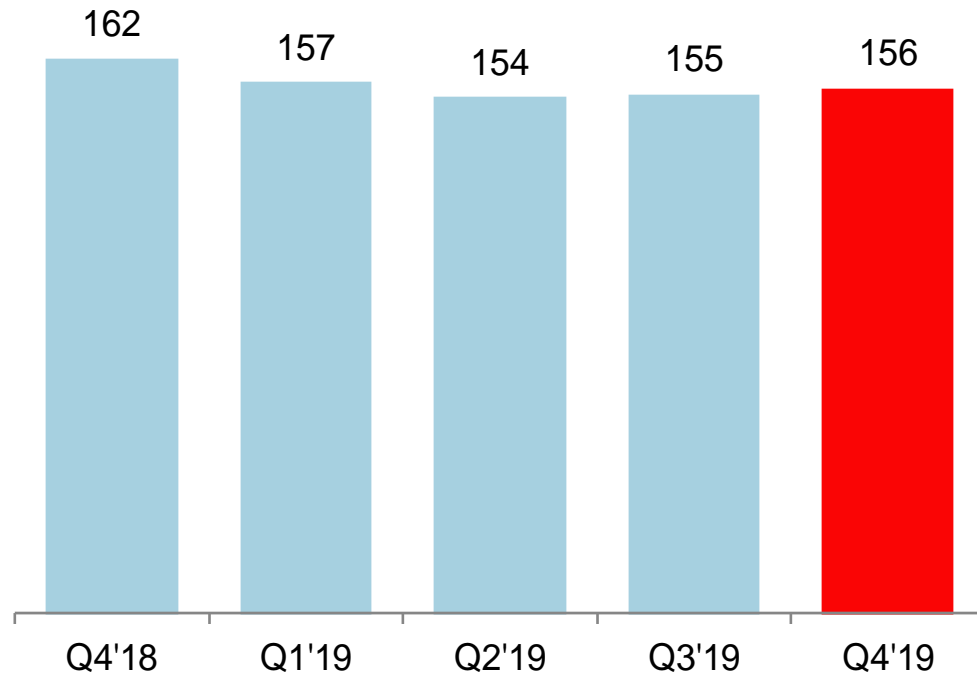


	2019	2018	YoY (%)	QoQ (%)
Net interest income	856	858	-0.2	-0.4
Net Fees	390	377	+3.6	+2.3
<b>Subtotal</b>	<b>1,246</b>	<b>1,234</b>	<b>+1.0</b>	<b>+0.5</b>
Other results	129	110	+17.3	-6.0
<b>Gross income</b>	<b>1,375</b>	<b>1,344</b>	<b>+2.3</b>	<b>+0.0</b>

# Sustained reduction in operating costs, supported by commercial and digital transformation



Operating expenses (EUR mn)

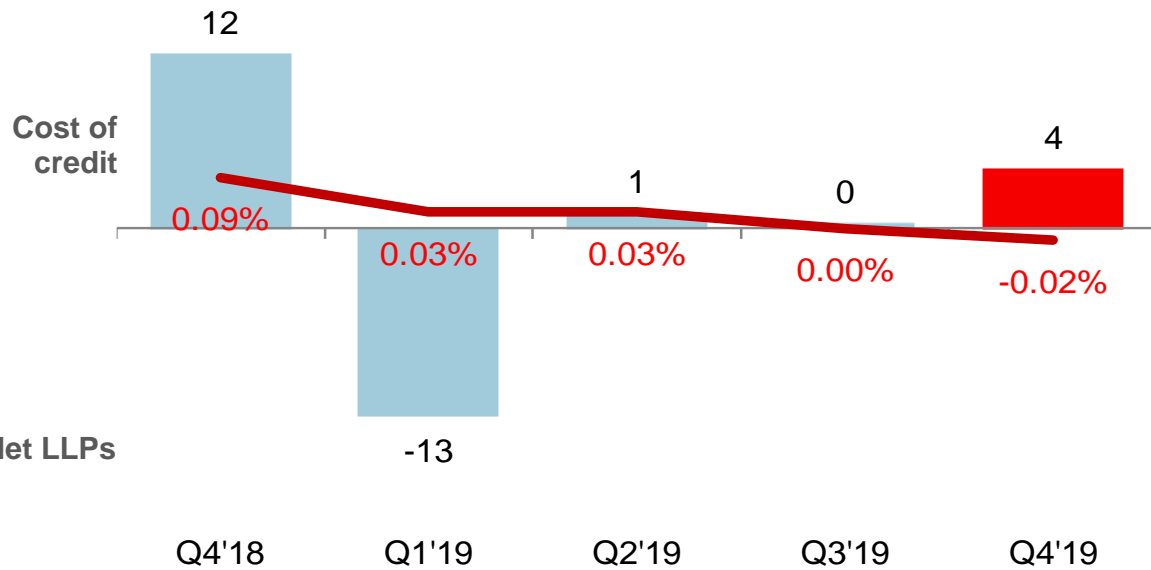


	2019	2018	YoY (%)	QoQ (%)
<b>Operating Expenses</b>	<b>623</b>	<b>644</b>	<b>-3.2</b>	<b>+0.8</b>
Efficiency ratio <i>(with amortisations)</i>	45.3%	47.9%		
Number of branches	542	572		
Number of employees	6,582	6,705		



# The cost of credit remained at minimum levels, in the current conjuncture of low unemployment and low interest rates

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

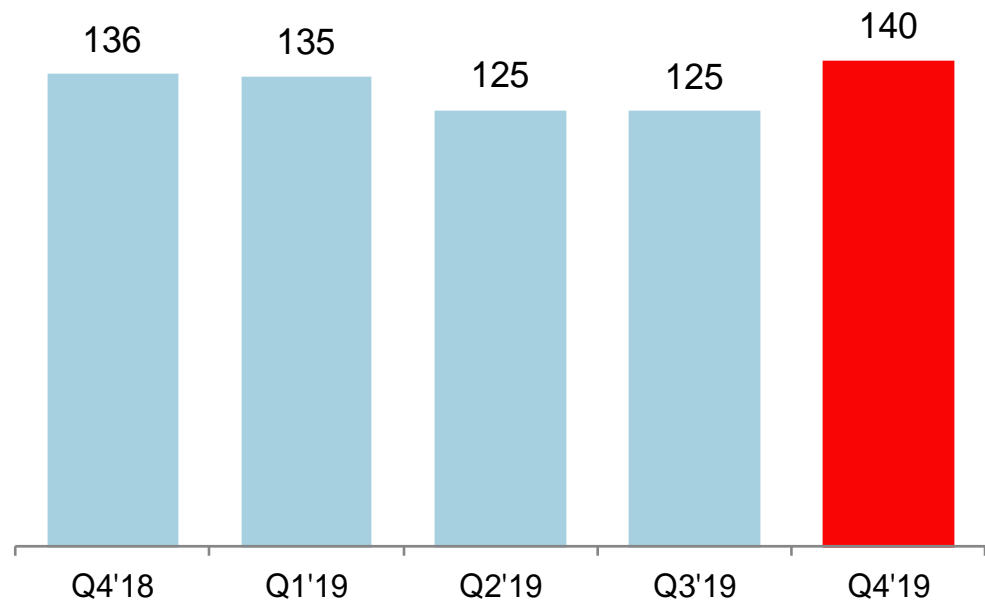


	2019	2018	YoY (%)	QoQ (%)
<b>Net Operating Income</b>	<b>751</b>	<b>700</b>	<b>+7.4</b>	<b>-0.6</b>
LLPs	8	-32	-	-
<b>Net Op. Income after LLPs</b>	<b>759</b>	<b>668</b>	<b>+13.6</b>	<b>-2.7</b>
NPL ratio	4.83%	5.94%		
NPL coverage ratio	53%	50%		

# Underlying attributable profit increased 9.6%, reflecting improved efficiency and the low cost of credit



**Underlying attributable profit (EUR mn)**



	2019	2018	YoY (%)	QoQ (%)
Underlying profit before taxes	750	686	+9.3	+8.0
Tax on profit	-223	-205	+9.0	-1.3
Underlying consolidated profit	527	481	+9.4	+11.9
<b>Underlying attributable profit to the Group</b>	<b>525</b>	<b>479</b>	<b>+9.6</b>	<b>+11.7</b>
Effective tax rate	29.8%	29.8%		



# Strong results and improving business, backed by the digital transformation

## Market Environment & Financial System

- ▶ GDP is decelerating, gradually converging towards potential (1.5%), while unemployment is stable around its natural rate (6.5% range).
- ▶ The fiscal deficit expected to be 0.2% of GDP 2019, while the Government targets a surplus of 0.2% of GDP in 2020.
- ▶ Loan dynamics remain associated with the management of non-performing assets, which have already reduced significantly from the maximum in 2016.

## Strategy & Business

- ▶ Santander Totta strengthened its position as the largest privately-owned bank in Portugal, with its market share in new lending to companies and mortgages at around 20%.
- ▶ Santander Totta continues its digital transformation process, including continuous deliveries on digital channels and simplification of internal processes and commercial offering.
- ▶ We remain focused in leveraging our position as the largest privately owned bank by loans, with a specific focus on strengthening our position in the SME market.
- ▶ We maintain sound capital and liquidity bases, with organic capital generation. In addition, we maintained the best risk ratings by the rating agencies, aligned with or above the sovereign's.

## Results

- ▶ Improving profitability, with growth in revenue and lower cost base.
- ▶ Low cost of credit, in the current favourable economic environment.
- ▶ Growth in loans to households, and stabilisation of loans to corporates, adjusted for the disposal of non-performing assets. Sustained increase in customer funds.
- ▶ Underlying attributable profit increased 10%, reflecting improved efficiency and low cost of credit.

# Appendix



04

## Balance sheet



EUR million	31-Dec-19	31-Dec-18	Variation	
			Amount	%
Loans and advances to customers	35,406	35,470	(64)	(0.2)
Cash, central banks and credit institutions	4,675	3,454	1,221	35.4
Debt instruments	12,580	12,303	277	2.3
Other financial assets	1,695	1,877	(182)	(9.7)
Other asset accounts	1,769	1,904	(135)	(7.1)
<b>Total assets</b>	<b>56,125</b>	<b>55,007</b>	<b>1,118</b>	<b>2.0</b>
Customer deposits	39,258	37,217	2,040	5.5
Central banks and credit institutions	8,003	8,009	(5)	(0.1)
Marketable debt securities	3,384	4,259	(875)	(20.5)
Other financial liabilities	276	257	20	7.7
Other liabilities accounts	1,516	1,197	319	26.7
<b>Total liabilities</b>	<b>52,438</b>	<b>50,938</b>	<b>1,499</b>	<b>2.9</b>
<b>Total equity</b>	<b>3,688</b>	<b>4,069</b>	<b>(381)</b>	<b>(9.4)</b>
<b>Other managed customer funds</b>	<b>4,936</b>	<b>3,541</b>	<b>1,395</b>	<b>39.4</b>
Mutual funds	3,066	1,926	1,140	59.2
Pension funds	1,357	1,154	203	17.6
Managed portfolios	514	462	52	11.2



## Income statement



EUR million	2019	2018	Variation	
			Amount	%
Net interest income	856	858	(2)	(0.2)
Net fee income	390	377	14	3.6
Gains (losses) on financial transactions	111	75	36	47.5
Other operating income	17	34	(17)	(49.0)
<b>Total income</b>	<b>1,375</b>	<b>1,344</b>	<b>31</b>	<b>2.3</b>
Operating expenses	(623)	(644)	21	(3.2)
<b>Net operating income</b>	<b>751</b>	<b>700</b>	<b>52</b>	<b>7.4</b>
Net loan-loss provisions	8	(32)	39	—
Other gains (losses) and provisions	(9)	18	(27)	—
<b>Underlying profit before tax</b>	<b>750</b>	<b>686</b>	<b>64</b>	<b>9.3</b>
Tax on profit	(223)	(205)	(18)	9.0
<b>Underlying profit from continuing operations</b>	<b>527</b>	<b>481</b>	<b>45</b>	<b>9.4</b>
Net profit from discontinued operations	—	—	—	—
<b>Underlying consolidated profit</b>	<b>527</b>	<b>481</b>	<b>45</b>	<b>9.4</b>
Non-controlling interests	(2)	(2)	1	(21.5)
<b>Underlying attributable profit to the parent</b>	<b>525</b>	<b>479</b>	<b>46</b>	<b>9.6</b>

# Income statement



EUR million

	Q1'18	Q2'18	Q3'18	Q4'18	Q1'19	Q2'19	Q3'19	Q4'19
Net interest income	222	213	211	211	216	213	214	213
Net fee income	98	91	92	96	98	99	96	98
Gains (losses) on financial transactions	22	36	6	12	50	42	9	10
Other operating income	(0)	6	14	14	(6)	0	13	10
<b>Total income</b>	<b>341</b>	<b>346</b>	<b>323</b>	<b>334</b>	<b>357</b>	<b>354</b>	<b>331</b>	<b>332</b>
Operating expenses	(159)	(165)	(157)	(162)	(157)	(154)	(155)	(156)
<b>Net operating income</b>	<b>182</b>	<b>181</b>	<b>165</b>	<b>171</b>	<b>200</b>	<b>200</b>	<b>176</b>	<b>175</b>
Net loan-loss provisions	(8)	(0)	(11)	(12)	13	(1)	(0)	(4)
Other gains (losses) and provisions	(9)	(22)	13	36	(20)	(13)	2	21
<b>Underlying profit before tax</b>	<b>166</b>	<b>159</b>	<b>166</b>	<b>195</b>	<b>193</b>	<b>186</b>	<b>178</b>	<b>192</b>
Tax on profit	(39)	(55)	(52)	(59)	(58)	(60)	(53)	(52)
<b>Underlying profit from continuing operations</b>	<b>127</b>	<b>103</b>	<b>115</b>	<b>136</b>	<b>135</b>	<b>126</b>	<b>125</b>	<b>140</b>
Net profit from discontinued operations	—	—	—	—	—	—	—	—
<b>Underlying consolidated profit</b>	<b>127</b>	<b>103</b>	<b>115</b>	<b>136</b>	<b>135</b>	<b>126</b>	<b>125</b>	<b>140</b>
Non-controlling interests	(1)	(1)	(1)	(1)	(0)	(1)	(0)	(1)
<b>Underlying attributable profit to the parent</b>	<b>127</b>	<b>103</b>	<b>114</b>	<b>136</b>	<b>135</b>	<b>125</b>	<b>125</b>	<b>140</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



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