# FY 2012 Earnings Call

## Company Participants

- Alfredo Saenz, CEO
- Jose Antonio Alvarez, CFO
- Unidentified Speaker, Unknown

## Presentation

### Alfredo Saenz {BIO 1422535 <GO>}

Good morning. Let's begin the results presentation for 2012. As usual, I'll review the highlights and the Group's results. And then Jose Antonio Alvarez will give you a more detailed overview of the different business area. And finally, I will conclude with our vision and our priorities for the coming quarters.

The economic environment in the year was complex, particularly in Europe where we've had to overcome extremely high tensions and loss of confidence in the euro; tensions which have lessened in the last month after the progress achieved in the process towards the European Banking Union. And the launch of support instruments, such as the (mini) or the OMTs of the European Central Bank.

Better performance of the United States with moderate growth. But above all of Latin America, an area for which the IMF forecasts significant growth for next year, particularly for Brazil which would go from about 1% growth in 2012 to 3% in 2013.

In this context, our priority was always to strengthen the balance sheet from three points of view; provisions, liquidity and capital ratios. And to do that, we have taken advantage of the Group's strong ability to generate earnings.

Main highlights of the year were, first, the strength of the upper part of the income statement with pre-provision profit at EUR23.56 billion, growing for the tenth year running. And is 32% higher than in 2008. Second, the effort made to provision, particularly in Spain. And specifically for the real estate sector, raising our coverage levels enormously.

Thirdly, our higher solvency; we have combined this provisioning with capital ratios rising for the sixth year running, up to 10.33%. The Group's capital solvency has been demonstrated by the Oliver Wyman stress test.

And fourthly improved liquidity; we have reinforced our liquidity position, focusing particularly on Spain, where our loan-to-deposit ratio is now below 100%. And we have returned EUR24 billion in fund total received by Santander and Banesto in the first LTRO auction, which was the maximum that was allowed to be returned.

After all that, recurring ordinary profit was EUR5.25 billion in the year; EUR2.21 billion after special provisioning. Let us now review each of these points in more detail.

First, the Group has continued to generate solid earnings. Pre-provision profit was EUR23.56 billion for the year, that's 1.6% higher or 4.4% if we exclude the perimeter and the exchange rate effect. I should point out three aspects; first, we estimate that this figure puts us amongst the top three large international banks.

Second, the year's performance has enabled us to maintain an excellent track record and a pre-provision profit of around EUR110 billion for the last five years.

And thirdly, we are tackling the crisis bolstered by our more commercial revenues, which have improved each and every year since 2008, which is very different from most of our competitors.

Second point to be made was the fact that 2012 was an exceptional year for provisions. At the Group level we have assigned almost EUR19 billion, particularly in Spain with EUR9 billion. And more specifically for real estate provisions with EUR6.14 billion.

With this we have ended the year with provisions higher than those required by the Royal Decrees. These strong provisions, combined with those from previous years, mean that in Spain we have assigned, since the beginning of the crisis, over EUR23 billion to specific provisions for loan losses and real estate, which account for 10% of our total loan portfolio in Spain.

This provisioning effort has had a significant impact on the year's profit. The EUR6.14 billion gross, net of taxes EUR4.1 billion, of which EUR1 billion against capital gains and EUR3.05 billion charged to ordinary profit. This has brought down our accounting attributable profit in the year to EUR2.2 billion, a number which would be EUR5.25 billion if we consider recurring profit.

As for capital gains, they mostly came from the divestment of the Colombian subsidiary, the reinsurance operation in Q3 and the sale of the Canalejas building. They do not, therefore, include capital gains to be derived from the alliance in Spain with Elavon for cards and Aegon for bancassurance, which will be recorded in the first half 2013.

These provisions, together with the Bank's deliberate strategy to reduce its real estate balances, brought about a strong drop in our net exposure. In 2012, it declined by EUR12.4 billion (sic; see slide eight "EUR12.5 billion"). Since 2008, the reduction was EUR28.5 billion or 69%.

In parallel, our total coverage for our real estate exposure rose to 47% at the end of 2012, from 22% in 2011. And only 3% in 2008. As for its make-up, the problematic balances, that is the combination of doubtfuls, substandard. And foreclosures, are covered up to 50%. And outstanding risk, that is those up to date with payments, are 39% covered.

In the annex, you will find more detailed information on balances and coverage levels in the different (technical difficulty).

The strong reduction, both in loan balances and foreclosures, set us apart from the industry, as shown by the latest data released in September. This trend also puts us as the bank with the lowest real estate exposure amongst our peers and with very high coverage ratio.

A significant part of this process was bolstered by the sale of property, which has enabled us to reduce our exposure more quickly. In the year, we have sold 33,500 units, of which 31,000 were flats, either through our own retail channels, Altamira and Athena, or through the developers themselves.

All of which have contributed to a reduction in the volume of foreclosed properties or loans at risk. In fact, 18,500 (sic; see slide 10 "17,500") were recorded in the Group's balance sheet as foreclosures. This amount is more than double the sales made in 2011 and has enabled us to reduce foreclosures for the Third Quarter running, ending the year with a reduction of EUR700 million gross, which is the first time since the beginning of the crisis that we've seen a reduction in total volumes.

The Group granted mortgages that financed around 60% of the amount of foreclosed properties.

The increase we've seen in real estate coverage has had a positive impact on total risk coverage in Spain, which is now up to 71%, 26percentage points higher than in 2011 and back to the levels of 2009. This improvement, together with that obtained in the year in the UK Sovereign and Santander Consumer Finance have brought the Group's total coverage ratio up to 73%, which is 12 points higher than in 2011.

As for our NPL ratio, the Group ratio was 4.54%. So the same trend as in previous quarters continues. Spain and Portugal have continued to show the same trend we mentioned in previous presentations. Spain hard hit by the rise in real estate loan NPLs, as Jose Antonio Alvarez will describe. Brazil and Chile have also shown rising NPLs, particularly in the first half of the year, since in the Fourth Quarter in Brazil, levels were virtually unchanged. And in Chile the trend flattened.

On the up side, we have Sovereign Bank, whose ratio has increased notably in the year -- or improved, rather, in the year. Mexico, the UK. And Santander Consumer Finance have remained more stable.

Third point I would like to cover, our capital ratio. We closed the year with our core capital ratio at 10.33%, that's 31 basis points up in the year. And up for the sixth year running.

I should also point out that we've created 84 basis points free capital before provisions, 50 basis points from Mexico's IPO. Part of this increase by -- was counteracted by the provision and also the depreciation of some currencies. And lastly, if we look only at Q4, capital ratio dropped 5 basis points, because of the depreciation of the Brazilian real. We have maintained very sound solvency ratios, befitting our business model, the structure of our balance sheet. And the Group's risk profile.

Fourth point is improved liquidity, which is one of the Group's priorities for 2012. And we've done this with two drivers. First, we've improved our commercial gap by EUR42 billion in Spain and Portugal. This improvement was due in part to the fall in lending, because the system continued to deleverage; partly due to an increase in coverage funds. But above all, to our ability to attract deposits through our retail network.

Second driver was a very conservative issuance policy, through which we have attracted EUR43 billion in medium and long-term debt and securitization in the market.

As a result, we've seen a strong improvement in liquidity ratios and in our funding structure, enabling us to return all the money that Santander and Banesto had obtained in the first LTRO auction in December 2011, EUR24 billion, which we have mainly kept in deposit in the European Central Bank at zero interest, as a liquidity cushion.

Moving on to the Group's results, on the screen as usual, you can see our income statement with the variation from the accounting standpoint and after subtracting the impact of the perimeter and foreign exchange effects. These two effects have a negative impact of between 2percentage points and 3percentage points in the upper part of the income statement and 8 points on recurring profit.

Same conclusions as in previous quarters, we'd like to emphasize the strength of the upper part of our income statement with 4.4% growth in net operating income and on like-for-like basis. A positive trend, which does not feed through to the bottom line because of three factors -- higher loan-loss provision; the rise in minority interests in Mexico, Brazil and Chile; and thirdly. And most significantly, the impact of higher real estate provisions in 2012.

Before I review the main lines of our income statement, I'd like to point out that exchange rate had a significant negative impact in this Fourth Quarter; particularly it is responsible for (75%) fall in gross income in Q4. If we subtract the exchange rate impact, basic revenues, that is net interest income, fee income and our insurance business, have remained virtually flat in the quarter. And within that we've had the best quarter in the year for fee income mostly in the UK and Latin America. And income from our insurance business was also higher than in the Third Quarter.

If we look at the different areas, the fall occurred mostly in Spain and Portugal due to a slight fall in spread in the Corporate Center, because of a rise in funding costs. The remaining areas changed very little.

Of note, the UK, which after several quarters falling has been stabilizing its revenue in the third and Fourth Quarters. And as for Latin America. And as Jose Antonio Alvarez will explain, we had an excellent quarter for Mexico and Chile. And a decline in revenues in Brazil, because of lower growth and pressure on our spreads.

As for costs, or operating expenses, they also remained very stable for the Group overall with differences in different territories; a rise in Latin America, because of Brazil with the signing of the wage agreement in September; and Mexico because of seasonal factors and new branches and employees; and, on the other hand, a slight fall in expenses in our European unit with the drop of EUR100 million in the Corporate Center, because of lower bonus payments and also the deferral of some projects.

And finally in provisions in the chart you can see the effort made by the Group in the last quarters through loan-loss provisions and provisioning for real estate exposure. In loan-loss provision a rise of EUR229 million in Q4 mostly, or almost completely, in Spain. The rest of the countries have remained very stable. And Brazil went down for the Second Quarter running.

Additionally. And as I've mentioned before, the Group has provisioned in the last quarters to increase exposure to real estate risk in Spain --- to increase coverage for real estate exposure in Spain to a level higher than that required by the Royal Decree.

I will now give the floor to Jose Antonio Alvarez. So he can review the different business units.

## Jose Antonio Alvarez {BIO 19692884 <GO>}

Good morning. As our CEO has pointed out, I will be reviewing the highlights of the different business areas within the Group. I usually begin showing the breakdown of profit by geography.

Picture has not changed significantly in this last quarter. Brazil brings in 26% of the Group's profit, that's on the emerging market side; and Poland 5%. Spain brought in 15% of the profit, the UK 13% and the US has remained around 10%.

Starting as usual with Continental Europe, the income statement reflects the difficult economic environment. And our CEO mentioned with low economic growth; continued deleveraging, particularly in Spain and Portugal; low interest rates; and a high level of regulatory and political uncertainty.

Profit was EUR2.3 billion, 1% up on 2011, because the upper part of the income statement performed well with net operating income up 8%, sustained revenues and costs were under control in all units. And higher loan-loss provision, much higher, in Spain and Portugal.

Moving on the different units within Continental Europe, Santander and Banesto's Branch network have performed well, as we will see later, absorbed, however, by larger provisions, which were required at this point in the cycle.

Portugal, also in a difficult economic context, saw its profit come down by 29%. However, Santander Consumer Finance had excellent performance in a very difficult market with car sales falling all over Europe. And it was able to increase its profit by 9% and significantly increase its market share.

Poland's contribution to the Group has also increased 44%. This is because of a perimeter effect; we only consolidated nine months in 2011. But without this perimeter effect the increase was also very significant, 21%.

Let's look at each of these units starting with the Santander network. I'd like to emphasize the ability to attract deposits and retail commercial paper for a total of (EUR20 billion). As a result, our loan-to-deposit ratio at the Santander went down below 100%.

Lending fell 4% gross, 7% net, due to the fall in the generation of additional real estate risk and also increased provisioning and coverage.

If we look at profit, we saw an increase of 7% in the year. Revenues have remained significant supported by customer funds and larger spreads on loans. And -- however, there has been a fall in interest rates with the 1-year Euribor, which has brought costs up.

We have seen an increase in term deposits, particularly which has increased the cost of funding. Loan-loss provisions increased in the quarter. But remain below those of the first half of the year.

So in short, a difficult context with strong deleveraging. But good growth in deposits, sustained revenues, flat operating expenses and provisions -- ordinary provisions stabilizing.

Moving on to Banesto, I'm not going to go into too much detail. But I will give more detail than usual because they won't give a detailed results presentation, although they will have a conference call tomorrow so they can answer any questions about the information we'll be providing you with today.

Similar trends to those of the Santander network, deposits up 4%, lending down 7%; so its loan-to-deposit ratio improving by 11 points. Lending, we have seen differences in the different segments, relatively stable loans to individuals and businesses down 2%. But a very significant fall in real estate lending and loans to large corporate 10% down and 34% down respectively. As for deposits, very good performance for individuals and SMEs; a fall in corporate.

Clearly, Banesto performed much better than the industry as it has done in the last few years with some of the best ratios in the sector. Its coverage rose by 20percentage points in the year.

As for profit, Banesto has very good performance in the upper part of its income statement, with basic revenues growing 2% and net interest income up 8%; costs almost flat. Profit EUR94 million, because loan-loss provisions were higher than in 2011. But at the

Group level, from the management perspective, when we talk about Banesto we do not include the provisions for real estate, which are made at the central level.

If we look at the Banesto's individual figures which do incorporate all these provisions, the Bank made a loss of EUR955 million. The difference between the two figures you can see on the slide is to the EUR94 million attributable profit. We add the real estate provisions charged in the individual account and incorporate the part corresponding to losses of minority interest and consolidation adjustments; we get the EUR955 million in losses that I mentioned earlier.

If we look at the yearend accounts at Banesto we see that it's a very solid brand. Its capital ratio is 9.2%; core capital higher than that at the end of 2011; strong liquidity as well with a significant volume of deposits and long-term funding. It has also returned everything that it borrowed in the first LTRO auction in December. Its NPL ratio is better than the industry. Its ability to generate revenues is also better than that of its peers in the last year. And its cost income ratio is best in the sector. And so, Banesto is a very solid brand which, in the last years, has had much better trends than its competitors.

However, as you know, we have announced the integration of Santander Banesto and Banif, 2013. And as we have said before, this is an integration which we think will create value for Banesto's customers, shareholders and employees. Also at the Group level it consolidates Santander's leadership in Spain and will enable us to take advantage of the concentration of the banking sector to improve our profitability and efficiency.

There will be four basic drivers, as we said when we announced the operation -- large synergies over 10% of net operating income in Spain 2012; significant efficiency improvement; boost for higher potential segments, such as private banking and companies; and a gain in market share, which is already above our market share in branches.

And, with all of that, we will repeat what we said when we announced the operation, we expect a return on tangible equity in Spain in 2015 to be between 12% and 15% creating value for our shareholders. We said at the time that we expected this to increase EPS by 3% by 2015.

Moving on to the business in Spain overall, that is this combines all the businesses; the Santander branch network, Banesto, GBM Spain, Santander Consumer Spain and Banif. Total gross lending amounted to EUR206 billion, EUR194 billion net of provision. Half of which corresponded to companies without real estate purpose and one-quarter to mortgages.

Total deposits amounted to EUR202 billion, including EUR11 billion in retail commercial paper, of which EUR85 billion are demand deposits. These figures put our loan-to-deposit ratio at 96% after very important improvement in our commercial gap, down by EUR40 billion in the year.

If we look at the growth in deposits, as I said when I reviewed the Banesto and Santander networks, 2012 was an excellent year. We gained market share, over 200 basis points' market share, this in all segments. We can see that individuals' deposits rose 19%; Private Banking clients 13%; institutional deposits 14%; and corporate 6%; so a very good year for deposits.

And if we look at lending, lending fell overall by 6%. But big differences between segments. Gross lending with real estate purpose fell 32%. The individual household mortgages and consumer loans down 7%, due to household deleveraging. On the other hand, we have seen reasonably stable lending to companies and to the public sector, with quite a lot of activities in sectors such as loans for exports. And the payment to suppliers' fund established by the government. Finally, balances with large corporates have fallen too, although it's not on the table, because of continued deleveraging by these corporates.

If we look at the quality of our lending in Spain, real estate sector NPL ratio has continued to rise, because of the effect of the denominator in this ratio, because the outstanding balance for the Second Quarter running has fallen EUR208 million in the Fourth Quarter. But since the total volume has also fallen, the ratio has continued to rise.

As you can see, our lending with no real estate purpose has a much lower NPL ratio, below 4%; relatively stable NPL ratio for mortgages. And pretty stable for companies and consumer credit. So, overall, as you heard from our CEO, Santander's credit quality is substantially better than our peers in Spain. And the whole of the industry in Spain.

If we look at NPL entries, I'd say there's no real change here, both in individual mortgages and other individual loans. Entries have fallen slightly and we see a slight rise, although not very important in company NPLs, which will be our priority focus for 2013.

Moving on to Portugal; Portugal, as you know, is undergoing major financial adjustments supervised by the EU, by the Troika. The country has undergone a significant recession, with its GDP falling by 3% in 2012. And a significant fall in internal demand. The banking sector has been recapitalized. And we have seen fairly significant effects already, particularly a fall in the cost of deposits, which began in Q1 2012. And which has continued to accelerate, whilst deleveraging continues.

In volumes, trends are very similar to those of Spain. Deposits are up 2%. And lending down 9%; as a result, loan-to-deposit ratio improving significantly. In -- the results, basic revenues similar to 2011; gross income rose 7%. But here there is the effect of that tender offer we made, I think it was Q1 or Q2 last year, which distorts the comparison.

Basic operating expenses down 5%; we've significantly contained our costs. We've increased provisions, using the results of that tender offer I mentioned earlier. And so profit was EUR124 million, which is clearly very different to the levels obtained by our Portuguese competitors, most of which barely broke even, or had losses.

So, in short, Santander Totta has continued to manage a very difficult economic context. We see this deleveraging continuing in the coming quarters, with revenues remaining fairly stable. We will continue to reduce our expenses. Provisions will remain high and should in the year begin to converge towards more normal levels.

Santander Consumer, high recurring profit, the volume of the deposit to -- the lending-to-deposit volume has remained quite stable. 65% of our activity is for lending for the purchase of a car. There is high diversification by country, diversification also by product. And we have reached a brand agreement with producers, which are allowing us to do better than the rest of the industry. Good evolution in risks. The NPL rate remains stable, 4%, which is very good for this type of business. And coverage remains at around 110%.

I do want to point out that this business has improved its self-funding capacity. You will remember that it was the only unit who got funding from a parent company, at about EUR20 billion. And that has been reduced to EUR4 billion, because we have developed the ability to raise deposits. And also to securitize in Nordic countries. In 2013, probably, the unit will self-finance and won't require funds from the parent company.

Attributable profit EUR727 million, 9% more than 2011, a much higher profitability than the competition. Profit was somewhat lower in the Fourth Quarter, because we had to make provisions in Italy because of the sale of some portfolios. Therefore, given the performance, we hope that the unit will continue to do better than the competition.

With regards to Poland, the economy grew at 2%. In 2013 it will continue to grow more than the Eurozone. But at moderately low paces. The activity -- lending activity has increased. But the most important thing is the changes in mix, because current accounts have increased by 13%; and there was a reduction in time deposits, which are more expensive. And lending we are focused more on individual borrowers, up 9%.

I remind you that as I said earlier, in 2011, it was not consolidated in the Group. And, therefore, I will be referring in local currency to the variation. There was a growth of (11%) in the net interest income; (22%) net operating income; and profit up (21%). If we look at quarter by quarter, well, in the Fourth Quarter we had a record profit, EUR93 million. Gross income remained the main driver of profit.

Our goal in Poland is to complete the merger with Kredyt Bank. And deliver the volumes and results that we announced when we announced the merger with Kredyt Bank.

The UK; the environment continues to be difficult from the macroeconomic and regulatory points of view. In the UK, we are growing in a selective fashion. The mortgage portfolio fell 5%, because we changed our policy with regards to interest-only mortgages. And, therefore, the mortgage book fell 5%. In SME's, that we are focusing on and our objective is to gain market share in this segment, we are growing 18%. This will be favored, this trend, by our participation in the funding for lending scheme. And we are opening new regional centers for companies.

Flat deposits, focus on reducing the most expensive and volatile, Type A; growth of 5% in retail deposits in 2012, due to the 123 strategy. This whole range, 123 (world), has been very successful. And we will continue to work on that strategy in 2013.

With regards to result, the profit in the UK was GBP952 million. The year saw a fall in revenues, already coming to a halt; very good management of costs, which fell in real terms; and provisions which improved in the second half of the year compared to the first half.

And when it comes to revenues, there are positive factors which we will continue to see in the next few quarters, which have allowed us to halt the fall and stabilize them. This has seen an improvement of yields of the fund book; a reduced pressure in the liquidity buffer, which will help to improve future revenues; and better fee income which had its best quarter in the Fourth Quarter.

The stable revenues and management of costs allowed a slight rise in profit in the Fourth Quarter. In 2013 we started with a similar trend. All of that will affect the net interest income, whose trend has been improving since -- will improve as of mid-2013.

Brazil, the macroeconomic environment has been quite different to what we expected. And what the market expected too, at the beginning of the year. Growth on GDP was up about 1%; I remind you that a year ago we thought that it was going to grow by 3%. But, once again, we think that it's going to pick up in 2013 and grow at about 3%; interest rates at historic lows, 7.25%. And inflation almost 6%.

With regards to activity in Brazil at the end of the year, the last part of the year, the growth was lower. We were growing at 2 digits. And at the end we grew at 6% in lending and deposits. And this has been an industry trend, particularly more for private banks, not so much so for public banks, which grew more.

Profit, $2.841 billion; the top part of the income statement is very sound. Basic revenues grew 12% hurt by lending, management of credit spreads and mix of products. Cost was less than inflation and at half the rate of revenues, therefore the cost to income ratio improved. Net operating income was 17% higher.

The good performance at the top part of the accounts is not reflected in the final profit, because of higher provisions and minority interests. Provisions rose in the first half of the year and declined in the second half. In the Fourth Quarter net interest income fell, because of a drop in interest rates, lower credit spreads sector-wide and a smaller volume impact.

In the next few quarters, if we are right about the economy, we think that lending will grow again by 2 digits and we think that this will offset results this year.

Costs partly reflect the signing of the wage agreement in September and provisions fell a little.

NPLs increased slightly in the Fourth Quarter, as we adopted more rigorous criteria in the renewal of operations. For the Third Quarter running there was a positive evolution in loans in an irregular situation, less than 90 days overdue, which, for 2013, should be reflected in the cost of credit.

We see an environment with some pressure on spreads; business volumes that will grow during the year; fee income growing at double-digit rate. Personnel and general costs increasing at below inflation.

The rest of Latin America, Latin America ex. Brazil; growth was a significant 2-digits; 10% growth in loans and 12% growth in deposits. Attributable profit was at EUR2.68 billion, 9% less than 2011. If we eliminate the perimeter effect, then they would have increased by 9%. This growth underscores the strength of the income statement, with gross income up by almost 15%. And improvement in the efficiency ratio. And growth of more than 10% in the net operating income after provisions.

The Fourth Quarter recorded the highest gross income in the last two years. And a profit before minority interests higher than in the second and Third Quarters. In general, all countries performed well in the upper part of the income statement. And double-digit growth in profits in almost all cases.

In Mexico, a good macroeconomic environment for the business; stable interest rates; inflation on target and strong growth, 3.6% is what has been forecasted for 2013.

2012 was a year of expansion in which we gained market share in loans to SMEs, consumer lending, mortgages and demand and time deposits. We see this trend continuing in the future.

With regards to results, growth was between 15% to 20% in net interest income, gross income and net operating income and profit. The gross income was particularly solid due to the increase in net interest income and in fee income. In the Fourth Quarter, gross income continued to do well and increased for the seventh quarter in a row.

Costs increased because of the usual seasonal impact in the Fourth Quarter, as well as a greater commercial activity with 600 more employees in the quarter. And we also opened 47 points of sale.

Provisions increased due to the credit mix, greater share of consumer and SMEs, the project finance operation and some worsening in consumer finance due to a specific campaign. The risk premium remained low and very good NPL and coverage ratios, which we expect to continue this year. In short, a very good business evolution which fed through to earnings. And we think this will remain in the coming quarter, excluding these elements of provisions, which are quite specific for that quarter.

Chile, a good macroeconomic environment, growth 5%, interest rates 5%. And inflation 1.5% in 2012; we think that the inflation rate will be 3% in 2013. There has been a significant improvement in our activities in this quarter in deposits. And we continue to focus on retail deposits that are growing 12%, faster pace of lending in the Fourth Quarter. We'll be much more selective, focusing on basically SMEs and high income customers.

Results; profit fell because of lower than expected inflation and higher provisions, which reflected the deterioration of the sector's credit quality, lower loan-loss recoveries and a more conservative policy than some of our competitors.

A sharp rise in the Fourth Quarter profits due to more net interest income benefiting from higher inflation. Basic revenues grew (50%) over the Third Quarter. Lower provisions with stabilized risk premium at high level. And that will continue to be so in the next few quarters before we see a gradual reduction. These two effects produced the highest quarterly profit in 2012.

For 2013, we see positive elements for the income statement, like higher inflation; some recovery in business volumes, although not too intense; and a slower growth in costs.

The rest of Latin America performed very well. Argentina closed the year with increases in all the margins, with a very good track record. The Fourth Quarter profit was $(119) million. In Puerto Rico and Peru, profits rose by more than 30%. Uruguay's profit more than doubled though from a small base in 2011. The profit of International Private Banking grew 6%. So we see a very favorable picture, which will continue this year.

United States. We think that the economy will continue to grow at about 2% with interest rates still very low. And we think they will remain at those levels until 2015. All of this is pressuring the financial sector in growth and spreads.

The Group made $1.042 billion in 2012, of which Sovereign Bank contributed ($606 million). Loans and deposits grew by 5%. Profit was $190 million in the Fourth Quarter, recovering its momentum after the extraordinary charge from Trust PIERS in the Third Quarter.

Credit quality remained excellent, reflected in the sharp fall in provisions in 2012, which fell by 35%.

Santander Consumer USA contributed $436 million. Lending grew 15% with a strong rise in loans, which offset the accelerated amortization of the portfolios acquired and enabled a stable contribution to the Group to be maintained in the last quarters.

Comparisons with 2011 are affected by two important effects; the use of provisions in the First Quarter of 2011; and a perimeter effect of $50 million quarterly average between 2012 and all the quarters of 2011, due to the reduced stake in Santander Consumer USA.

In the coming quarters, recurring revenues will continue to grow based on a balance sheet, which is more balanced by business, improvement of IT systems and an enlarged range of products and services.

Finally, Corporate Activities, results were lower than in 2011, because of reduced gross income and higher provisions. The lower gross income was mainly due to the impact on the net interest income of a higher cost of credit of issuances in wholesale market and maintaining a liquidity buffer in the European Central Bank of EUR352 million. And then the reduction in income accounted for by the equity method from Metrovacesa, with a charge of EUR100 million.

The higher provisions were due to the amortization of the goodwill in Italy, EUR156 million; and the real estate fund, EUR169 million; also costs from the SEB integration in Germany for EUR50 million. That explains the variation of almost EUR600 million.

I hand back now to the CEO to give us the conclusions.

## Alfredo Saenz {BIO 1422535 <GO>}

After the provisions we made in 2011, Santander faces in better conditions a year which will be another very demanding one for managing banks in the countries where we operate.

Beginning with the Eurozone, here we're already seeing a gradual recovery in the confidence of markets in the euro, which will help to offset a very weak macroeconomic environment.

Progress toward a banking union and a greater integration are already beginning to be felt in some markets, particularly in the peripheral countries with the sharp falls in risk premium.

In Spain, the recapitalization of banks and the private sector adjustment already completed will join the impact of the structural reforms underway to recover growth in the last part of the year.

In the rest of developed countries, the dynamics of recovery will continue, with the US at the head if a definite agreement is finally reached on the fiscal cliff. And the UK will grow more than in 2012.

Emerging markets will continue to make the difference. Latin America's average growth will accelerate to around 4%, spurred by the recovery of Brazil.

In Europe, Poland will register positive growth compared to a flat Eurozone.

In short, we still see weak global macroeconomic scenario. But that will improve during 2013 for a more solid recovery in 2014.

The regulatory sphere with new liquidity and capital demand is trying to adjust to the current situation and not halt the recovery. A good example is the new definition of the liquidity coverage ratio, known in January, which, along with other changes, will be gradually implemented until 2019.

In 2013, the different growth scenarios will require Santander to manage things in a differentiated manner tailored to specific conditions in order to develop the growth foundation for the coming years. It will be vital to strengthen our pre-provision profit.

In Spain and Portugal, we still have recession and deleveraging. Our priority will be to execute the merger between Santander, Banesto and Banif in the timeframe and form expected. For this purpose, teams are already in place, agreements with labor unions reached, various commercial actions with customers are being carried out, etc.

In business, the focus will be on spread management, above all, improving the cost of funds and throughout the risk cycle where we see a normalization of the cost of credit as of the second half of 2013 and in 2014.

Santander Consumer Finance points to solid profits and levels of profitability above that of its European peers, backed by country and product diversification and excellent management of the whole risk process. We will continue to gain market share in new car financing in Europe, as we did in 2012. And we expect that -- the area to be self-financed by the end of 2013.

In Poland, we have two objectives; deliver the results from the merger with Kredyt Bank and gain market share in lending, taking advantage of the greater muscle of the franchise.

The United Kingdom has to manage a very demanding macro and regulatory environment; selective growth, more focused on profitability than on volumes and improving the spreads of the front book, particularly in deposits that will be key for boosting revenues in the second half of the year. We will focus on increasing individual customers linkage via our 123 range and select.

In Latin America, our aim is to provide solid rises in revenues, volumes and spreads in a good macroeconomic environment, which will help to maintain adequate levels of credit quality.

In Brazil, the higher economic growth expected will impact business positively. We see double-digit growth in volumes; personnel and general costs rising below the rate of inflation; and a gradual improvement in credit quality as the economy improves. Management of spreads will be key.

Mexico began 2013 with a stronger franchise and an expansion. The objective is to maintain solid trends in volumes and results.

In Chile, we expect greater activity, mainly on the liabilities side, with selective growth in lending to the most profitable segments and products.

And lastly, in the USA, objective is to strengthen Commercial and Retail Banking with a larger range of products. This will enable us to grow in volumes and offset an environment of lower spreads. We also see a good performance in the cost of credit as the excellent evolution of credit quality will be maintained and operating expenses will grow less than in 2012.

In short, we believe that the worst part of the cycle is already over. Real estate exposure is fully provisioned. Financial costs point on a downward trend, as a reduction of the risk premium and the lower wholesale funding feed through to business.

We see signs of recovery of the confidence in Europe and higher growth in some countries such as Brazil. We are increasing the commercial capacity in our main unit to take advantage of the new cycle. All of this should be reflected in a gradual increase of our activity and our results, more notable from 2014 onwards.

Thank you, very much.

## Questions And Answers

### A - Unidentified Speaker

Good morning. We're going to start taking questions that are received over the web. And then, if we have time and if we get questions over the phone, we'll try to answer those as well. And we are going to organize the questions by concept. We're going to start with questions about regulation prospects and strategy.

There are several questions on existing plans. Jaime Becerril from JPMorgan asks whether we still have plans for an IPO in the US and in Poland; and if we have any plans for the UK. Jose Ramirez from Keefe is asking about the timing of the IPO of Consumer -- Santander Consumer Financing in the USA.

In the world of IPOs, there are no news; nothing new to mention. We still have the same idea of doing an IPO in the UK. But we have no date for that.

In Poland, we will follow the plans that we already have. We don't expect to do an IPO on the short term. We're going to place the shares that have already been committed with the supervisor, with the regulator.

And in the United States, the IPO of part of Santander Consumer Finance ex. Drive in the United States that will be done from the second to the Third Quarter of this year, depending on technical aspects. And also depending on the market circumstances.

The idea is to do a placement. Private equities are not going to happen. We're going to reduce our stake. But not by very much. We're not going to sell 65% that we have now. We will sell an amount that we still have to define. But it's not going to be very much.

And that's what I can say about IPOs.

In Spain, well, I can say what we've already said on previous occasions. We are studying very carefully all possibilities that arise in the market. And we will be presenting offerings. But these have to be prudent, serious, sensible. And that is all I can say; we have no other news on that front.

And I think I answered all your questions.

Andrea Filtri from Mediobanca. And Britta Schmidt from Autonomous Research are asking about all the noise in Italy surrounding the Antonveneta transaction. Any comment on our part, because different names are being bandied, including Santander. Do we have anything to say about this?

Well, not a lot. It's true the Bank carried out a successful divestment with Antonveneta, at a time when, if you all remember, the Italian bank had a lot of appetite for growth and for acquisitions. We were on a different point of the cycle. And were in quite a different mood altogether. But obviously, all of these things that are being discussed in the media have no basis, as time will show.

As for our payout policy, well, there's two questions, sorry, about growth in volumes for the Group. But if you agree, since we're going to talk about each of the units, we can answer those in turn, instead of giving the global figures.

As for payout, there's two questions; Mario Lodos from Sabadell. And Daragh Quinn from Nomura. Given the better capital ratios, are we considering, once again, paying dividends fully in cash, or maybe two scrip/two cash? What is going to be our payout policy in the future, in general?

Well, that will have to be defined when the time comes, by the Board. And, in fact, right now, what we've decided stands and what we haven't decided hasn't been decided. So I can't really give you anything more accurate than that.

We will continue to offer scrip dividend, at least in 2013. And probably partly or wholly also in 2014. But I can't commit either, because I can't really, since that's up to the Board, when the time comes.

Moving on to the financial management capital part, there is a question from Britta Schmidt with regard to the breakdown of extraordinary revenues in 4T. I think Jose Antonio explained the Corporate Center level. If you need any additional clarification, let us know and we'll send you the details.

As for capital, there are several questions; Antonio Ramirez, Carlos Peixoto and others, with regards to the fall in core capital in 4T versus 3. What's the currency impact, the real? These are all the questions surrounding why the core capital ratio fell in 4T -- in Q4, rather.

Well, it's true that in Q4, compared to Q3, there has been a fall of 6 or 7 basis points in our core capital. The main reason behind that is, in fact, the exchange rate effect. You know that we have hedges, that hedges sometimes are spot; others are forward; others are options. And in our hedges with options, there's usually some variability that we take on. In the quarter, we've been negatively hit, particularly by the depreciation of the real. And that's the biggest effect.

About capital, there is a couple of questions more. Antonio Ramirez is asking whether we're willing to increase capital, if we were to make an acquisition in Spain, such as Catalonia Bank.

And then there are several questions from David Vaamonde from Fidentiis, Mario Lodos and Carlos Garcia, about capital, Basel III impact, fully loaded; and CRD4 impact, which is exactly the same thing.

The first question, I'll answer and say no, we're not going to increase capital.

The second question, impact of fully loaded Basel III, well, as we've said before in other quarterly presentations, the Bank will, at all times, with Basel III, remain an -- over 9% core capital ratio.

Question from Carlos Garcia from Societe, about deferred asset volumes. You will see a breakdown, as we do every year, in the report, both on the asset and liability sides. The trend will be very similar to that of previous years.

And a question from David Vaamonde at Fidentiis about the core capital ratio of the parent. The parent has a ratio of 10.26% exactly. That's the Santander parent core capital ratio, just above 10.1%, which was three -- in the Third Quarter.

Antonio Ramirez is asking about capital requirements for banks in the UK. Can we expect a greater impact on risk-weighted assets for the parent? Or do we think there will be greater capital requirements to cover that?

No, we don't think we're going to need any additional capital, nor that we're going to have to cover with more capital. We are very comfortable with capital in the UK. We have a capital surplus in fact. So there's no reason to think that, or no reason for concern.

And to finish with capital ratio questions, we have a question about assets at risk, do we see an improvement with the current transformation ratio of 44% of assets at risk, the total assets? I suppose they're referring to the regulatory context and whether we think this ratio will change. And do we expect it to rise or fall and how?

Well, this ratio, this 44% ratio depends on two things, regulations on the one hand and management on the other. We are constantly working from the management side to keep that transformation ratio at whatever level it should have. So we will not have any idle capital and so that assets at risk will be those that the Bank has chosen and that they will be managed rigorously and with an eye to optimizing there.

Quantity; as for the regulated side, I don't think there's any news about that except the fact that there's an international tendency to set a single book of rules. So that everyone will have the same weighting for assets at risk. So there will be a level playing field for risk-weighted assets for all international banks. But beyond that I don't think that there's going to be any particular proposal or issue at the regulatory level globally.

Okay, about liquidity, there are several questions about the LTRO, as you can imagine there's a lot of questions. Rohith Chandra-Rajan from Barclays; Axel Finsterbusch, JPMorgan; and Mario Lodos from Banco Sabadell, are asking about basically two concepts, the repayment of the EUR24 billion in LTRO, the rational, will we be repaying any more?

And the second question is the impact on our income statement and whether we have anything deposited with the ECB. And how much?

And to finish with the questions about the LTRO and so on, whether we have returned outside -- from outside space, specifically in Portugal?

As we said in the presentation, we have repaid or returned, yesterday, the EUR24 billion we had taken up in December, in the LTRO in December.

Whether we plan to repay any more or return any more? We are using it as a cushion, basically -- or insurance. Basically, we have it deposited with the ECB, the same amount we took up at year end. We had EUR35 billion and we still have deposited with the ECB a significant amount after paying those EUR24 billion back.

So the decision of whether to repay any more or return any more, well the answer would be probably yes. But it will depend on the evolution of the market and the impact on our income statement. Well, of course, 75 basis points charge to the Corporate Center, as I said. And the liquidity buffer had had a negative impact on our income statement, as I said.

As for Portugal we've not returned anything, we still have EUR5 billion of the LTRO. The situation has improved significantly there as well. But we haven't decided to return that just for safety's sake.

There is a question about, well from Ignacio Sanz at UBS, about ALCO portfolios. Can we elaborate on the size of those ALCO portfolios? How much do we have in the different divisions and what is our position there? I suppose that means both maturities and volumes.

Well, ALCO portfolios overall you have that in portfolios available for sale. As you know, as we always say, we don't hold any to maturity and so the ALCO portfolio is in portfolios available for sale. Total for the Group I think is EUR92 billion, most of it I'd say is -- 60% to 80% is public debt.

And the split is in Spain about EUR24 billion. Parent has maybe EUR18 billion/EUR19 billion; Banesto, EUR4 billion or EUR5 billion; Portugal, EUR2 billion; Brazil, EUR11 billion. So these are the main portfolios; Poland, EUR2 billion. These are the main portfolios.

Sergio Gamez from Merrill Lynch and Francisco Riquel from N+1 are asking about capital. What are our expectations for organic capital generation this year? And how do we expect that core capital ratio to evolve in the year?

Well, basically it's always hard to predict how markets are going to evolve. But this year we generated about 80-some-basis points before provisions. And since this year we don't expect as big a provisioning effort as this year, we expect those 80 basis points or 90 basis points to be our ordinary organic capital generation maintaining the current payout policy, which is already in place for this year.

So that's basically what we expect in terms of organic capital generation. Of course, that could vary based on other things like risk-weighted assets, exchange rates and the usual. Despite what we expect is around that level.

Frederic Teschner from Natixis is asking about the impairment of our goodwill in Italy, is there any goodwill left? And the answer is no. We've provisioned everything that remained.

And is there any other type of goodwill at risk? What we considered at the end of the year is that there is no other goodwill needing to be provisioned right now.

Carlo Digrandi from HSBC Global Research is asking something along the similar lines. With respect to risk-weighted assets, have we seen the full impact of the advanced models or IRB? And do we expect due to some other reasons that there might be a fall in risk-weighted assets in the following weeks? I think we've answered that already.

Moving on to risk quality, there are general questions at the Group level in terms of what we predict for the cost of risk in the next two years. And more specifically, there are several questions about the cost of risk in Spain. Britta Schmidt from Autonomous, Daragh Quinn from Nomura and (Antonio) Ramirez from Keefe asking whether we still maintain our guidance of 150 basis points for the cost of risk in 2013. What is our forecast for the cost of risk?

And then, of course, there's questions about NPLs in Spain. And we have questions about our forecast for NPL ratios both in the year and by segment. Specifically they're asking about SMEs in some cases and others are asking about individuals.

In 2013 provisioning. And therefore the cost of credit in Spain specifically, will not -- we expect that it will not change significantly, say, for any extraordinary provisions for the real estate part. So excluding real estate and speaking about our normal business, the cost of lending will remain at approximately the same levels at in 2012, the risk premium.

We probably will start to see a slight improvement starting the end of 2013, which will be more tangible and feed through to our bottom line starting in 2014, converging or normalizing at levels of risk premium, or cost of lending, of around 60 basis points/70 basis points, which is what it should be eventually. But probably it will take us in Spain at least a couple of years to get to that level, still starting in 2014.

In 2013, again, we expect it to remain more or less where it is now and what it was in 2012, excluding again, of course, extraordinary provisions for real estate. Which means that NPL will continue to rise slightly in 2013, probably peaking towards the end of 2013, Q4. And since that always has a mismatch with provisions, we expect provisions to stop falling, said I've said, starting in 2014. That's for Spain.

For the other countries, we don't expect any reason for concern. In fact, I imagine that there will be questions about Chile, or about Mexico or about Brazil. And a lot of these trends were due to seasonal one-off effects. And we don't really see any underlying issues in any of these economies beyond the Spanish case I've mentioned. I hope that's answered everything.

Patrick Lee from RBC has two questions about sale of real estate. Can we talk about property sales? Well, we gave you all the details in the presentation. But what about the discount? Well, I can tell you the discount was at around 45%/50%. Sergio Gamez has the same question.

And Patrick's also asking about percentage which we're offering mortgages. We said already in the presentation that it's always below 60% of what we're selling that we're mortgaging; so over 40% is not financed through our own mortgage.

And in connection to that there's two questions from Antonio Ramirez and Patrick Lee, from Keefe and RBC respectively. First is asking about whether we expect to have to provision more for real estate loans or assets in Spain, or the way to the worse can scenario for Oliver Wyman? Or are we covered now that we've met the Royal Decree requirements?

And the second question is do we expect that the establishment of the Sareb might have some additional impact on your real estate activities, whether it be sales or prices?

Well, our real estate provisioning is done and completed and so from that point of view, we don't need to provision any further in 2013 for this purpose.

However, in our budget, we have included some potential portfolio sales at significant discount. And so we have assigned EUR1 billion for 2013 in our budget for that sort of thing; basically, for accelerated portfolio sales or accelerated property sales within our own policy to accelerate sales. Why? Because we do not want -- we are concerned about the Sareb's activities in the property market.

In 2012, Santander was much more aggressive than it appears. We sold a lot more properties than they did. But, of course, we were more aggressive in our pricing policies.

And in 2013, we will maintain that aggressive marketing strategy. So as to anticipate, or at least sell as much as we can and reduce our foreclosed and acquired property volumes before the Sareb starts operating successfully in the market, which will happen soon. But if we can get in there before the Sareb starts achieving cruising speed. So much the better. And so that's the policy we will maintain during 2013.

So, in summary, we don't need any more provisions because everything is fully provisioned. And coverage is, in some cases, higher than required.

Second, we have included in our budget a EUR1 billon penalty, because of a more aggressive marketing policy that might be required. These we will finance from capital gains that are already more or less in place.

And thirdly, 2013, we will continue with our aggressive marketing policy, because we expect greater competition in the market.

Right, as for credit quality, there is a question from Francisco Riquel from N+1 about refinancing levels; where we are and will we be reporting based on requirements?

Well, yes, we will be reporting these figures and we will be including all the information when we publish the official documents at the close of the year.

There are several questions from David Vaamonde from Fidentiis, Jaime Becerril about risk premiums in Mexico; Andrea Filtri, same thing about the UK and Brazil.

And since we're going to talk about the units. And there's quite a lot of questions about them, we'll look at it unit by unit, which is, I think, better.

And there is one final question about LTV from Carlo Digrandi from HSBC, loan to values of our mortgages. Back book is about 52% in the Santander. (Work) on the front book, which usually is between 60% and 70%, in the last quarter was at 54%.

Business areas, moving on to business areas, specifically in Spain, there are several questions that I will list, quite a few about deposits. Alvaro Serrano from Morgan Stanley; Axel (Finsterbusch); Daragh Quinn from Nomura; Frederic Teschner from Natixis; and Ignacio Sanz from UBS; and Patrick Lee from RBC again asking about deposits. And the questions are the following.

Reasons for the increase, volumes and prices, both looking back and looking forward; asking also about the impact of the Bank of Spain's recommendation on maximum spreads. And if that's so, what might be the impact on our net interest income?

And thirdly, if I'm not mistaken, mean duration of deposits and how will we re-price them or are we planning to re-price them?

And there is a final question by Jaime Becerril about the cost of retail funding in Spain, 2013.

Okay, let's see if I can answer all that and not leave anything out. First, in 2012, clearly Santander had speculative growth in deposits. And to a large extent, this was due to the uncertainty in the market for a lot of banks, which were given a lot of press coverage. There was a lot of uncertainty. And so there was a corresponding flight to quality by a lot of (competitors). And that has brought into Santander a clear competitive advantage. And of course, that is part of the explanation.

Another part of the explanation is the fact that we, like the rest of the sectors, were very aggressive with pricing, because the rest of the industry had a very aggressive pricing strategy this year. And of course, as you know, it's been discussed that the Bank of Spain was going to set some limitations. But it's not true. The Bank of Spain has not set any caps on price of funding, nor has it forced banks to keep its spreads below a particular level.

What the Bank of Spain has done is to tell the industry about its concern over income statements and the impact that the high price of deposits is having on those income statements. Because there are some banks, particularly those that have only a national perimeter, that are suffering operating losses and are, therefore, destroying capital. And that has implications on their solvency.

And of course, part of the responsibilities of the Bank of Spain, as potential supervisor, is to announce that they might require banks with such practices to hold more capital. So this is a warning across the board to the industry, which has meant certain moderation in these practices.

And so in 2013. And that's another question, we expect to see an improvement on the price of funding, because, we, specifically at least, see that the environment is less competitive. And so we will be able to bring down our spreads on customer funding. And that will have an impact. We'll have to wait and see what happens in the market. But we do expect, undoubtedly, to see some additional revenues as a result of this change in the context.

In 2012, our deposits grew by EUR22 billion, as I think you heard in the presentation.

And I don't know whether I've left anything out. Was that all the questions?

Well, maybe perhaps you could say something about the cost of retail funding in general.

Well, as a result of this, the cost of retail funding we believe in 2013 on average will go down in comparison with 2012.

As for lending, there are also several questions; Alvaro Serrano from Morgan Stanley, Patrick Lee from RBC. And Frederic Teschner at Natixis asking on our outlook for lending.

Whether we expect it to grow? Whether lending to the real estate sector may contribute or subtract from that growth in 2013? Whether the pressure on spreads in Spain -- this is always about lending -- whether we think that that might continue or not? Mortgages, how do we expect them to evolve given the low interest rates? Do we have activated collars or caps? The answer to that is no.

And finally, net interest income outlook in 2013 and '14 in Spain.

Well, as for lending, I think in 2012, we were particularly hit by a fall in the Euribor rate and, therefore, that reduced the price on our mortgage book, which (inaudible) at a much lower price and falling quarter after quarter or month after month, depending on how you reprice it.

I think the Euribor has now, I think, touched rock bottom and probably may even rise slightly from now on. So basically, as far as lending, I don't expect there to be any more pressure on spreads than we had for mortgages in 2012.

For other segments, basically, spreads are stable, more or less. And therefore there, except for volumes or activity, I don't expect to see much of an impact on revenues.

As far as volumes, it's true that now lending volumes are down, particularly because of real estate lending. And slightly also because of lending for consumer finance. Not so for business lending, although overall, lending to the system has fallen. If you look at what the Santander has been doing in our business segment, we've not reduced lending to businesses in 2012. We've maintained our volume of loans to businesses, including the fund for supplier payment, which is a way to feed through loans to businesses ultimately.

And in 2013, we expect spreads to remain fairly similar value, perhaps slight improvement in the mortgage book, because we don't expect the Euribor to fall any further; and no real impact on other spreads. So if lending volumes fall slightly so will revenues. But I think, because of falling cost of funding, revenue should improve significantly.

Plus fee income, let's not forget, has performed very well in 2012, particularly in the last quarters. I think that in 2013 we will see revenues rise significantly in Spain.

Moving on to the units, we have three units with similar questions; let me organize them, basically UK, Brazil, Mexico. Questions about the UK, basically about two items on the income statement, questions from Alvaro Serrano from Morgan Stanley; Patrick Lee from RBC Capital Markets; Antonio Ramirez from Keefe; and Andrea Filtri. Some are about net interest income, which has stabilized in Q4. Do we expect this stabilization to continue or do we think that there will be increasing weakness? What is our outlook for net interest income and its components? That's the first set of questions.

And the second is whether there's any news about the risk premium or about NPLs that we feel we should mention?

Let me give you an idea what is happening in the UK. In the UK we can see very clearly that there is an improvement in the profitability on the side of assets. But also in terms of the cost of deposits.

The front book new production is obtaining very good spreads in assets, in lending and in deposits. This is only reflected in the revenue and we will see this even clearer in the future, because, of course, the back book has a very important weight with regards to the front book. But I repeat, in the front book we are seeing improvements in profitability, in lending and improvements in costs, in deposits.

Now on the side of costs, the trend is good. We're growing these, all markets. Our costs remained particularly flat and that is very positive. And we're also seeing stability in provisions. So we don't see anything alarming when it comes to provisions.

But apart from that we have obtained a better structure in our financing on the wholesale side. But also on the retail side. On the retail side I wanted to underline the success of the 123 Account, which allowed us to grow in current accounts, grow significantly. But also on the cost of deposits, because they increased because we went from EUR25 billion on the short term to the midterm but the structure has improved.

The brand is improving very clearly in England. It is consolidated -- consolidating in SMEs, for example, which is one of our strategic objectives. Lending grew more than 20% in 2012. And strategically speaking, this is excellent news. So the brand is improving in the UK; so very good results in SMEs, very good results from our commercial campaigns, just on the commercial side.

And also we must mention that we have reduced our mortgage book by 5%. But we have to interpret this clearly. We are obtaining more profitability and the risk quality is better. We're being more selective. We are reducing the loan to value in interest only. So that is -- means more quality rather than more activity. That's how it should be interpreted. It has been a good year in terms of spreads, in terms of costs, also in terms of provisions.

And so if the question is, what do we expect in 2013? Well, we won't notice this in the first half of 2013. The revenue will remain stable in the first half. But in Q3 and Q4 we will see improvement. So in the second half of the year is where we will notice these improvements. So that is how we see our prospects in the UK.

From the UK there is one last question from (Raymond John) on provisions for conduct remediation that we've made. We gave information on that when we announced the results of Q3. Do we expect to do more of that in 2013. And the answer is that we'd already made provision for that.

If we talk about Brazil now, there are quite a lot of questions on the top part of the income statement on the net interest income. Several questions, for example, Alvaro Serrano from Morgan Stanley and others, ask about pressures on the margins. What do we expect about the NII? Do we think it is going to fall further? What about the revenues?

And related to that, what is the growth outlook, that's from Francisco Riquel, what do we expect regarding the growth of lending in 2013? We expect (6.25%) during 2013 and 2014.

Well, Brazil in 2012, if we look at the whole year, the top part of the income statement has been very good. The net interest income grew 17% in the year, because there were more revenues. And the lending growth slowed down a little bit by 6%. But that's in line with what happened in Brazil, generally speaking. But the top part of the account did very well, with a growth of 17%.

Costs also performed very well, in line with inflation; 5% is by how much expenses grew. And provisions grew quite a lot. But it is also true that they grew less in the last half of the year.

And I think your question focused on understanding better Q4. Well in Q4, we had -- we did notice an impact of the spread on the revenues, although we're also seeing less provisions.

Net interest income fell because of falls in the interest rate, because interest rates fell; also because of pressure on the credit spreads. And also because Q4 was worse off in volumes. But we hope that will recover in 2013, when the macro situation improves in Brazil.

So it is true that there is pressure on the spreads in the industry and falls in the interest rate. And that has an impact on the net interest income. But it is also true that we expect growth in volume in 2013, which can, at least in part, offset that impact.

In Brazil on Q4, we also saw a strong impact on costs, because of the signing of a bargaining agreement, because these agreements in Brazil are signed in September. And of course, it has a seasonal impact on the Fourth Quarter. But provisions fall nevertheless, fall slightly.

So ever since the Third Quarter. And talking about the NPL losses, the Third Quarter. And the second and the Fourth Quarter too, we're seeing a very good performance of loans in arrears of less than 90 days, which means that in 2013, we will see an improvement in the cost of credit.

So, what do we see in the future? We see an environment with certain pressure on margins. We see volumes that will grow throughout the year. We see fees that will grow two-digit. We see personnel and general expenses that will increase. But less than inflation; and a cost of credit that will improve in line with the economic recovery. That is my outlook on Brazil.

Mexico, Daragh Quinn from Nomura, Alvaro Serrano from Morgan Stanley and Irma Garrido from Ahorro Corporacion ask if -- on two aspects. If there is a slowdown in activity in Mexico. And why did costs increase -- or actually, provisions; why did provisions increase?

The Fourth Quarter in Mexico, I think, is a little bit misleading; it might give rise to the wrong interpretation. 2012 as a whole has been a very good year, with growth of 15% to 20% in almost all the lines in margins and profit. And with very sound revenues from fees and net interest income. So the year was a very good year as a whole.

And Q4, on the one hand, we see a very good performance of revenues, as we expected. But there are two things that we need to explain, they might be misunderstood; on the one hand, increase in cost and, on the other hand, increase in provisions.

What happened in Q4? Well, two things happened. With regards to the cost, we had a seasonal effect, because of the increase in the number of branch offices. We've increased our staff by 600 people, because we opened 46 branch offices. And that, in fact, was noticed fully on the Fourth Quarter.

And this is why, in Q4, the costs don't look very good. But, as I say, this is a seasonal impact only. That's on the side of costs. And on the side of revenue, we did very well because they grew for the seventh quarter in a row, on the side of costs, this increase in staff or the number of branch offices.

And in terms of provision, we had a bad Q4, because of three things. Basically, because of the credit mix, the consumer loans, SMEs and credit cards, our percentage is higher than that of the competition. And that goes against us. Of course, it's good for us in the first item on the income statement, because it generates more spreads and, therefore, more revenue. But you also need to make provisions for that. And then we had a one off; a one off in project finance that we had to record with a specific provision for that.

And thirdly, there was a certain impairment in consumer lending, with a campaign that Santander Mexico did. And that had an impact on us. We stopped that campaign and from there on the indicators are performing better. So we don't expect that this will last much longer in 2013. Therefore, the performance of the business and the results, well, we will see that it will remain very good in the next few quarters.

We have a couple of questions to finish, some are based on liquidity. Jose Antonio, perhaps you could answer this question about liquidity and say what is the average cost of the debt that is maturing. How does that compare with new issues? And whether the reduction of the commercial gap continues to be a priority in 2013 compared to the past?

## A - Jose Antonio Alvarez {BIO 19692884 <GO>}

Well, the average cost, I think they're referring to wholesale funding. Wholesale funding is maturing at an average cost, which is lower than that of new issues. It is also true that new issues will be significantly lower than the volumes that are maturing, because of the reduction in the commercial gap.

Whether that is going to be a priority, we expect the commercial gap to fall in 2013, because of what the CEO explained. We will continue to grow in deposits. But at a lower cost. And we don't think there is going to be much lending, because we're lending less related to real estate and households are de-leveraging. So we think that the gap will continue to fall.

## A - Unidentified Speaker

And now there is a question on whether you have any plans to make acquisitions in the UK.

No plans.

And, Alfredo, what can you say about the cost, because there's a question from Irma Garrido that the staff is falling in almost all areas in central services, etc. How do you see costs performing?

## A - Alfredo Saenz {BIO 1422535 <GO>}

Well, as we've mentioned on other occasions, there are two dynamics in the Bank. One of them is where costs grow, which is in those units that are growing. Mexico is one of them, very clearly so; to a certain extent, Brazil as well. In Brazil, there is strong pressure for costs to increase. And Argentina as well. But there is the effect of high inflation rate in Argentina; and also in Sovereign, where costs are also going up.

Well, with those exceptions, in the other units we're always looking to improve our cost to income ratio. And we don't think costs are going to grow very much. They're going to grow below inflation or even remain flat in countries where inflation is very low, like Spain, Portugal. And the UK and other Latin America countries.

In fact, in 2013, the jaws, as we like to call them, moving jaws will be very small, the difference between the growth of expenses and the growth of revenue, because of countries like Brazil, the US and Chile to a certain extent too; and Mexico, their costs are growing. And in the other units costs are contained.

## A - Unidentified Speaker

Fine. Well, we've come to the end of our presentation. There are no further questions. We hope we've answered all of them. If that is not the case, please get in touch with relations for investors and we'll try to answer all your questions, thank you.