Q3 2012 Earnings Call

Company Participants

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

Presentation

Alfredo Saenz {BIO 1422535 <GO>}

Good morning. We're going to begin the presentation of the Group results up to September, or Q3. As usual, I'll present the key aspects and the Group results for the first nine months. And then Jose Antonio Alvarez will examine the business areas in greater detail. And finally, I will close with a few conclusions.

First point is that the economic context in which we've conducted our business has remained very difficult, particularly in Europe, with significant tensions and loss of confidence of markets in the euro, driving high risk premiums in the peripheral countries. This trend has softened in the last few weeks, due to the first steps towards banking union and the launch of the European Stability Mechanism.

The US has performed better with moderate growth. But the best context was Latin America, where the IMF has forecast significant growth rates. For Brazil growth in 2012 will go up to 4% in 2013.

In this context our priority was to strengthen our balance sheet and to do so we've bolstered our strong capacity to generate results. In summary, the more significant aspects are, first, the strength of the upper part of our income statement. Pre-provision profit in the first nine months was EUR18.18 billion, which is 3% up on the same period 2011.

Second, provisions for real estate risk in Spain in the quarter was, amounted to EUR2.23 billion, bringing the provisions made in the year to over EUR5 billion. After this, we are meeting 90% of the requirements of the new Royal Decrees. And we've increased -- total coverage for doubtful loans in Spain, not just real estate, up to 65%, which is 19percentage points higher than in September 2011.

Third, we've managed to combine these provisions with capital ratio rising to 10.4%. Also, the Group's capital strength has been confirmed in the stress test carried out by Oliver Wyman, where, in my view, we obtained the best score overall.

And fourth, we've continued to be very focused on liquidity, particularly in Spain, where our loan-to-deposit ratio is now at 108% after a further improvement in our commercial gap in the Third Quarter. We continue to compare well in credit quality in the main areas where we operate. In all, recurring profit was EUR4.25 billion in the first nine months; EUR1.8 billion after provisions.

Let us now analyze each of these points in more detail.

First point is sustained results generation. The Group has continued to generate significant recurring profit. Pre-provision profit in the Third Quarter was EUR5.7 billion in a quarter which is seasonally lower and EUR18.2 billion for the nine months. That's 3% up versus the same period last year, an increase which would have been 5.4% without the premature effect. So we have maintained our excellent track record in this item in our income statement in previous years where we are among the world's leading banks.

And here I'd like to remind you that this is something that sets us apart from our international peers. In the first half of 2012 most of them, nine out of 16, recorded a decline in pre-provision profit as well as in the weighted average, down 9%, versus Santander's increase. And this trend is driven by the good evolution of our most commercial revenues, which are extremely cycle resilient and rising each quarter and year on year.

The second point I'd like to make about this quarter is the fact that we have continued to increase provisioning for Spanish real estate. We've provisioned EUR2.23 billion gross, that's EUR1.55 billion net of taxes. Part of this net figure, EUR410 million, was offset by capital gains, mostly those obtained by the reinsurance of our insurers in Spain and Portugal.

But most of it, (EUR1.14 billion) net, came from ordinary profit and reflects the Group's priority in strengthening our balance sheet. Attributable accounting profit was EUR100 million in Q3, the same level as the previous quarter.

With this provisioning total, the year was EUR5.01 billion; net of taxes, EUR3.47 billion. Of which EUR1.02 billion charged to capital gains and EUR2.45 billion to ordinary profit. This provisioning effort had limited our accounting attributable profit for the first nine months down to EUR1.8 billion to -- a figure, which would have been EUR4.25 billion if we consider recurring profit.

The third point was our capital ratios. In the Third Quarter we have continued to provision, as well as, maintaining solid capital ratios. Core capital under BIS II rose to 10.4% thanks to the impact of the Mexican IPO, plus organic capital generation, which was partly offset by provisions and the depreciation of some currencies.

And this strength in our capital ratios has been confirmed by the latest stress tests on Spanish banks, carried out by Oliver Wyman. The soundness and resilience of the Santander Group was demonstrated in the worst case scenario included in this stress test.

So in summary, the stress test showed the excellent quality of Santander's loan portfolio with an expected loss lower than that of the sector. The fact that Santander is the only bank that absorbs the maximum impact of the stress test with a Tier 1 common equity higher than at the start of the period under review; that is, in the worst case scenario, our ratio rises from 9.7% in 2011 to 10.8% in 2014. That's a surplus of EUR25.3 billion over the minimum required in the scenarios of the stress test. And we're, therefore, the only bank to create capital in the period under review.

For liquidity the Group has maintained a solid position, which we basically manage through two drivers. First, deleveraging, which has continued in some mature markets, mainly Spain and Portugal. In the two we've improved our commercial gap by EUR20 billion in the first nine months; partly from the fall in lending and partly from the increase in (retail) deposits attracted by our retail network.

Second, the Group's very conservative issuance policy, based on our wide and diversified access to wholesale markets via the parent Bank and the Group's main subsidiaries. This has enabled us to issue, in the year, over EUR24 billion in medium and long-term debt via the UK, Latin America and Spain.

(Now, with) the placements of senior debt by Santander in Spain in the last few months, EUR4.5 billion, which have received high and diversified international demand, showing growing appetite for Spanish risk. Additionally, the Group placed on the market over EUR10 billion in securitization.

The deleveraging and the various issues are reflected in the Group's basic ratios. Our loan-to-deposit ratio has remained under 120%. And our ratio of deposits plus medium and long-term funding to the Group loans is 113%.

Moving on to credit quality, the Group has continued to manage its risk very actively. As you see on the slide, we compare very favorably with the mean of the industry in the main countries in which we operate, that is Spain, the UK, Brazil and the rest of the Latin American countries, where we are consistently above the system or the industry's means or benchmarks.

For the Group our NPL ratio is at 4.33%, continuing with the upward trend of previous quarters. This increase is basically due to trends in Spain and Portugal; also Brazil, which, in line with the market, has seen a rise in the NPL ratio in the last few quarters.

On the other hand, Santander Consumer Finance's ratio remains below 4%, which is an excellent level for this type of business. Sovereign Bank remains at record lows. And the UK and Latin America show only very slight changes.

As for coverage, the Group's coverage rose again in this quarter, up to 70%. This improvement was mainly due to increased coverage in Spain, up 12percentage points in the quarter. And 20percentage points (in) January, as a result of the provisioning made in the last quarters. Brazil and the UK have also improved in the quarter. And Santander

Consumer Finance and Sovereign Bank have maintained high coverage levels at around 110%.

Moving on to the Group results, on the slide you can see the income statement and then a column subtracting the impact of interest rates and perimeter changes, which have a negative impact of about 2percentage points on the top part of the income statement.

If you look at the trend, we can underscore the two main conclusions we have reported in previous quarters. First, the strength of our upper part of the statement, with net interest income up 5.4% in like-for-like terms over 2011.

Second, that this good performance does not feed through to the bottom line. And this for three reasons; first, rising loan-loss provision, partly because of more specific provisions in some units; and partly due to the release of generic provisions by units in Spain in the first half of 2011, which has not happened in 2012. And second, the negative impact of the rise in minority interest after placing part of the capital of our subsidiaries in Chile and Brazil; and lastly, the impact of greater real estate provisions.

Moving on to income, without taking into account the impact of exchange rates, we can see that the most basic revenues, net interest income, fees and insurance, have remained at over EUR10 billion in each of the last four quarters. In total, the basic revenues increased 5%, driven by the main component, net interest income, which rose (7%) during the first nine months -- or versus the first nine months of 2011.

In the quarter. And by areas, basic revenues rose 12% year on year in Latin America due to higher volumes and a successful management of spreads. Continental Europe has also shown significant recovery in the last few quarters, particularly in Retail Banking, with a year-on-year increase of 1%. On the other hand, in the UK and the US we have seen declines, because interest rates are at close to zero, plus there have been significant regulatory impacts on liquidity and fee income respectively.

As for costs, they have remained stable in previous quarters. And they have risen in the Third Quarter, because of the signing of wage agreements in Latin America. In the quarter we signed a wage increase of 7% in Brazil. And some investments in systems and technology in this area and in the US.

As for provisions, the chart shows the efforts made by the Group in the last quarters via loan-loss provisions and additional provisioning. In loan-loss provisions in the last quarter we see a reduction of just over EUR400 million, mostly relating to Brazil, which, as we predicted last quarter, has reduced their provisions.

Additionally. And as I have explained already, the Group has also provisioned in the last quarters to cover Santander's and Banesto's real estate risks. With that, the Group has already met at around 90% of the new legal requirements.

Specifically, the effort made in the last three quarters has enabled us to significantly increase coverage for real estate exposure in Spain. In doubtful loans our coverage rose to 45% versus 33% in March; in substandard loans to 43% from 16% in March; and in foreclosed properties, to 50% from 48% in March. This means that the coverage for problematic loans reached 47%, which is much higher than what we had in March.

Including outstanding risk, where coverage rose from 3% to 27% in the last three months, coverage of our total real estate exposure improved from 23% in March up to 41%.

I will now hand over the floor to Jose Antonio Alvarez. So he can review the different business areas.

Jose Antonio Alvarez {BIO 19692884 <GO>}

Good morning. As we've just heard, I will be reviewing the main aspects of the Group's business areas in the quarter, as we always do.

You can see a slide with the profit breakdown by geographic area. In this breakdown you can see a good balance of mature and emerging markets. 55% of our profit comes currently from emerging markets. And Brazil is, of course, the main contributor, with 26% of our profit; and Mexico, the second; and Chile and Poland with 5% each. Spain represents 16% of the profit; the UK 13%; and the US around 10%.

Moving on to the different business units. And beginning with Continental Europe, I'd say that the statement reflects the complex economic environment, with slow growth, in fact recession, in several economies, the most significant for us; and deleveraging continuing with low interest rates, plus a high degree of regulatory uncertainty for our business.

Profit for the first nine months of the year was EUR1.8 billion. That's below the amount for the same period of 2011, because of higher loan-loss provisions. Above that, net operating income rose 6%, or 5% if we exclude the perimeter effect from incorporating BZ WBK in the Second Quarter of 2011.

And as for income, in the upper-right chart you see the sustainability of gross income in the current environment. That is some of the losses in volume we are offsetting with improved spreads.

In comparison with the previous quarter -- well, Q3 is usually a weaker quarter seasonally, because of summer in Europe. But in the chart below you can see profit, which, in the last quarters, has remained quite stable at around EUR600 million per quarter.

Moving on to the different units that make up Continental Europe, beginning with the Santander Branch Network, I should note that we have continued to see a strong growth in deposits, year on year a 16% increase. And deleveraging continues with a fall in lending of 6%.

This has had different effects. On liquidity, of course, the impact's very positive. And our loan-to-deposit ratio, as a result, is down 25percentage points in 12 months. And is at 104%. And, probably, in the next quarters we will reach a perfect balance of loans and deposits in our Spanish Branch Network.

As for results, the year-on-year profit comparison is affected by the release of generic provisions in the first semester of 2011. Positive note, basic revenues reflect a positive year-on-year trend, basically because of the higher volume of deposits and the successful management of spreads.

In the quarterly evolution, there's a small seasonal drop. There's re-pricing of variable interest instruments down to lower interest.

Provisions were flatter in recent quarters. And registered a drop in Q3. And, in the sense, we expect -- well, the provisions of the Royal Decree are in the corporate center, these are ordinary loan loss provisions, we expect them to drop next quarter and the following. But year on year they will probably remain at similar levels, given the economic context. As a result, profits have been on the rise since Q4 2011.

In summary, we continue to see significant deleveraging; revenue recovering because of better spreads, volumes falling, flat costs and provisions, I'd say, stabilizing.

Second unit, Banesto, has similar trends, of course, to the Santander Branch Network, with some minor differences. Deleveraging has also continued, although, in this case, the main driver is the fall in lending of 9%. Deposits have grown 1%. And so the commercial gap has fallen by EUR7 billion in 12 months.

Probably the main distinguishing feature is the different pricing policy in Banesto. The cost of deposits has fallen quarter on quarter, while in the Santander Branch Network has remained stable, with rising volumes and stable costs; Banesto, less volume rise and falling costs.

Overall costs are falling slightly; down 1%; loan loss provisions significantly higher than in 2011. And, as a result, profit has remained relatively flat in the last three quarters.

Next week, as you know, Banesto will report its own results and will offer greater detail on their various lines.

As usual, I am going to talk about the business in Spain as a whole. And that includes the Santander Branch Network, Banesto, Global Banking and Markets, Santander Consumer Finance Spain and Banif, which is the private banking unit that, as you know, also operates only in Spain. And, for that, total gross lending amounted to EUR210 billion, EUR199 billion net after provisions; almost half of which was for companies without real estate purpose and one-fourth for individual mortgages.

Deposits totaled EUR185 billion. Here we include EUR12 billion of retail paper placed, of which EUR80 billion were, or over 40%, demand deposits. This places our loan-to-deposit ratio in Spain at 108%, with a significant improvement due to the deleveraging of the last four or five years.

Commercial gap fell by EUR18 billion in the year so far, this due both to a fall in lending as well as a rise in deposits. We're seeing a strong surge in retail deposits; more than offsetting some of the outflows that occurred in the previous quarter and somewhat in this quarter, as a result of automatic triggers in institutional deposits following rating downgrading.

If we continue to look at the performance and evolution of our lending portfolio in Spain, in this quarter we see the same trends as in previous quarters; sharp fall in lending with real estate purpose, a further 9% fall in the quarter. And deleveraging of individual borrowers.

The loans to companies declined 4% in the quarter. These are for non-real estate purpose. But that was mostly because of lower repos. It wasn't really traditional lending that fell. And, therefore, we have continued deleveraging, particularly in the real estate sector.

As for quality, NPL ratios for real estate loans, although apparently rising significantly from 39% to 43%, that is due exclusively to a fall in the denominator, because the absolute volume of NPL balances registered a slight decrease in the quarter.

Lending without a real estate purpose has a much lower NPL ratio of 3.6%, which has risen very slightly. The NPL of mortgages has remained very stable and a slight rise for company and consumer credit. But mostly company.

So, as a result, as you've heard from our CEO, Santander's credit quality is significantly better than the sectors in the Spanish market.

If we look at gross entries, that is before recoveries in non-real estate sectors and if we use as a baseline 100 before the onset of the crisis, you can see the trend in entries. We see that the business part is harder hit in the recessionary context with a slightly steeper gradient. But seeming to stabilize in the last quarters.

The other items, mortgages, consumer finance and cards, have remained very stable. Mortgages have remained at the same level as in Q1 2008, are, in fact, significantly lower and stable as far as consumer finance and cards, (whose) peak NPLs occurred three years ago, basically in 2009 at the beginning of the crisis, as is usually the case with these kinds of portfolios.

Moving on to real estate exposure, another fall in the quarter; both in the loan portfolio and in foreclosed properties, which declined by EUR1.8 billion in the quarter, EUR5.5 billion since December, underscoring the Group's policy of accelerating the reduction of these asset classes in the year. As I've mentioned, the fall occurred both in loans, as well as in foreclosed properties.

The trend in foreclosed real estate, as we've seen in previous quarters, a slight fall, which we expect to continue in the coming quarters, probably accelerating further than in the previous last two quarters.

So, in short, we have continued to significantly reduce our real estate exposure in Spain and to increase coverage, as you've heard from our CEO, to around 50% for problematic assets and to about 40% for outstanding risk.

Moving on to the second geography, Portugal, the country continues to experience a significant financial adjustment, based on the agreement reached with the European authorities. That's having a strong impact on GDP growth and activity volumes.

In terms of volumes, the trends are fairly similar to those of the Spanish units. Deposits have been rising significantly, 5%, whilst lending has been falling 8%. In this context, our loan-to-deposit ratio has been improving significantly and it's at 112% now, has been sustained (fall) in the last year.

As a result, basic revenues in line with 2011. Slightly -- if we only look at the quarter they're lower than in Q2, because of the -- basically, the effect of mortgage re-pricing, because mortgages are re-priced down more quickly in Portugal. And the fall in interest rates has had a bigger impact on spreads.

Costs declined 4%, that's a significant decline; the number of branches has gone down. And we've reinforced provisions in the year, because of a tender offer in the First Quarter of the year. The profit was EUR97 million for the first nine months in the context which, as we've said, includes strong deleveraging; significant cost reduction; and a high demand for provisions, because of rising NPL ratios in the country.

And moving on to Santander Consumer Finance in Continental Europe, (the recurring) profits in a very difficult environment for this business. Car sales have fallen 8% within our footprint and there are several economies, particularly in Southern Europe in recession, which, of course, make this business much more difficult.

So what explains this very good performance of this unit? On the one hand the fact that we are diversified; we have a presence in 12 markets in Continental Europe. So diversification for country. And then also diversification by product, because there were new cars as well; the second-hand cars, which are replaced over the course of the economic cycle; and also, the fact that we have reached brand agreements with producers. And that explains why we are earning market share in most of the markets where we operate.

This performance, in terms of volume, is combined with a very good performance in risk management; the levels of coverage are very high and the levels of NPLs are relatively low. And the business requires less provisions right now. So, in brief, the profit increase is (2%) and the trend is clearly better than that of our competitors in this type of business.

In Poland, Poland unlike other European economies is growing, not very much but it does have positive growth. This year it's going to be 2% of GDP and next year 2% too. Of course, this growth is less than what was expected in the past, because it has been affected by the situation in Germany. But the other macro variables in the country, including interest rates are under control and the rates are going down slightly.

The BZ WBK is still having very good performance in volumes, in earnings and in risk quality and credit quality. Credit quality has improved and the NPL rate is 4.7%, going down 1.6percentage points in the past few months. Deposits grew 4% and loans grew 9% in both this growth was in companies. But also in retail, although, it is true that in retail more in deposits and in companies more in loans.

In terms of results if we compare the first nine months it doesn't really make much sense, because we didn't consolidate the First Quarter in 2011. So it doesn't really make much sense to compare. But basic revenues and costs were almost flat over the Second Quarter and provisions were lower. The Third Quarter profit was slightly lower than the Second Quarters because of the dividend of EUR11 million.

So we're very optimistic with regards to complying with our objectives, the objectives were announced when we made the acquisition. Probably, in the next quarter, we will see the authorization for the merger with Kredyt Bank. And, therefore, next year we will have the full integration and that will certainly have an impact on the results of our unit in Poland. We're still very optimistic with regards to its future performance.

The UK, the macroeconomic and regulatory environment remain complex. And there's reduced activity, low interest rates, while commercial practices and products continue to be reviewed within an environment of greater consumer protection.

Santander UK posted an extraordinary profit after taxes of GBP65 million. This was a result of the net between the capital gain obtained by our unit in the UK and the repurchase of subordinate debt, GBP533 million and the provisions made, to which was assigned most of it.

And basically, GBP253 million of the GBP533 million were put into provisions for the non-core corporate portfolio. This is why the coverage in the UK went up 7 points, as the CEO said. GBP175 million are for possible contingencies and GBP39 million are due to the operational costs related to the operation to purchase the RBS branches.

In terms of activity, total loans and deposits are almost flat. By segments there have been significant changes though, strong growth in the SME business, which grows 20% year-on-year and which will continue to grow because of the participation of the program rolled out by the UK Authorities, a funding for lending scheme, as well as more regional business centers opened.

Retail deposits rose more than the sectors at GBP3.2 billion in the quarter, up 3%, which gives us more growth than that of the industry.

Results, gross income continued to fall because of the higher cost from the change in the funding structure, net (GBP25 million) have gone from short to long-term funding and that has a higher cost. Spreads on deposits are slightly lower in a price (tension) market and all at a time of very low interest rates.

A positive factor, we must stress that there have been better yields on mortgages of the front book and corporate spreads. And there is a favorable impact envisaged from the government's policy to spur lending to companies and households, which will be added to the lower pressure in the liquidity buffer.

All these impacts take us to a quarter profit of GBP268 million, including a few extraordinary items that I mentioned earlier. In short, a delivery reflecting a difficult market, which will remain so for some time, although, as I said, there are some factors that are quite positive in the performance of the new lending activity.

Brazil, the macro environment was not what we expected at the beginning of the year. There was a market consensus that growth was going to be 3% of GDP; it's actually growing at 1.7%, half of what was expected. It's also true that in the last part of the year that is going to pick up and the market is, once again, talking about growth rates of 3% to 4% for next year.

Interest rates are at historical lows, 7.5%, whilst inflation was 5.3%. The Government took steps to revive growth reducing the cash revenue requirement for demand deposits from 6% to 0%. And for time deposits from 12% to 11%. Reassignment of directed requirement, for example small and medium sized banks, all of this to bring about higher growth of GDP. But given the expectations of a market that is going to happen next year.

The lending grew at 10%, less dynamic in the Third Quarter like the market. And deposits are growing at rates of 4%. $2.12 million is the profit with very solid in the upper part of the income statement. Basic revenues rose 15%, driven by the volume of lending, management of spreads and the product mix.

Cost increased by half the rate of revenues and the rise in expenses was due to the opening of 90 branches in the last 12 months. And the signing of the salary agreement with the financial industry with which increases of more than 7%. That was signed on Q3.

Net operating income, revenue minus cost, is 20% higher, which means that this part of the account -- the statement is doing very well.

And credit quality has deteriorated. There has been a strong increase, therefore, in provisions. But the Third Quarter, as we said when we presented the results of the Second Quarter, there has been a fall of provisions of 12%, which enabled attributable profit to be 7% higher than in the Second Quarter.

We believe that this improvement in provisions will remain in the next few quarters because, for a Second Quarter in a row, we see a better performance of the loans in a regular situation. And this fits with a better macro environment. And the improved outlook for 2013.

In short, the Bank continues its good tracking business, which will continue to see it through to revenues, probably more via volumes than spreads, adding certain pressure. There is pressure to do that, to pass onto consumers lower interest rates.

Costs are growing at a mid-digit rate. And provisions are still high. But are tending to go down, which will stabilize results in the coming quarters.

In Mexico, the macro situation is more stable. The GDP is growing at 3%. And we think that that will continue in 2013. Interest rates are also stable, around 4%; inflation within the Central Bank's target range, which is 3%, plus or minus 1 point.

Activity, the business continues to register a double-digit growth; market share gained in SMEs, cards. And demand and time deposits. So the unit is not only growing with the market. But it's gaining market share in a market that is growing well.

In terms of results, good performance throughout the income statement; basic revenues increased almost 20% due to net interest income and fee income, fee income from insurance, cash management; there is a good growth in fee income across the board.

Higher costs linked to greater business activity; increase in the SME sales team; and rentals after the sale of 220 branches in the first half of 2012. And there is a plan to open new branches. And that is why costs have increased in the unit.

Provisions rose from stronger lending; low risk premiums though and excellent NPL ratios, 1.69%, 9 basis points less in the year. And a coverage of 175%, similar to the previous year.

Profit, more than $1 billion, up 14% in local currency. In short, a good business performance and result, which we think will be maintained in the next few quarters.

If we look at Chile now, a good growth prospect of the GDP, the interest rate is 5%, the inflation is very low. This is one of the key elements that had a negative impact in the development of the income statement.

Activity; continued focus on growth in retail deposits, up 15%. In loans, a slower pace because of a greater emphasis on profitability and on more selective growth by segment. And stricter lending criteria; in some cases because of credit quality, in other cases because some segments of the market are not too profitable.

Results; profits are lower for two reasons, first of all, inflation. The impact of about $40 million on the net interest income, because of the sharp fall in inflation, something we had previously pointed out could happen. This is why there is this volatility.

And the second element that explains these lower profits is higher provisions, reflecting the deterioration in credit quality, similar to our peers, lower recoveries and a conservative admissions policy. So, in short, low inflation and high provisions led to a 30% fall in profit in the first nine months, before the perimeter impact.

Looking forward, we see some positive aspects for the income statement. It was very difficult to foresee such a low inflation rate, we don't think that will continue in the future, it's an area with higher inflation and the corresponding favorable impact on the net interest income, declining cost and provisions still at current levels for some time.

The rest of Latin America, good performance; Argentina very good quarter, with a profit of ($150) million, the highest in the last two years. And net interest income. And gross and operating income, increased by more than 20%; profit before tax rose 27%. Attributable profit was up only 15%, reduced by the higher tax charge, 33% in the first nine months of 2012, as compared to 26% in the same period of 2011.

Profits of Puerto Rico and Peru increased at rates of around 30%. Uruguay's profit more than doubled, though from a small base in the first nine months of 2011.

United States. The Third Quarter results are impacted by the charge made in relation to trust peers, because of the court ruling to remunerate a coupon higher than what was being accrued. That was before we took over control. Using a prudent criteria, a charge of $127 million was recorded in results.

Sovereign Bank contributed $416 million; revenues were affected by the low level of interest rates and the sales of mortgages, which reduced the net interest income. Loan loss provisions fell sharply, 28%, because of the excellent evolution of bad debt and coverage.

Santander Consumer USA contributed ($331 million), (that they grow) 22%. In results, the comparison with 2011 was affected by two significant factors; first of all the release of provisions in the First Quarter of 2011. And a perimeter effect of $50 million between 2012 and all the quarters of 2011, due to the reduced stake of Santander Consumer USA; eliminating this, the contribution in the last three quarters was similar to or more than in 2011. The attributable profit was $747 million.

The economy continued to grow. But at a slower pace than expected. GDP is forecast to increase 2.2% this year. And 2.5% in 2013. Interest rates fell sharply to historic lows. And the gap between the 10 and 2-year bond deals was 128 basis points.

So in Corporate Activities, the area registered lower profits than the previous year; this was due to a net impact of several factors. Net interest income was lower than the first nine months of 2011, due to the higher cost of credit of wholesale issues. Provisions and other results, which include the normal provision for foreclosed assets and the release of EUR40 million as of September 2011. And then lower tax recoveries compared to 2011.

Moreover, the final result is impacted by the recording of extraordinary capital gains and provisions in this area. And commented on at the beginning of this presentation.

I now hand over to the CEO to give you the final remarks.

Alfredo Saenz {BIO 1422535 <GO>}

Well, our vision on the next few quarters is that Santander will continue in the coming quarters to lay the foundations for the Group's future growth, while managing a very demanding environment.

It will be very important to maintain the strength of our pre-provision profit which, as I said earlier today, is among the highest of our international peers. This will require active management of spreads and costs, adapted to the situation of each market. And a situation which will enable us, in the future, to take advantage of lower provisioning needs.

By geographies, Spain and Portugal are in a recession and are highly volatile. Therefore, our priority will be to complete the provisions, especially for real estate risk. And this greater balance sheet strength in market in restructuring, as is the case of Spain and Portugal, will help us to gain profitable market share; as we have been doing over the last year.

In the rest of Continental Europe, our aim is to maintain the high degree of recurrence in profit.

In the rest of Continual Europe, Santander consumer finance points to a solid profit and profitability higher than its European peers; backed by its diversification, by countries and products. And also by the brand agreements that we have reached with car manufacturers.

In Poland, we will have more favorable macro and banking dynamics than the EU average; which will produce a good performance, while we press ahead with the merger with Kredyt Bank.

In the UK, we have to manage a very demanding macro and regulatory environment that is having a big impact on our results. In order to do this, we will improve the profitability of the front book. And develop the franchise of individual customers and companies, trends increasingly visible this year.

Latin America aims to generate solid raises in revenues from volume of growth and management of spreads.

In Brazil, revenues and provisions will benefit from stronger GDP growth. Mexico will continue to expand its network; 200 new branches in three years. The plan has already begun. With a stronger franchise, we believe, the trend and results can be kept up and further gains in market share can be achieved.

In Chile, we will focus on selective growth, aimed at the most profitable segments and products in higher credit cost environment.

And lastly, in the United States, the objective is to deepen the development of the segments where we have a capacity to improve and grow. Technology and operational integration, as well as extending to all branches a new sales model, will enable us to drive new businesses and products; such as GBM and cars, where we have very good expectations in the US.

In short, Santander will continue to boost its capacity to generate recurring profit.

Thank you, very much.

Questions And Answers

A - Unidentified Speaker

Good morning. We're going to, first of all, take questions that we have received over the web page. We will group these into subjects. We will try to cover all your questions. But if there are any additional questions that come over the phone, then we'll try to make some time for them too.

The first question, which has to do with strategy and regulation, the first question is by Sergio Gamez from Bank of America Merrill Lynch, is what is our opinion of the possibility of asking for aid from the ECB, because of the consequences in the funding costs for banking. This is a question from the point of view of aid and intervention as (to) these vehicles.

A - Alfredo Saenz {BIO 1422535 <GO>}

In this type of a situation, where funding is facilitated through contingent lines or credit lines that are supplied by international bodies, in the conditions that have been mentioned, well, clearly, that would give rise to a reduction in the risk of premium for the sovereign risk.

And consequently, also a fall in the spreads that banks, particularly the most important banks in Spain. And of the Spanish financial system, can get in international wholesale market. This link that is always mentioned between sovereign risk and banking debt will, probably, continue to be related; there will be a high correlation. And that will mean that the spreads and the premium will be lower. Therefore, from that viewpoint, we see that as a very good thing.

A - Unidentified Speaker

There are quite a lot of questions on the bad bank in Spain. Mario Lodos from Sabadell, Axel from JP, Britta Schmidt, Carlos Peixoto from BPI, Sergio Gamez and others have basically two questions on this.

First of all, what is our approach to a potential participation in the bad bank? Or what are your expectations? What role do you think you're going to play, we're asked, in the selling of banks and the creation of the bad bank? And do you think that we will need more provisions, given the transfer prices of the real estate assets and loans?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, this is very difficult to answer, because it is being built, as we speak, by the Ministry and the Bank of Spain. So it's too early to say. We private agents still don't know yet how this is going to be done, the bad bank, how that is going to be built.

So it's too early to answer. I can imagine that, in a few weeks, we will have more information. And we'll be able to answer these questions on what our role will be. But we can't say now.

Of course, this is something that worries us about the bad bank; what worries us is the possible relations between transfer pricing to the bad bank. And the prices at which we have valued our assets, once we have covered the provisions from the Royal Decree, because the information that we have, which has not been validated, I must say. And this information hasn't been fully certified.

But according to that information, transfer prices will be 7% to 13% below the established levels; levels established by the basic scenario of Oliver Wyman. And therefore, very near the price level of prices established in the stress scenario of Oliver Wyman.

How do those prices compare with the prices derived from the provisions of the Royal Decree? Well, there is a difference. This difference, according to our information -- well, as I say, we don't have full information. So you have to take my words with a pinch of salt, because it's not the -- and that information hasn't been verified yet.

But it seems that there are transmission expenses; operating expenses; expenses to manage the bad bank; and also, some additional incentives that they want to give a potential profit for potential future investors, that all these things have an impact on the pricing of these assets. But the difference in prices stems from these elements, more than from a different valuation of the assets themselves.

But, as I say, we are concerned about this. But we still don't know exactly what those prices will be. And what the differences will be; and, therefore, what the consequences will be. But we'll have the chance to talk about the bad bank when we have more information in a few weeks' time. And where we can answer with more information at hand.

A - Unidentified Speaker

About Spain and our strategy, there is a question from Matteo Ramenghi from UBS. And that is whether we're planning any structural decisions, in Spain, cutting costs or closing branches, or anything structural.

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, if you look at our numbers, with some perspective. And you look at 2012. But also at 2011. And 2010. And 2009 and 2008, you will notice that our costs have not risen in all of those years.

For several years now, I can't even remember how many. But quite a few, retail banking in Spain has kept its costs practically flat. Of course, that is the net result of some costs, which rise, because inflation rises, or because wages rise, because of new labor agreements. Plus permanent adjustments we make in our network costs, which are not apparently, very significant. But which we constantly are rationalizing and monitoring the profitability of our retail network. And adjust it accordingly.

We are not planning any major changes in this strategy. We prefer a more gradual approach. We make gradual adjustments, as we have done in the last few years. So if the question is whether we're going to be more aggressive in cost reductions, I'd say no, because we don't feel it necessary. It's not really warranted.

The branches we have are all profitable, in the current market conditions. And if any seems to be lacking medium-term growth or profitability opportunities, we make adjustment decisions, as we have done for many years now. Can't even say how many. But at least six or seven years. And that's why our costs have remained flat throughout this period, this very long period of time.

A - Unidentified Speaker

Moving onto the UK, there is a couple of questions. The first is about the RBS transaction. (Someone from), Mediobanca; N+1; Rohith Chandra from Barclays. And Juan Pablo Lopez from Espirito Santo, are asking whether this changes our strategy for the UK, the fact that we've cancelled the acquisition of RBS branches. And whether we can give an update on our future strategy, given this change? And does this affect the targets that we reported last year, in the Investor Day?

A - Alfredo Saenz {BIO 1422535 <GO>}

Right, a first point is that our strategy in the UK does not change. Our strategy is to turn Santander UK, the old Abbey, into a full-fledged commercial bank; that is with business -- both individual customers, which is its main activity right now, as well as with businesses.

This is a strategy that is apparent in Santander UK's organic evolution. In fact, in 2012, in the nine months of the year, growth in lending to businesses, in spite of the fact that our market share in businesses is low, lending to businesses has grown very significantly. And that in a context in which other banks have increased their lending very little. We've increased our lending to SMEs, by over 20%, in these first nine months of the year.

And so I think that, together with our mortgage book, which has remained stable, it's only grown by 3%, I think demonstrates our strategy. That is our strategy. And we felt that increasing our -- or growing our branch network by acquiring the Royal Bank of Scotland's branches was useful. In the end it didn't come through. But it doesn't change our basic strategy. It just makes it more organic and less inorganic, I guess.

A - Unidentified Speaker

There's another part to this question. And that is whether we expect any fines or penalties, because of pulling out of the contract. Have we provisioned anything?

A - Alfredo Saenz {BIO 1422535 <GO>}

Jose Antonio Alvarez has said that the only provisioning we've done has been for operational expenses, charged to the provisions for the tender. We have provisioned. But it's only for direct costs. And that's basically the working hours spent by people in the Bank, on this process, which will now not materialize. And we've quantified that, I think it was EUR39 million, Jose Antonio Alvarez told you, in the quarter -- sorry pounds.

A - Unidentified Speaker

And as for the regulatory environment in the UK, there's two questions from Mario Lodos from Sabadell Bolsa. And he's asking whether we've started to feel the effect of the funding for lending scheme, announced by the Bank of England. And what might the impact of this scheme be, on this year. But particularly on 2013?

And then there's a second question. And that is asking for an update and potential impacts of the Vickers' commission's recommendations in the UK. Do we have any idea of how this might affect us. And how things are going, at that level?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, as for funding for lending, that's something that has just been launched. We will be taking part in that process. It's a GBP80 billion scheme, if I'm not mistaken. And we will participate with approximately -- well, something in the order of our market share. But of course, the outcome of this scheme is yet to be seen, because it's only just begun. So we will see it throughout next year, where we expect to grow lending.

But as I said earlier, do not forget that we have already been growing our lending to SMEs. And so this funding for lending scheme is actually targeted at banks, to get them to increase lending to this particular segment, SMEs. And we had already been increasing our lending to SMEs. So we didn't really need this funding for lending scheme, to grow, because it was one of our strategic priorities already, to grow our lending to this market segment.

Having said that, we will of course, take advantage of the boost provided by this scheme, funding for lending, in order to accelerate our growth in this segment.

As for the Vickers' report, it's not yet -- well, it's a set of recommendations, the Vickers' report, which, as you know, have to be turned into provisions, standards for the banking sector. But we don't really know which of these recommendations will eventually become rules or provisions or laws. And which will not. And so it's highly speculative, to say anything on this point now, because it would just be guesswork based on possible scenarios of what might or might not become a legal requirement. So it's really far too early to say.

In general terms, for our business model. And for our business profile, let's say, in the UK, the impact would be somewhere between tiny and negligible, or even non-existent. But there might be some impact. But in any case, it won't be significant.

A - Unidentified Speaker

Moving on, we'll continue with the UK. There's two more questions about strategy and regulation, from Federic Teschner from Natixis and Daragh Quinn from Nomura.

The first is somewhat connected to the question by UBS. But it's more about income trends in the UK in the future. What do we expect? What do we expect as far as risk weighted assets, because of the RBS thing. But in general, in the country?

And Daragh Quinn's question is about the UK IPO, are we still planning to have an IPO for our British decision?

A - Alfredo Saenz {BIO 1422535 <GO>}

It's true that income, as you have seen, has been falling. That is a natural -- or inevitable consequence of falling volumes and lending and deposits, in the UK. And an increase in the cost of wholesale funding in our Bank; also, some retail funding. But mostly wholesale funding.

Most of this income fall has already occurred. We may still see a small fall in Q4 and the First Quarter next year. But to a much more limited extent. We will probably reach a turning point in foreign net interest income, as I said, between Q4 and the First Quarter next year. But in any case, the falls will not be as significant as those we have seen in the past quarters. That's my opinion.

And what was the second question?

A - Unidentified Speaker

About the IPO in the UK.

A - Alfredo Saenz {BIO 1422535 <GO>}

Right, we've already said that there is no deadline for the IPO. And months ago, we said that we were keeping it on the backburner for two reasons; mostly, waiting for markets to change their attitudes in the UK. And for our own profit to stabilize and to go back to the kind of growth we saw in the past. So it's something that we do intend to do. But as far as the when, it is really impossible to predict at this point.

A - Unidentified Speaker

To finish with strategy and regulation questions, there is one from Andrea Filtri from Mediabanca and Daragh Quinn from Nomura about dividends.

First, what is our plan? Are we going to maintain our current payout policy? Will we be offering cash and scrip dividends? And then a question about IPOs of Group subsidiaries.

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, this is, of course, the Board's decision at any given point. And so to predict now any specific payout policy is not appropriate. But with that caveat, the basic concept is to maintain the same payout policy next year and to have full scrip dividend and/or cash dividend. So that's my best impression of what the payout policy will be for next year, although again, this is a decision that the Board has to make.

A - Unidentified Speaker

Moving on to financial management, there's two questions about capital, first from Matteo Ramenghi from UBS; David Vaamonde from Fidentiis; Rohith Chandra from Barclays; and Francisco Riquel from N+1.

Could we give more detail about capital variations in the quarter, including the Mexico IPO?

A - Alfredo Saenz {BIO 1422535 <GO>}

Remember that the Mexican IPO has a 50 basis point positive impact on core capital. But then you have to subtract the negative impact of exchange rates on the book value for our subsidiaries. So that's why there is that 10.1% to 10.4% difference in our core capital ratio.

A - Unidentified Speaker

And there's a second question from several analysts; David Vaamonde from Fidentiis; Francisco Riquel from N+1; Jaime Becerril from JPMorgan; Antonia Ramirez from Keefe about Basel III. How much will the capital ratio under a fully-loaded Basel III scenario? And have we modified our criteria?

A - Alfredo Saenz {BIO 1422535 <GO>}

No, the criteria are the same that we've reported in previous quarters. Our plan is to remain at about 9% core capital under Basel III in the coming years. So there's not really a change with respect to previous quarters.

A - Unidentified Speaker

There's more questions about DTA, about the treatment to intangibles and DTAs in the future regulations.

A - Alfredo Saenz {BIO 1422535 <GO>}

We'll have to wait until that regulation is announced in the (R4) and then we'll let you know.

A - Unidentified Speaker

As for liquidity, there's several questions, Carlos Peixoto from BPI is asking about exposure (FB). Where are we?

And questions about the ALCO portfolio, what's our exposure to government debt?

Carols Peixoto is also asking a question in the same direction; basically, liquidity exposure to FB and the composition of our ALCO portfolio.

A - Alfredo Saenz {BIO 1422535 <GO>}

Right, as for liquidity and exposure to FB, we've had the (RTO) we've mentioned, EUR35 billion we mentioned in previous quarters. There's no change there.

Our ALCO portfolio overall, as you know, the ALCO portfolio, we don't have any portfolios 'til maturity in the Group. Everything's classified as financial assets available for sale.

And the balance is EUR97 billion for the whole of the Group, of which EUR66 billion is public debt and EUR26 billion other private debt. And there's EUR4 billion, which are capital instruments, basically to do with trading.

As for public debt, our exposure to Spanish public debt is around EUR30 billion. Last quarter, I think, it was about EUR35 billion. So there's been some maturities.

And our second largest exposure is Brazilian public debt with EUR11 billion. Then smaller amounts; EUR5 billion in the UK; EUR3 billion in Mexico; EUR2 billion Chile, the US, these are the main exposures.

And the rest of the portfolio, there's EUR26 billion in other instruments. And these are basically 40%/45% in the US agencies, basically (D&Es) from corporates; and in Brazil with some corporate bonds. But that's basically the breakdown of the ALCO portfolio. Something in Spain too. But basically those are the main exposures or the main risks.

The portfolio is relatively stable quarter on quarter. There's a variation of maybe EUR400 million in the total ALCO portfolio.

A - Unidentified Speaker

About liquidity, or continuing with liquidity. Mario Lodos from Sabadell is asking whether we can give them an up on maturities and issuance policy. I suppose he means for 2012 and '13.

And connected to that, if you like, we could talk, -- well, Fabio Mostacci from Ahorro Corporacion is asking why there's this weakness in net interest income in the corporate center in this quarter.

A - Alfredo Saenz {BIO 1422535 <GO>}

Maturities in 2012 in the eurozone, I think this may be a covered bond issue, I think, 1.6. And then in 2013 in the eurozone, the parent has like EUR13 billion/EUR14 billion; Banesto EUR3 billion or EUR4 billion; and Portugal EUR2 billion or EUR3 billion. And the other units, I don't have their figures here. But a total of about EUR20 billion.

Issuance, well, if current trends continue, deleveraging still significant, as a general rule, I think that an issue of one-third of the maturities would be appropriate for 2013, given our current forecast that deleveraging will continue and deposits might not grow as much as we've seen this year. But will grow.

If deposits were to grow as much as they have this year, then deleveraging would be greater than maturities. We don't expect that to happen. But we do expect to issue maybe one-third of total maturities.

The weakness of net interest income, as Angel said, it's connected to issues. We're placing cheap issues with issues that have a cost against swap of over 300 basis points. And part of that is charged to the corporate center, which is why net interest income in the corporate center is so weak.

A - Unidentified Speaker

As for deleveraging, Fabio Mostacci from Ahorro Corporacion and other analysts are asking about the loan-to-deposit ratio in Spain. As we said, it's close to 100%.

They're asking whether deleveraging is completed; whether it will continue; whether we have any sort of target or what the plan is in our loan-to-deposit ratio in Spain?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, it's not that we have a plan. What we have is a general deleveraging of the economy. Private debt, which is the best proxy we have over GDP, private debt over GDP at its peak was 180%. I think it's now at 150-sum-% --155%. So we think that private debt in relation to GBP, will continue to fall to levels of at least 140%, given what has happened to other countries that have gone through similar processes.

Most of this process of this (fall) will be concentrated in the property sector, of course, where I seem to recall that the latest figures I looked at was about EUR300 billion in -- well, I don't know if it's loans or foreclosed assets. But that number will fall significantly in the next months, or quarters. And that will bring us to a level that might encourage us to not reduce lending further, or at least not in anything that's not connected with the property sector.

A - Unidentified Speaker

As for hedges, Ignacio Moreno from Citi and Patrick Lee from RBC are asking about our hedging policy. Specifically, they're asking about LatAm and Poland, do we have hedges there? What percentage of our mid operating income is hedged? Do we expect the weight of these units and hedges to grow significantly in 2013?

And Patrick Lee is asking, in these two units specifically, about an explanation of the hedge in Brazil.

A - Alfredo Saenz {BIO 1422535 <GO>}

We have two kinds of hedging policy, one is with respect to expected profit. And one id for the book value of our subsidiaries. So generally, we have hedged a high percentage of profit budgeted for the year. And that's the case both for Mexico and Poland. And Chile. And other units.

In Brazil, in some cases, the hedges or the instruments are different; in some cases it's forward, in other cases it's just bought. And in other cases it's gaps and floors -- caps and floors. So there are different instruments to hedge both the expected profit and the book value, to protect our equity.

And, of course, the hedges in some cases, particularly the equity hedge in countries, particularly Brazil where it's high volume, these are hedges with caps and floors, which is why when we said earlier that there was a variation in the Group capital, because of exchange rate impact. That's because we are not hedged 100%, particularly in Brazil.

In the other LatAm countries, the main ones Mexico, Chile. And then in Poland, our hedges are perfect forward, both for profit and for the book value of our subsidiaries.

A - Unidentified Speaker

Then there are two more questions asking for more detail. Somebody from Espirito Santo, about the valuation of the joint venture means payment here, in Spain.

And Ignacio Moreno asking about risk-weighted assets in Spain. And if you agree, we will answer that in detail in writing. And the evolution of risk-weighted assets in the Santander network is up EUR400million or EUR500 million in the quarter. It's basically a business mix effect than others. But we can give you the details later, if you agree.

And there's actually one more question about financial management and strategy from Benji Creelan. Can we give some guidance, or forecast of growth for the Group. And particularly net profit for 2013?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, we don't really give any guidance on net profit. But we do, or will, have an impact that will be different in 2013 than in 2012, which will be the Royal Decree. But we don't give guidance on net profit for coming years, ever.

A - Unidentified Speaker

Moving onto credit quality and risk there's a question from Carlos Berastain from Deutsch, Ignacio Cerezo from Credit Suisse. And other analysts about the impact of the two Royal Decrees. Basically, whether the impact on profit was EUR6.8 billion, which is what we've provisioned approximately in the year? And can we explain the 90% coverage, on that 10% that remains? Or how much is still to be provisioned to meet 100% of the Royal Decree requirements in the rest of the year? Can we elaborate?

A - Alfredo Saenz {BIO 1422535 <GO>}

Okay, perhaps the figures don't match exactly, because there are some additional things over and above what's required by the Royal Decrees. There are some additional provisions for things that are connected with real estate. But not directly covered by the Royal Decrees, on which we have decided to also provision and charge to the same item of real estate provisioning.

Also, some portfolio sales. So small things. But all of them together add up to that apparent difference between the requirements in the Royal Decrees; what we've provisioned already. And what we said that we still have to provision, approximately 10% of the total. And so, that's what remains to be provisioned in the rest of the year, 10%, about EUR700 million approximately, which is that 10% that remains.

A - Unidentified Speaker

Okay, there's a question from Antonio Ramirez from Keefe. And Ignacio Cerezo from Credit Suisse, about whether we see any risk of a third Royal Decree raising provisioning requirements for real estate and non-real estate risk, or where do we think coverage levels should go? Are they at a sufficiently high level, or are we going to need higher levels.

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, I suppose this question is related to the one that was asked before, that I answered already about the influence of the transfer prices up for asset to the bad bank. And the impact on the valuation of the assets held by banks, net of the Royal Decree. I think I've already answered that.

There's no other reason why we might require other kind of decree, because the provisions are more than enough for real estate. So we don't really see any need, or any chances of a third decree, unless there's an impact from what we said, the valuation of assets to be transferred to the bad bank. But not really.

A - Unidentified Speaker

Moving on. And continuing with Spain and the cost of risks. Question from Sergio Gamez, Britta Schmidt from Autonomous. And Jaime Becerril from JP, along the same lines. Cost of risk, current and future in Spain, in 2012/2013. Provisions have fallen in 3T compared to 2T, do we think that that's -- that can be extrapolated? And where might the cost of risk move structurally or in the next quarters? And what do we expect in terms of provisions in 2013, higher, lower, or similar to 2012?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, earlier there was a similar question about what's going to happen to the rest of the portfolio, because really that's what they're asking. What about the other loans? What about the whole portfolio in 2013?

And in the presentation, since this is a question that comes up again and again in our results presentation, there is a table in which we tried to answer that question, or a chart in which we tried to answer a question. And that was a graph with net NPL entries, not including real estate, individual loans, mortgages, consumer finance, cards and businesses. It was a very detailed chart. And that's in page 52, or slide 52. I hope that's the same number in your documentation.

But in my page 52 you have a detailed graph with net entries for over 90 days for -- in loans to businesses; non-performing loans with over 90 days in individual mortgages; NPLs over 90 days in consumer finance and in cards.

And what you can see there is that the portfolio with these four sets of loans. So everything except real estate, is relatively stable; slightly up. But only very, very, very slightly. And, basically, it has remained very stable. So we don't expect, beyond this, a very slight rise which probably will continue in 2013. I think probably non-real estate NPLs for the Group will peak towards the end of 2013. So they will rise very slightly in 2013. But really not very significantly.

As you see if you look at the series from 2008 with these curves -- it's slide number 27 in the presentation that the analysts have. So I think that really answers that question and any concerns about performance of the rest of our loan portfolio. And what we expect to happen in the next year where NPLs will rise. But only very slightly.

A - Unidentified Speaker

And then there's a question going into the different divisions from Carlos Peixoto from BPI, Patrick Lee from RBC and other analysts about our outlook on NPL ratios for the different regions.

Specifically, they're asking about Brazil, the UK and Mexico; asking about trends in Q3, in NPL ratios and cost of risk. And do we expect both provisions and NPL ratios in those three countries to rise? So Brazil, Mexico and the UK, what do we expect in terms of risk quality and in terms of the impact on profit of provisions?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well my best forecast for those three countries is that in the UK and in Mexico we don't expect any surprises with regards to the NPL rate. Just a slight movement up or down. But we really don't expect anything to change much. There is no driver that could make us think that the NPL figures might change significantly in the next -- in the near future.

Now, Brazil is a different story. We come from very high provision and NPL rates and we have already been announcing that we were in a very comfortable area. Their provisions and NPL rates have somewhat leveled off. The improvement of the economy will help these figures to stabilize because, in 2011, there was an economic slowdown in Brazil and, therefore, we think that looking forward, the growth of the NPL rate, enough provisions we think that that is going to be part of the past and that things are going to normalize from now on.

A - Unidentified Speaker

On Mexico, there is a specific question about provisions. Why have they increased?

A - Alfredo Saenz {BIO 1422535 <GO>}

Of course, there's the volume impact. But also there was a release of generic provisions of $30 million, which is, of course, affecting the figures when we compare one year to the next. There's nothing more to it.

A - Unidentified Speaker

Mario then on Sabadell, what about the selling of portfolio to Bank of America?

A - Alfredo Saenz {BIO 1422535 <GO>}

We already reported to the market the data that we had to communicate with regards to possible selling of portfolio and we also -- there is some of that in the provision.

A - Unidentified Speaker

Axel Finsterbusch from JP is asking about the selling of repossessed assets. They're still negative in the Second Quarter in a row. Can you give more information as to how those sales are performing and what are you expectations in 2013 in the volume of foreclosed assets?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, yes, in 2011, the number of repossessed assets fell, the net of entries and outflows. In fact, we started the year with EUR8.6 billion and right now, we have EUR8.3 billion. Our forecast is that in the last quarter, there will be an additional fall. And our best estimate right now for the year end of 2011 is that that figure, which today is EUR8.3 billion, shall be EUR7.5 billion.

So that would be a net decrease in the number of repossessed assets. And I say net because, of course, there is still some coming in, very few. So the reduction of the net balance would be EUR1.1 billion.

Now we still haven't drawn up the budget and the details of the budget for the year 2013. So the only thing I can tell you is that it will continue to fall, undoubtedly. But I don't dare say by how much. Probably, by the end of the year, we can tell you more, because we will have the budgets ready for 2013 and we could say much more about this, I'm sure.

Also, in January, when we make our year's announcements, earnings announcement, we can say more, because we will have more information. But basically, they will continue to fall as they have this year.

A - Unidentified Speaker

And to finish with a risk questions, there is a question on the restructured loans at Santander. We already gave some information on this. It's usually about 1% of the total book of the Group and there isn't too much variation there.

There are certain questions from Britta Schmidt from Autonomous and Rohith from Barclays and Ignacio Cerezo from Credit Suisse. Can we say a bit more about the performance of the NPL rate in Spain by segment? How they're performing by segment, because you talked about entry through a different concept? But can you elaborate a bit more as to the coverage and the cost of the risk in SMEs, mortgages, consumer loans and corporates?

A - Alfredo Saenz {BIO 1422535 <GO>}

In the information that you have at hand, there is some of this. There is an answer to this, perhaps not detailed by segment as you ask in your question. But there is an approximation to this question on my page 50. It's my page 50; I don't know what page it is in the document that you have.

But, in any case, there, in this chart -- 26, I'm being told; on your page 26 in your document. In that chart that you can see on screen too, what we break down here is the NPL rate of the loan book for real estate purposes. And broken down into real estate and non-real estate. And then the total.

So, today, the NPL rate is 7.4%. And in real estate, which is the rest of the book aggregated, not by segments as the question says, has gone from 3.3% in December 2011 to 3.6% in September 2012. So it's gone up three-tenths.

Another approximation, although different, is what I mentioned earlier that you see on the next page, which is new entries of NPLs. And my remark here is that it's very surprising to see the huge increase in the NPL rate in the real estate portfolio.

But I want to put this into context. Although the percentage goes up from 39% to 42%, the absolute figure falls, because here we have a denominator effect. The NPL rate does not go up in loans for real estate purposes, it is exactly the same amount -- actually, it's less than what we had. The thing is that the denominator of this ratio falls and, consequently, the figure increases. But, well, that is just a comment on the side.

A - Unidentified Speaker

And now if we look at it by different businesses, there are several questions on the UK, once again from Britta Schmidt from Autonomous, Rohith from Barclays and Ignacio Cerezo from Credit Suisse on the performance of the net interest income in the UK. I think enough has been said about this as to how it is performing and why and what is the trend for the next few quarters.

Ignacio Cerezo from Credit Suisse asks about extraordinary items in the UK. Jose Antonio mentioned them already in his presentation. If you want, later on, we can pass on the data.

And Britta Schmidt asks about the impairment of the interest margin in Brazil and the outlook for Brazil; if we expect any impact of hedging for 2013 and '14. Would you like to elaborate on that?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, on Brazil, what I wanted to underline -- well, I have to say, first of all, that there has been a significant drop in interest rates. And, of course, that has an impact on our interest income and margin.

But the top part of the statement in Brazil is the one that best compares Santander with the peers, with other large Brazilian banks. We're growing in revenue and net interest income more -- we're growing more than our competitors.

Now, it is true that that better performance might have something to do with the product mix, with our business mix in Brazil, which is a business mix that is more focused on individuals. But the truth is -- but that's the truth.

So the growth of the net interest income is very positive. Brazil is doing very well. And the way to judge whether it's doing well or not is when we compare to our peers. And if we compare to our peers the net interest income is clearly performing much better in our case. Also, we must take into account that it's not growing, or growing very little, because of the interest rate environment which, as you know, in Brazil there's been a sharp drop in interest rates.

A - Unidentified Speaker

In our Wholesale banking there's a question from Sergio Gamez why has revenue fallen?

A - Alfredo Saenz {BIO 1422535 <GO>}

I remind you to think dividends and insurance. The Third Quarter dividends are not too good and the revenue -- and the selling of insurance also had an impact on these results.

A - Unidentified Speaker

There are two questions, or the same question, from two analysts on Mexico and Fabio Mostacci from Ahorro Corporacion on the new regulation -- sorry, on the restrictions of the transfer of capital. Can that affect the Bank with regards to the ring-fencing that the Regulator is trying impose?

A - Alfredo Saenz {BIO 1422535 <GO>}

Do you want me to elaborate or will you? Well, let me do it. Basically, there is a limit now on the repatriation of capital of more than 25% of the equity. So these are extreme cases where you need to ask the Regulator, or the Authority, for authorization. We hope that this won't affect us. And, certainly, we do maintain our commitment that we said in our IPO to remunerate the shareholders through dividends.

A - Unidentified Speaker

Two questions to finish on, about the UK; do we expect to make additional provisions of PPI? Other banks are announcing extra provisions. Will we have to do that? This is from Jaime Becerril from JP.

And Antonio Ramirez; a question on the deposits in Spain; have we rolled out any campaign at 4%? Do we have any volume objectives? What about the competition for deposits in the Spanish market?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, in the UK in principle we don't -- what was the question, sorry, about the UK? Yes, about the PPI. Well, in principle we don't think that we're going to have to make more provisions for the PPI. We don't think it's going to cost us any more.

We don't have any indication that we will have to make further provisions. Of course, there is always a risk that that might happen. But we don't have any indication right now that that can happen. So that's with regards to the first question.

And now the question on the deposit market in Santander in Spain; we are not trying to compete through price, although of course we always have a product -- a deposit product. But if you look at our products in Spain, well, we are paying less for our deposits, 1.44. So our price policy is a mix really; increase in (site) accounts and current accounts. And deposits that sometimes are offered with a higher interest rate. But we are not concentrating on a war on deposits.

And taking into account that we're talking about the cost, not only of deposits but we also include commercial paper. So no tricks there. We include all the funds that the Bank raises in its network of branches and that generate liquidity; all the liability products not only deposits per se. But other instruments as well.

A - Unidentified Speaker

I think we've already answered a question earlier by Ignacio Moreno. They're asking about the cost of terminating the contract with RBS in the UK. We already answered that question. There is no additional cost in terminating that contract.

More questions -- we've received more questions as we went through our Q&A session. If we have not answered your questions please get in touch with us and we'll try to answer your question.

We finished now. We have no questions from the conference call. So thank you very much and we'll see you next quarter.