Q4 2013 Earnings Call

Company Participants

- Angel Santodomingo, Director of Investor & Analyst Relations
- Javier Marin Romano, CEO
- Jose Antonio Alvarez, CFO

Presentation

Javier Marin Romano {BIO 3961209 <GO>}

Good morning. Welcome to the full-year 2013 results' presentation of Banco Santander. The economic environment remained complex in 2013, although the year ended with signs of improvement. In this environment, the Group focused on two areas. On the one hand, it continued to strengthen the balance sheet in terms of liquidity, risks and capital.

On the other hand, we laid the foundations for improving the capital allocation, in order to better exploit the Group's economies of scale, deepen segmentation. And put more focus on customers. The objective is to take maximum advantage of the start of the new cycle and increase profits and profitability, especially earnings per share. I will develop this point in the last part of my presentation.

From the financial standpoint, the main aspects are; business volumes that reflect the different macroeconomic situation of our markets. And the emphasis placed on lowering the financial cost in the last few quarters. We continue to enjoy a comfortable liquidity position, loan to deposit stands at 109%, strongly backed by Spain where it stands at 87% after the strong improvement in the recent years.

We have combined this with a further push in provisions. The cost of credit has gone down to 1.5%. And a very strong capital generation, which lifted the core capital ratio to 11.71%, in line to very comfortable meet Basel III.

Of note in results was the sharp increase in profits, 90% more than in 2012 due to the extraordinary charge on 2012 as a consequence of the so-called (Guindos increase) for the real estate developers. We have an improved trend in the last quarters in the dynamics of commercial revenues and provisions.

Let us now look a little more in detail into each of these points.

In terms of lending and deposits, the context and the strategy to reinforce our franchise in the last few years are reflected in the balance sheet. In mature markets, deleveraging with low demand for loans, together with more selective growth in lending or a reduction in high risk products, like real estate in Spain. And portfolios (in) run-off that we have in the US and the UK.

In deposits. And after the large volume captured in previous years, the focus in 2013 was mainly focused on costs, reducing the cost and marketing funds. This was particularly reflected in Spain, where a reduction of expensive institutional deposits in the last quarter hit the good performance of retail funds, as they rose EUR10 billion in the year, EUR6.5 billion in funds and EUR3.5 billion in retail deposits.

In emerging markets, we see higher and very balanced growth. Rates of around 15% (sic; see presentation, "14%") of growth in loans and deposits. And 20% in mutual funds. And at a faster pace than in previous quarters.

With respect to the liquidity position, we've seen a further improvement. The Group's lending to deposit gap improved by EUR23 billion in 2013 and by EUR53 billion over the last two years. We have a loan to deposit ratio of 109%, within the comfort level that is around 110% to 115% that we already spoke about this in the previous presentation, following an improvement of 41percentage points during the crisis. This was mainly due to our capacity to attract deposits, almost EUR200 billion deposits over the last five years.

2013 was another year of large provisions by the Group, mainly because of Spain. We assigned EUR11 billion to loan loss provisions. And we also improved the coverage ratio of our loan portfolio to (4.3%) from (1.5%) at the start of the crisis. The provisions made in 2013 implied a cost of credit of 1.53%, which though still high compared to the average of the cycle, has begun to normalize. The trend will definitely continue during the next quarters.

With respect to capital, we have combined these provisions with a further improvement in our capital ratios. Our core capital Basel II ended 2013 at 11.71%, 138 basis points more than in 2012 and a record increase in one year in Santander's history. This big rise was due to, on the one hand, recurrent generation of profits, to which is added a high acceptance of the scrip dividend by our shareholders, between (80% and 90%). On the other hand, the risk-weighted asset reduction as a consequence from the fall in lending.

We began 2014 in an excellent position to meet the new capital requirements. We have a Basel III phase-in ratio of close to 11%. And a CRD IV leverage ratio of 4.9%. In short, we are very comfortable with our capital, our liquidity levels. And our capacity to improve them organically.

Now that we have concentrated in the last few years on cleaning up and strengthening the balance sheet, we can face the new cycle and prepare to grow.

The Group quarter attributable profit was EUR1.06 billion, in line with Third Quarter. Excluding the exchange rate impact, the profit growth was 3%. Profit for the whole year was EUR4.370 billion, 90% more than in 2012, given, as I said before, the big impact of provisions for real estate in the second half of 2012.

The year's profit was not impacted by capital gains, which, as I will explain later, were all assigned to restructuring costs and to strengthen the balance sheet. This represents a first step towards normalizing the Group profit.

We take a look into the income statement. The first thing to point out is the big impact of exchange rates, both in year-on-year terms, as well over the Third Quarter. Considering the Fourth Quarter over the third. And after correcting the exchange rate impact, attributable profit was 3% higher.

The increase was due to lower loan loss provisions in almost all units; increase in net interest income and fee income; and, on the other hand, trading gains were much lower in the quarter.

In the year-to-year results, the impact of exchange rates explained three-quarters of the fall in gross income. And one-half of the decline in net operating income. Eliminating its impact, gross income declined 2%, affected by low interest rates; the fall in lending; the liquidity strategy; and the narrowing of spreads, due to the change in mix towards less risk products in several countries; costs evolved in the basis of the strategy in each country, as we will explain later; and loan loss provisions declined 8%.

Lastly. And as I mentioned before, the higher attributable profit reflects the impact of the large real estate provisions in 2012.

With respect to capital gains and provisions, we had EUR939 million of capital gains, net of taxes and minority interests; EUR270 million from the insurance operation, under our partnership with AEGON in Spain; and EUR666 million from the agreement to drive asset management business.

Charges were made for an equivalent amount; EUR500 million (sic; see presentation, "EUR496 million") for restructuring costs, basically integrations in Spain and Poland. But also some in Brazil and other countries; EUR193 million for the integration process in Spain that we already announced in the Third Quarter, as the loan portfolios of Santander and Banesto have been homogenized to the more conservative criteria; and EUR250 million to bolster the balance sheet.

Remember that these results exclude the net capital gains from the sale of a percentage of the Altamira platform that were (EUR385 million); and those from the placement of Santander Consumer in the United States, with a net capital gain of (EUR740 million), which will be recorded in 2014.

This recent operation has been extremely successful. Demand for shares was 10 times higher than the offer, valuing the Bank at (EUR8.3 million). And the share has performed very well, even though the turmoil in the markets over the last days. Banco Santander will control almost 61% of Santander Consumer USA.

With respect to the gross income, the quarterly evolution shows the impact of exchange rates. Eliminating this, gross income was more stable and in the Fourth Quarter it dropped due to lower trading gains.

On the other hand, net interest income plus fee income, which represented 90% of gross income, rose 1.8% in the Fourth Quarter. The chart on the right shows the increase in emerging markets. And the improved trend in mature ones where, after falling in 2012, gross income remained more stable in 2013. And increased in the Fourth Quarter.

As Jose Antonio Alvarez will comment later, the strongest growth in the Fourth Quarter were in the UK, Brazil, Mexico and Chile. The trend in Spain and in the US also became more positive.

With respect to costs, we have different performance by units, depending on their momentum. We have decline in those units in process of integration, like Spain and Poland. The UK is combining growth in target segments and investments in its business transformation plan while, at the same time, costs are rising at a slower pace than inflation.

The same in Brazil, where cost growth is well below the inflation rate. Mexico and Chile reduced their higher increases because of their expansion plans, the branch opening plans, like in the US, which is improving its commercial capacities. And adapting to the new regulatory environment.

We already have a significant advantage in efficiency over our competitors. And we have ambitious targets to keep on improving. The integrations underway and the efficiency plans we have already started to implement, which I will comment on later, will generate further cost savings.

The Group maintained the trends in credit quality. Total non-performing loan ratio was 5.64%, after rising 21 basis points in the Fourth Quarter; less than in previous ones. Spain was responsible for most of the rise. On the other hand, 7 out of our 10 core units ended the year with a stable or lower ratio.

Non-performing loan coverage remained at more than 60%; a high level for the mix of our credit portfolio. Around half of the loans have real estate warranties, requiring lower coverage. And the units with a lower weight of real warranties, such as Santander Consumer Finance, Brazil or Mexico, have coverage levels close or above 100%.

Our coverage ratios are higher than the average of the more than 60 banks included in the EBA's transparency exercise, both for the total exposure, as well as for the retail and corporate lines; exactly above 10%.

In the three large units which accounts for more than 70% of lending, we had a further and significant decline in Brazil's non-performing loan ratio, minus 48 basis points in the Fourth

Quarter. Which confirmed the improvement in previous quarters. And returned the ratios to the levels at the start of 2012.

We see the gap with our competitors, with our peer group in Brazil, very clearly narrowing. The UK's ratio improved a little. And ended the year at below 2%. And Spain's ratio, however, continued to rise, very impacted by the fall in lending and the reclassification of substandard loans in June that we already commented. There was also some worsening. And the trend continues, with respect to the SMEs.

Credit quality trend was reflected in provisions, where we have three basic ideas. The first was the sharp decline in total provisions with respect to 2012. Second, the Fourth Quarter provisions were the lowest of the last two years. We had a very good quarter in Brazil, the UK, Santander Consumer Finance in the US, in contrast to the still high levels that we have in Spain and Mexico.

Lastly, these trends meant a further and significant reduction in the cost of credit for the whole Group. However, this remains high, compared to the pre-crisis level. We had 1% in 2008, or 0.63% in 2007. We expect to move towards these levels in the coming years.

Let me hand over to Jose Antonio for the presentation of the evolution of the different units.

Jose Antonio Alvarez {BIO 19692884 <GO>}

Good morning. Let me sum up what has been going on in the different geographies in which we operate. When we look at the Group, the divisional pie we show every quarter, we see that the profit generation from both emerging and mature market remained fairly stable. 53% of the profits came from emerging markets and 47% from what we so-call mature markets, being the main markets, as in the previous quarter, Brazil with 23% of the profits; and UK, the way it has been going up, 17% of the profits.

Let's start with the different geographies; let's start with Spain. Well, the main feature in Spain probably is the deleverage has been continuing during the year. We focus, mainly in the second half of the year, in the reduction of the cost of funding. Particularly strong in deposits; after two years in which we got (200) basis points market share in deposits, we focused more in the cost reduction. We shifted some retail deposits into mutual funds. And we do not renew some expensive kind of institutional deposits. In mutual funds, as a result of this, we gain (130) basis points market share.

If we go to the results, I want to remark that we saw a change in the trend in the net interest income. After several quarters of the net interest income going down, it grew 3% in the Fourth Quarter. This is due to something that you know very well; (being) of the repricing of mortgage and the fall on the cost of deposits.

On the costs -- on the expenses side, you are seeing the first signs of the lower costs as a result of the integration we have in Spain start to show in the First Quarter. We will see significantly more than that in the next year.

Lastly, the large provisions made was in line with our (auditive) that we shared with you of having 150 basis points (COC) surplus in Spain.

We see these trends to continue in the coming quarters. Commercial revenues, we would expect to grow; lower costs; and provisions returning to some kind of what we so call normal. So going from 150 basis points to close to 100 and afterwards, in coming years, to the 60, 70 basis points that is the normalized level; and with lower costs as a result of the integration. This will help to produce a significant uplift in our results in Spain.

Let me to elaborate a little bit on the business in the ground. In volumes on the lending side, we see a drop in the quarter mainly due to the amortization of some one-off public administration loans that was in a (re) amortization of EUR4 billion. Excluding this impact, lending will have been almost stable.

We've been making efforts, you know; you see our (initiatives) to try to grow our loan book and we expect to show some growth already in 2014.

In deposits, (this year), I will elaborate about our loan to deposit ratio that stands at 87%. And we are concentrated in improving the costs, or reducing the deposit cost.

In the last few quarters, we (let EUR8 billion) institutional deposits expensive institutional deposits, to go. And we focus in gathering more retail deposits that during the year EUR3.5 billion. And retail funds that grew EUR6.5 billion.

We continue to see further improvements in the cost of deposits, mainly after the mid of 2014. That will translate into the net interest income along the coming quarters.

In credit quality, the NPL ratio, let me elaborate into where you have the ratio in the slide. But on a like-for-like basis, the NPL ratio went up 150 basis points. What you see is in the slide the fall in lending adds another 100 basis points, the reclassification of mortgages we did in the Second Quarter adds 95 basis points. And to apply the same criteria to Santander and Banesto portfolio, (adds some more) basis points. So in a like-for-like basis, this 150 basis points is what reflect the best -- the underlying credit quality.

NPL entries, we show pretty much of the same we saw in the previous quarters. In retail households, the new entries are going down, trending down for several quarters now in a row. So it's a fairly stable trend. On the other side, you see still some (inflation) in SMEs and corporates, not large corporates; large corporates are not here. SMEs and corporates, that is still trending up.

Let me go to elaborate a bit on Portugal. In Portugal, I want to sum up in four items. Better macroeconomic outlook; deleverage continues to go on. It's true that in this deleveraging environment, we are gaining market share, 20 basis points in loans and 10 basis points in deposits in the last 10 months. But the main trend is deleveraging.

We saw some stabilization in the net interest income and we expect, at some point, to start to grow the net interest income as the cost of credit is going down, as a result of a better macroeconomic environment and some one-offs that we did in the previous year. But the credit quality has improved significantly in Portugal.

In Poland, in a relatively low growth environment, for a country like Poland, with an extremely low record low interest rate, it was the main macro impact we have in the P&L. In this environment, both the results and the activity performed very well, while the integration process is going on at full speed.

On a like-for-like basis, compared with 2012, let me to refer it on a like-for-like basis because we have the integration of KB in our accounts, a good margin of the net interest income, with interest rates falling more than we were anticipating at the beginning of the year.

So with solid commission generation, fee income generation, with a Fourth Quarter at a two-year high, the costs going down 6% a result of the integration. And there's more to come in 2014. And with credit quality maintained. So overall, a good set of results in a franchise that is much more stronger than it was, with the integration going at full speed, without generating significant problems in the ground with the customers.

Santander Consumer Finance, the environment was weak. Car sales went down 4% last year in Europe. Production of consumer finance went up 1%, some market share gain. And the result, (this takeaway) we can translate this into the result with a good management of margins, excellent credit quality because of (uses of several) multiyear loan and getting us a very high return on assets and equity.

The countries that performed the best were the Nordic countries when profits rose 22%. And Spain and Germany, that grew significantly compared with the previous year, showing double-digit growth. In short, consumer finance business is going very well, attractive return on assets, higher than the competitors. And we expect to integrate Financiera El Corte Ingles in the First Quarter and to benefit from this in 2014. And for the gradual consumer recovery in the eurozone.

Finally, in the Continental European business, Spanish run-off real estate, these are the activities in run-off, decreasing size of the assets. The net balance represents 3% of the total assets in Spain and less than 1% of the Group assets.

We reduced the size 12% 2013 and we continue with the policies to reduce these balances that we started in the previous years.

The coverage remains pretty high. We are comfortable with the current levels of coverage, around 50%. Losses for the year were EUR635 million with improving quarterly trend. We sold 15,000 plots during the year (and up) with a discount of 40% that was lower in the previous year.

The UK; the British economy, as you know, is showing signs of stronger recovery and the profit in the Fourth Quarter was GBP300 million, GBP301 million, up 15% over the Third Quarter, with a good evolution through the income statement. For the whole year, the profit was GBP976 million, 8% more than in 2012.

Well, this is the result of very good management of the net interest income; higher volume in corporates; lower funding costs; and as well as the non-renewal/renegotiation of expensive deposits, particularly the so-called eSaver. Costs grew at a slower pace than revenues. And credit quality overall is very good. So provisions fall significantly in the year.

The capital position, the capital liquidity position, of the franchise are very good, as was shown in the different tests that the regulators did in June. In conclusion, a very solid balance sheet with a very good year-end result that with the trend through the income statement improving quarter after quarter.

In terms of the franchise, we are maintaining our strategy to strengthen the franchise, which is reflected in the priority we give some segments. We are increasing the number of customers in the range of 1/2/3 products. We have better customer segmentation and new range of products.

With greater business diversification, we are increasing the weight of the composition of the balance sheet in a segment that is growing at double-digit rate both in deposits and loans. These are high solvency, good dynamics in volumes and net interest income, costs growing both below revenues. And excellent (trading) provisions. And the economy expanding by more than 2% makes us to be optimistic for this year.

In the US, the profits were $961 million. We have two businesses here, as you know, the Santander Bank now is the former Sovereign Bank, now called Santander Bank; and the SCUSA business, Santander Consumer US, that is mainly focused in car lending.

Well, in the Bank, we are basically making investments to enhance the quality of the franchise and launching commercial initiatives to gain traction in the ground. Provisions were very good -- we were not able to grow significantly in a market that is growing very slowly -- provisions were much lower thanks to the excellent risk quality.

Gross income fell as a result of the lower lending and investment portfolio; we reduced by 40%/50% the investment portfolio in the first and Second Quarter of last year. Also, the net interest income rose in the Fourth Quarter because the lower funding costs.

In the coming quarters, we see greater business activity and we will continue to invest in the franchise, as we've been doing in 2013.

SCUSA was, as you know, a highly profitable business. The success of the IPO underscores the recognition of SCUSA's value in the market, a strong growth in loans and revenues. We were not able to translate these because when you start to grow, you make upfront provisions for the expected losses in one year, which we will show those profits coming through in the next quarters.

Chrysler really is going very well and volumes are growing strongly. We believe the business has a very attractive outlook for 2014.

Brazil; Brazil is growing, as you know, less than the potential growth the country has. It's growing at around 2%. The IMF is forecasting to keep the same figure in 2014. And interest rates went up; the central bank increased interest rates a couple of times, I think somehow (put a dent) in the currency (depreciation) that is happening now in several emerging markets.

In the activity in the Fourth Quarter, we are happy with the trends in the Fourth Quarter. The lending grew faster than our competitors. We are outperforming our competitors in growth on lending, changing the profile from unsecured to a more secure kind of products, as we can see later on.

Better trend also in deposits. We were flat at the start of the year and we end the year growing 7%. The Fourth Quarter (end) results, there was a rise in net interest income in the quarter, 5%, changing the trend from the previous quarter.

Total gross income was the same because we made lower trading gains in the treasury and the ALM ALCO portfolio. Costs grew more slowly than inflation; overall in the year (grew half) of inflation. Provisions fell for the Third Quarter running; year-on-year decline is around 9%. And the attributable profit was around EUR1.6 billion in 2013.

If we look at the main trends, the rise in net interest income in the (fourth) quarter was largely due to higher lending, plus 2%. And with mortgages growing 9% and SME lending growing 3% in the quarter, a moderate reduction in the spread, only 6 basis points in the quarter. That is far lower than it was in the previous quarters.

The credit quality continued to improve. The NPL dropped 48 basis points in the quarter. And the provisions continued to fall and the cost of credit was at a two-year low.

In short, I would say in the country, we expect, going forward, an improvement in the spread net of cost of credit. That means we will keep changing and still will lower the NIM -- will offset the NIM that is going down as a result of the change of mix. The cost (of credit) is running significantly below the inflation, materially below the inflation. So we expect the underlying business to perform pretty well in the country, albeit in our economic situation that is growing below potential, the country, as I said before.

In Mexico, the country grew significantly less than anticipated. One year ago, we were expecting Mexico to grow in the region of 3% to 4%; it grew significantly less. Now, we expect the country to deliver in the region of 3.5% for 2014.

Even having a relatively low growth on volume in 2013, the dynamics were pretty good on the -- we grew the loan book 12%. Deposits only 4%; in the last quarter 2% at a pace close to double digit in the last quarter.

The dynamics in commercial revenues were good, net interest income going up 3% in the quarter; gross income rose 8% in 2013. We are investing in the country; as you know, when we did the IPO, we announced that we're going to open 200 branches in three years. We opened 90 branches in 2013, 8% of the network. And more than 380 additional ATMs in the country.

Increasing provisions, (as you well know) the homebuilders who that in the previous quarter, which we did charge off for this problem. And there was also a change in the methodology in the way to provision SMEs and corporate).

In the coming quarter, we see more growth in the country. The underlying trends in the business are good. And we continue our expansion and productivity plans and expect to have stable or slightly lower cost of risk.

Chile; the economy is doing well, I could say as usual, growing at 4% in the year. The Bank accelerated the growth in the Fourth Quarter. We are growing slightly above double digits in the quarter. SMEs' lending grew 14%, companies 15% and demand deposits more than 15%. So significant volume growth.

The Fourth Quarter profit plus 7%, thanks to growth in gross income. Net interest income rose 2%, helped by the relatively high inflation in the quarter. Costs and provisions were lower in the Fourth Quarter. And the income statement improved compared with previous quarters. And in summary, we finished the year with good trends, improving the business in the ground.

Other Latin American countries, all of them performing well, growing the profits 20% or more, driven by net interest income and fee income. Argentina grew 26% net profit; Puerto Rico 41%; Uruguay 19%; and Peru 28%.

We have no reasons not to expect this performance to continue this year in the ground. If anything, (we are sure) we will have depreciation of the currencies, particularly the currency, particularly in Argentina.

In corporate activities, the loss was close to EUR1.9 billion in 2013, compared with EUR2.1 billion in 2012. Let me to remark the main impacts here.

More negative net interest income; in general, this is because of the strength in liquidity and the reduced ALCO portfolio in 4Q 2013. This was offset by the results from exchange rate differences. The euro, generally speaking, (appreciate down) compared with every currency. And the margin of interest rate risk, with some trading gains that, in 2013, were EUR1.2 billion compared with EUR700 million in 2012.

Costs rose mainly due to -- were below the normalized level in 2012, is nothing special here. And provisions and our allowance normalized. So the provisions -- last year let me to remember you that we made a charge for the goodwill in Italy, a charge for real estate (fund) and the costs related with SEB integration in Germany.

Let me hand over now to the CEO. He is going to elaborate the conclusions and our priorities, going forward.

Javier Marin Romano {BIO 3961209 <GO>}

Thank you, Jose Antonio. I will end up summing up the year and set our priorities for the future. Santander completed, in 2013, the intense process of strengthening its balance sheet. Today, we are much more stronger, than at the start of the crisis, in liquidity, capital and level of provisions. All this enables us to face the new cycle from a very comfortable position and without restrictions on growth.

The results in 2013 still reflect an unfavorable economic environment in some countries and the balance sheet is strengthening, as just mentioned. Despite this, we improved the trends as the year progressed. The commercial revenues are stabilizing and, in the Fourth Quarter, they rose in 7 of the 10 core markets.

Cost growth was lower than the inflation rate in main units. And the cost of credit declined on a recurrent basis to advance (at the end) of the balance sheet cycle.

All of this was reflected in the evolution of net operating income after provisions, which in year-on-year terms improved quarter after quarter. We began the year with negative rates of close to 20% and ended it with positive levels.

As well as the Bank's improved its position, we also see a more favorable environment. The latest IMF forecasts, which improved the previous ones, point to growth in all the countries of the Group's footprint for the first time since the last five years. We have more solid recovery in Spain and Portugal, faster GDP growth in the UK and the US, to lead the recovery in mature markets; Latin America growing between 2% and 4%.

Other factors we see, we have more stable markets with a sharp reduction in risk premiums in European periphery countries. And we see very decisive steps taken towards the European banking union, which should be reflected in a gradual breaking of the link between sovereign risk and banks so that the solvency soundness and fundamentals of a bank count for more in the valuation than the sovereign rating of the country of residence.

This better macro picture, positive for results in the short term, is not sufficient to recover the long-term profitability levels to which Santander aspires, due to the greater requirements of the regulatory and competitive environment after the crisis. As a result, we are working on specific plans to adapt our way of doing banking to the new environment and make it more profitable. It will take up the next few years and affect all areas.

We are working on four main lines. The first, to improve the return on capital investment to its more efficient allocation between areas and businesses. The second, transform the commercial model to raise customer linkage and satisfaction in all units. The third, to exploit the advantages of Santander's global scope with a greater integration of the Group that improves the position and results of the local units. And the fourth consists of a plan to enhance efficiency and productivity, which, among other measures, will benefit from the improvements in the Group's commercial transformation and integration.

Let us look at the plans on the specific progress in each ones. In the first place, we are working to increase the return on capital investment. We've mapped the Group and reviewed all and each of the business segments to adjust the levels of capital and investments to the strategies and growth objectives. Segment and differentiate are key elements. The exercise we are conducting for each area gives us a perspective of their potential and their needs.

This will result, in the medium term, in additional investment in some units and adjustments in others to make it more profitable. In any case, Santander definitely will maintain its presence in our core markets. The commercial transformation seeks to realize the full potential for more than 100 million clients. Linkage and satisfaction are key. We are acting on four fronts.

First, improve all the commercial processes to achieve a quicker and more effective product approval. We have good examples in key products and processes, from taking several days in approving and sending credit cards, to instant approval and delivery of them on the spot, increasing sales by almost 10%. We have increased significantly the level of granting and activation.

In insurance in the UK, for example, after cutting the time of approval process from 40 to 10 minutes in insurance, we have doubled the number of operations.

The second one is multi-channeling or omni-channeling, in order to reach all customer segments and cut costs. The Group has units that are leaders in remote banking in their markets, as Poland, which recently were awarded with the first prize for the best mobile banking in the world, that are very good and exportable like, for example, ATMs and also mobile banking in the US.

The third is the risk function. It is the responsibility of all areas to improve the risk processes. We are improving processes of authorization and pre-classification in order to speed up on the process.

Lastly. And very importantly, are human resources as a driver to implement the rest of actions. We have corporate plans to identify the best talent and increase the effectiveness of incentives. Also, all our employees should be able to provide the best service to customers and we are working in plans, like in the USA, at happy branch projects, or in Brazil, (inaudible).

The third element is to strengthen the differential advantage of Santander. The combination of our strong local presence, top three in our core three markets, with global business and support areas, which make the local units more competitive. We are working to create a still more integrated Group.

We created two new global units, global retail banking and global recoveries, which will be used to extend best practices. For example, we select for high income clients which we are establishing in several countries following the good results in Spain, or the international business within the sphere of SMEs and exports. Actions in multichannel banking and internal job posting are other examples of measures underway.

Moreover, we have specific projects in order to generate collaboration revenues between global and local units by linking more global banking and markets to the retail banking especially, to better serve our SMEs.

The fourth line is a three-year efficiency and productivity plan which will enable us to increase the advantage we already have over our competitors in efficiency ratios. This plan is benefiting from the synergies envisaged in the mergers underway in Spain and Poland, redesigning the Group in its way of working. And measures to eliminate inefficiencies.

Total savings identified so far and by units amount to EUR1.5 billion, EUR400 million of which are merger synergies and the rest, EUR1.1 billion, generated by the new plan. Half of the savings, EUR750 million, will be concentrated in 2014.

In conclusion, we have four large plans focused on the specific projects and objectives. Many of these projects are already underway and others will begin this year. I am confident that the success of these plans will enable us to extract all the potential value and strength of Group Santander in the new cycle of profits and profitability that we are now beginning.

Thank you, very much.

Questions And Answers

A - Angel Santodomingo {BIO 15757370 <GO>}

Good morning. We will, as always, address all the questions received through the web. And if we have available time at the end of the webcast, we will cover also if there are any that we have received through the phone. And as always, I will organize questions through themes, starting by strategy, regulation and perspectives.

We have received a lot of questions so I will try to mention all analysts that have made each question. But it's going to be rather intensive and difficult. So if we do forget somebody, please forgive us.

In terms of strategy, regulation and perspectives, there is a first group of questions around costs. You just disclosed the EUR1.5 billion saving costs. But there are several questions with regards of if we can give some more details, where would the restructuring costs be related to this EUR1.5 billion? We have seen costs in the quarter increasing. What should we expect, going forward? And specifically for Spain, if we can elaborate what is the base cost in Spain and what that evolution may be.

These questions have been made by David Vaamonde from MainFirst; Alex Pelteshki from ING; and Francisco Riquel from N+1.

A - Javier Marin Romano {BIO 3961209 <GO>}

Now, with respect to the cost reduction, we expect about 40% to come from Spain, 40% from Latin America and 20% from the rest of the Group, including the corporate center and the factories.

And the other question was related to Spain, what can we expect with respect to costs. So we can expect for next year a sharper reduction -- sorry, for next year, for this year, 2014, a sharper reduction in costs than what we saw in 2013.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to supervision and regulation, Sergio Gamez from Merrill Lynch asks if we do have an update on comprehensive assessment and the stress test. Do we expect changes or impacts, or what are our thoughts with regards to this exercise in the near future?

A - Javier Marin Romano {BIO 3961209 <GO>}

We don't have any news. Basically, what we said over the last presentations and we confirm that we don't expect any surprise. We think we will get out of the comprehensive assessment very comfortably. You have seen that we have strength in our balance sheet of the last years and that Santander is in a very, very good position.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regard to M&A, IPOs and corporate actions, Alex Pelteshki asks about USA and UK, joined by Rohith Chandra from Barclays. USA the question is, what are our plans with the USA business? We announced a capital injection there. If we could be a little bit more explicit there. And he mentions also RBS Citizens potential sale, if we could add it or not.

On the UK side, there is a question with regards to the potential IPO in 2014, if we do have a timing there or if we could expect it for 2014 or 2015.

A - Javier Marin Romano {BIO 3961209 <GO>}

Okay. First thing, in general with respect to M&A, as you know, we will always analyze any opportunities we find in our core countries in order to strengthen our franchise. However, right now we're not taking a look at anything.

We are making a capital increase in the USA because we feel that the sovereign -- today already Santander US after the rebranding in October will being to grow its balance sheet next year in credit. So capital increase is not only for inorganically). But also for organic growth.

With respect to the UK, the unit is performing very, very well. We are growing very comfortably, especially in the area of SMEs where we wanted to grow. We are transforming the Bank from a mortgage bank into a full-fledged bank with all the segments within it; I'm happy to say with quite success.

And with respect to the IPO, we won't do it in 2014. It's an operation for the midterm. We don't have any commitment or any idea in terms of timing, when we feel that the unit has the appropriate value.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to corporate actions, Rohith Chandra from Barclays asks if we have any further plans for asset disposals. There are other questions also with regards to potential extraordinary items coming, if we can elaborate in potential operations coming forward.

A - Javier Marin Romano {BIO 3961209 <GO>}

As we said before, one of the first points in taking a look into the future, we need to see how we better deploy our capital. So we're always analyzing every area to see which are strategic areas, which are not strategic areas, where can we find some partnerships like in insurance and asset management in order to make our business bigger. So we're permanently analyzing; however, right now we don't have any other plans for any other disposal.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to dividends, Stefan Nedialkov from Citi and Raoul Leonard and (Stanislav Rihuri), also from BNP, asks what is the dividend policy; what could we expect for 2014; will the EUR0.60 scrip dividend continue; what happens if the tax (payable) treatment changes in Spain if you have (for the) scrips? There are several questions around dividends.

A - Javier Marin Romano {BIO 3961209 <GO>}

Well, as you all know, the dividend policy must be approved at the general shareholders' meeting. However, my view is that you should not expect any major change.

A - Angel Santodomingo {BIO 15757370 <GO>}

To finalize this first section there is another question from Antonio Ramirez, saying that most of the capital gains that we have generated have been designated to cover the restructuring costs. How do we plan to use the additional EUR1.1 billion of the rest of the cost, how those restructuring costs will be booked. And how will we use them? I think it's quite a general question; do you want to elaborate there?

A - Javier Marin Romano {BIO 3961209 <GO>}

Yes, no -- basically, we're going to bolster the balance sheet.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving into financial management, there are several questions around capital. We have several analysts, Stefan Nedialkov from Citi, Mario Ropero from Fidentiis, Mario Lodos from Sabadell, (inaudible) from Mirabaud, asking about the fully-loaded data, if we can elaborate on where we stand in terms of capital, both in terms of fully-loaded, what do we expect, how do we expect to evolve; what is the expected generation in terms of capital? So general elaboration about positioning in capital.

A - Javier Marin Romano {BIO 3961209 <GO>}

Well, we don't change our outlook. We already said that we will be sitting on 9% fully-loaded Basel III and 11% phase-in by December 2014 and this is our outlook and that's exactly where we will be.

However, having said this, we are very, very comfortable with the capital position and we should remember a few things. First thing is that, when you take a look to Banco Santander compared to our peer group, our transformation ratio is something like 50% over.

So we expect that the ECB takes a look into this, begins to harmonize and we have -- the figures we have from the Oliver Wyman study that was performed last year is that this should mean, just by going to the average of the transformation ratio of the European banks, between 100 and 150 basis points for the Spanish banks.

The second thing to remember is that the surcharge as a systemic group we have 100 basis points when some of our peers are -- or most of our peers are above that. So we should take not only a look in terms of absolute levels of capital. But also relative.

The third one is that we have a strong organic capital generation that we have demonstrated over 2013. And the fourth one is that capital is there to absorb losses. But provisions also.

So as I mentioned before, the level of provision of our book is 10% above the average level of coverage of our European peers. So we believe we are very, very comfortable in terms, of course, of provisions, definitely in terms of capital. So we stick to what we said, that we should always be sitting by December 2014 on above 9% Basel III fully-loaded and above 11% Basel III phase-in.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to DTAs, Sergio Gamez from Bank of America Merrill Lynch; Raoul Leonard from Deutsche Bank; Francisco Riquel from N+1; Benjie, Macquarie also; and Andrea Filtri from Mediobanca; and Carlos Peixoto from BPI, I'll try to summarize. Basically, they ask where we stand in terms of DTAs; what has been the impact; if they have all been monetized or not; what do we expect; if we expect changes in the treatment of the DTAs; and if we can elaborate a little bit around all these issues?

A - Javier Marin Romano {BIO 3961209 <GO>}

Well, we don't expect any further changes. We still have to see the detailed regulation about this. Our initial approach is that the impact will sit around 100 basis points. However, with respect to our expectations for the levels of capital, we need to deduct from there the advance operational model that we expected to approve in 2013 and we didn't have it and we expect to have it approved in 2014. So this effect has been delayed.

On top of this, we have the effect of the depreciation in currencies. So at the end, the impact on the absolute capital levels has been marginal.

A - Angel Santodomingo {BIO 15757370 <GO>}

Linked to the impact of -- on the ForEx side, there are several questions coming from (Mr. Panierco, Citi); and (Francisco Riquel) from N+1 in terms of the evolution in absolute terms of the capital in the quarter; if we could explain why that capital has gone down in the quarter and what is the main reason for that.

A - Javier Marin Romano {BIO 3961209 <GO>}

Well, it is basically because of the depreciation in local currencies.

A - Angel Santodomingo {BIO 15757370 <GO>}

Finally, on the numerical side of our -- on the impacts on capital, there is a question by Sergio Gamez asking on the impact of the SCUSA operation. What is the positive and negatives and the markup. And if we could elaborate on the SCUSA IPO impact on our financial statements.

A - Javier Marin Romano {BIO 3961209 <GO>}

Well, the consolidation of Santander Consumer will have an impact of around 40 basis points on the capital levels.

A - Angel Santodomingo {BIO 15757370 <GO>}

(Phase-in)?

A - Javier Marin Romano {BIO 3961209 <GO>}

On the phase-in, yes.

A - Angel Santodomingo {BIO 15757370 <GO>}

Remember there that we have a difference in the treatment between phased in and fully loaded. You will see an impact in the first Q in phased in, around the 40 basis points that we were saying; and fully loaded it's close to neutral because you offset the negatives and the positives that we have explained around the operation.

On risk-weighted assets, there is a question by Sergio Gamez saying if we could elaborate on the quarterly movement on risk-weighted assets, specifically Brazil and Spain, the reasons of the drop in Brazil and Spain. But also, in general terms, the reasons behind the evolution of risk-weighted assets and what we expect, going forward.

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

So on risk-weighted assets, as you said, Sergio, went down basically in Spain and Brazil, for different reasons. In Spain, it's due to the business; and in Brazil, the main reason is exchange ratio. Overall, in the year, half on half, 50% of the drop in risk-weighted assets comes from businesses and 50% from exchange ratios.

A - Angel Santodomingo {BIO 15757370 <GO>}

Linked to the question of Andrea Filtri from Mediobanca, if we still have some benefit from the SMEs in risk-weighted assets, we have to remember that in Spain, during the year, we have had this profit or this benefit coming from the SME treatment in general terms that has changed in Europe, as well as in the quarter specifically, impact from the implementation of models that we have been announcing quarterly on each of the quarters.

There is a specific question by Raoul Leonard from Deutsche Bank, if we could elaborate, we can say what is the intangibles amount and goodwill. Goodwill, you have it disclosed. Intangibles, remember that we are in the EUR3.5 billion area, without too many changes.

So as you could imagine, there is a set of questions around hedging policies and impact from ForEx. Raoul Leonard from Deutsche; Sergio Gamez from Merrill Lynch; Carlos Peixoto from BPI; they all ask about given the emerging markets noise, if we can elaborate on hedging policies; if hedging costs are booked or not on the corporate center, what are the impacts in P&L, in capital; if the valuation reserves went down because of these reasons. We already said that they did. The main reason for the valuation in the quarter is ForEx. And I think that's a lot. Basically, if we can elaborate around hedging, the Argentinean position also?

A - Javier Marin Romano {BIO 3961209 <GO>}

Yes. Let me go quickly. First thing, as a Group policy, we hedge 100% of the excess capital that we have in all our affiliates. There is countries where we cannot do it from the corporate center. So, for example, in Argentina, we hedge locally. And today in Argentina, we have a hedge of around 75% of the capital of the unit.

With respect to results, as you know, we have a tactical approach. So we decide tactically to hedge or not to hedge the results in the different units.

A - Angel Santodomingo {BIO 15757370 <GO>}

There is also a specific question of that hedging, what is the result of the full hedging that we have today in P&L, the results are close to zero. One currencies and the others tend to compensate in terms of evolution. So no impact expected on that side.

With regards to ALCO portfolios, also several questions. Rohith Chandra from Barclays; Carlos Peixoto from BPI; Mario Ropero from Fidentiis; Juan Carlos Calvo from Espirito Santo; they question around size breakdown, if we could comment gains, impact, how much is registered on the P&L specifically Spain and specifically Brazil. They mention those two. But in general terms.

And there is a final question saying that their comments or observance that Spanish banks could be (restituting) sovereign bonds in early 2014, if this is our case, what is our position in terms of sovereign exposure and evolution in the short term?

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

Okay, let me to elaborate of our ALM position. Basically, all the ALCO portfolios have the purpose of hedging or trying to hedge into (areas) associated with the current accounts that do not pay interest out.

Those are classified in available for sale. And the total available for sale at the Group level as of the end of December 2013 was (EUR69 million). This represents basically the ALM portfolios, of which (EUR62 million) of this EUR69 million were sovereign bonds, local sovereign bonds.

Split by countries, what we have is in Spain EUR21 billion in the Bank, plus EUR5 billion in the insurance company; I split between the Bank and the insurance company because the purpose is different. EUR3 billion in Portugal, EUR9 billion in Brazil, minus EUR4 billion Poland, EUR4 billion UK, EUR3 billion US. So those are the main holdings of sovereign bonds and the purpose is, as I said, to hedge (interest rates).

Again, I'm speaking the balance sheets are short so higher interest rate means more higher net interest margin. What will help, high interest rate will help the P&L. So there has been a lot of discussion referring to Spain about the (current rate). But I want to remember you that we do not have ECB money. So we pay back all the (euro) we took and we get in the ECB last year, mainly for like an insurance in case of things going still bad.

Those capital gains are when naturally we accrue on the net interest income, in the different jurisdictions. And if we sell and all the banks (go) capital gains, some of them in the corporate center, as I mentioned in the presentation. You asked specifically for Spain, Brazil, I mentioned already the numbers. So those are the main -- I think I elaborate overall the items I think.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to (issuance), there are questions from Raoul Leonard from Deutsche Bank; Carlos Peixoto from BPI; Axel Finsterbusch from JP. And (inaudible) from Morgan Stanley, asking what are our expectations in terms of issuance operational Tier 1 and Tier 2 as we go into 2014 if we work within a specific percentage of capital.

And in terms of issuance, how do we think this market is going to go. I think those are the main questions with regards to insurance of hybrid capital.

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

In relation with hybrids, the new hybrids, I think you're referring to the new hybrids complying with the CRD IV or whatever is the relevant regulation in the different jurisdictions. You make numbers which you issue around 3.5%, 1.5% additional, Tier 1 and 2%, Tier 2, in the next five years, let's say, of the risk-weighted assets. That means that we should be issuing in the region of (EUR15 million, EUR17 million).

We already started. We're issuing in UK, Tier 2. And we may start to issue, probably start to issue, from the parent company this year. And in the subsidiaries it depends on the local regulator allowing then, computing then, these instruments as part of the capital raised.

The question we have on the table. And probably this explains what we are doing, is we still don't know if instruments that we issued in our one subsidiary (computer will play). For that reason, we've been keeping a significant part of the majority of the bonds issued by some subsidiaries. And this is still unknown.

I hope, at some point, we will be able to compute the subsidiaries, the hybrids issued by the subsidiaries, on a (parallel) level, at a consolidated level. And in this case, you will see the issuance I mentioned between EUR17 million is split between the main subsidiaries of the Group. And not a lot then in the parent company.

A - Angel Santodomingo {BIO 15757370 <GO>}

There two specific questions, one regarding the restructuring costs by geography, if we could disclose them. Basically 70% is Spain, 20% Brazil, 10% the rest of the Group.

And if we could also disclose the capital levels from all the parent companies, this is from Axel Finsterbusch from JP. Both fully loaded and phased-in parent company capital levels are around 12%. I think it's 11.97% and 12.2% exactly in both cases.

Finally in this area, we have three questions. One is a general one by (Timo Rizzoli) from Commerzbank. What do we expect from yesterday's coming from the proposal of the EU Commission on banning prop trading and ring fencing certain trading activities? Santander was mentioned as one of the 29 banks that could be affected. That's one.

Second one is ROEs, if we could elaborate on ROEs for the Group, from Jose Martin-Vivas from Mirabaud, for 2015 or in the future.

Third one from Rohith Chandra, asset management disposal if we could comment on the financial impact on the quarter, going forward. Asset management disposal, the impact going forward, in the quarter.

A - Javier Marin Romano {BIO 3961209 <GO>}

First one is the impact of banning of trading what's our opinion. Well, basically, I don't care, because the impact of prop trading in Santander is very negligible. So all the activities related to our treasury is very much linked to clients. So the prop trading that we have that is basically on fixed income is very marginal on the numbers. So whatever comes we will accept it.

ROEs; we delivered a very detailed outlook on ROEs for every unit in the London conference. So I think you have a very much detailed information about the Group and the different units. It's on the web in the Investor Relations' area.

With respect to the asset management disposal, our expectations, why did we do this operation? Well, this operation, we did this in order to be able to have better products for our clients, which definitely should help us to grow the level of funds that we distribute to our clients worldwide. So my expectation, with respect to this joint venture, is that it should be accretive to the Group numbers.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving in to the credit quality area, there are several questions around the Group. And then we have specific questions by unit. So I will first address the Group ones. Benjie Creelan from Macquarie; Rohith Chandra from Barclays; and Fernando Pascual from Espirito Santo; they ask about the q-on-q evolution both in terms of coverage and in terms of ratio.

Where do we see coverage ratios? Where do we see the cost of risk at the Group level evolving? What is our explanation for the evolution in the quarter? We probably have to leverage some on the units but afterwards, we have specific questions for each of the units.

A - Javier Marin Romano {BIO 3961209 <GO>}

Very good. So ratios and coverage. We expect basically coverage to remain where it is. So no major changes. And the ratios, it depends by geography. So probably we will continue to see some deterioration in the ratio in Spain. But we believe that we will continue to see some improvements in Brazil; stable, basically, in the UK and in the US; improvements in Chile. And improvements in Mexico also; and stable in Santander Consumer Finance, to cover all the units.

And the cost or risk we see this decreasing. At the Group level, it will depend in terms of the different units. In Spain, we should see a continuation in the trend of lowering cost of credit to what we said over the presentation, to go between 70 basis points, 60 to 80 basis points, over the next few years. And we're already seeing a decline in 2014.

We will continue to see cost of credit going down in Brazil, basically if you talk about the two big units. And basically stable in the rest of the units.

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. So going into specifically the units now, Spain, as you would imagine, we have several questions. I will try to organize them in three big areas. One is the NPL; secondly is the cost of risk; and third one is restructured reclassifications.

On the NPL ratio, what I didn't name, Juan Carlos Calvo from Espirito Santo; Stefan Nedialkov from Citi; Mario Ropero from Fidentiis; Sergio Gamez from Bank of America; and Ignacio Cerezo from Credit Suisse; they ask about how do we see that evolution. When do we see it peaking? What are the main drivers of the NPLs both in the Q and going forward in 2014?

In terms of cost of risk guidance, you already mentioned some but guidance in terms of where we expect that cost of risk evolving. What are the impacts of the volumes affecting both ratios, NPLs and NPL ratio?

And the third big area is reclassifications; if we had any restructured loan reclassifications in Spain. If we expect them to happen, or if we can elaborate on the breakdown of those restructured loans in terms of quantity and coverage.

A - Javier Marin Romano {BIO 3961209 <GO>}

With respect to non-performing loans, first thing we expect loan growth in 2014. This is new. You remember that last quarter our view was more stagnant, or small reduction in credit in 2014. Our expectation now is for a small increase in loans in 2014.

We don't like to talk a lot about the non-performing loan ratio. I believe, of course, definitely we won't see the big leap, the big jump, that we saw in 2013. So it will move definitely more slowly. But we try to concentrate on cost of risk which is, again, what affects the P&L.

We believe that, this year, the level of provisions should decrease, with respect to last year, by between EUR500 million to EUR1 billion, which should bring the cost of credit to between 100 to 120 basis points.

With respect to reclassifications, we don't have any new ones. We don't expect any new ones. The breakdown is basically 30% normal, 30% substandard, which means that they are performing. And 40% that are doubtful. The average coverage is 20%; of course, we don't have anything for the normal. Substandard has a coverage of between 10% to 15%. And the doubtful has a coverage of 40%.

A - Angel Santodomingo {BIO 15757370 <GO>}

Following credit quality there are specific questions about Mexico. Mario Ropero from Fidentiis; and Benjie Creelan from Macquarie; they ask about guidance for the cost of risk in 2014.

Mario Lodos from Sabadell also asks that he has seen an increase of cost of risk, or an increase of provisions specifically; we can elaborate there if it happens or it is provoked by the viviendera s, the homebuilders. And if this issue has finalized and if it is finally contained or not.

A - Javier Marin Romano {BIO 3961209 <GO>}

First thing, the viviendera s, the homebuilders, it's definitely finalized so we don't expect anything else for this year.

With respect to cost of risk, you saw that the increase for 2013 was due not only to the viviendera s. But also to the change of the way of provisioning where we changed from losses to expected losses, from actual losses to expected losses. So, of course, this should mean that we continue to increase our provision in that side. On the other side, we should not have the viviendera s. So I would say that the cost of risk should be stable to perhaps a slight decrease.

A - Angel Santodomingo {BIO 15757370 <GO>}

Finally, moving from credit quality into the business areas, there are several questions about volumes. First at the Group level, Raoul Leonard from Deutsche Bank asks about the balance sheet shrinkage. What is the reason; what do we expect there; if it is linked to banking regulation or to difficult banking markets, or if we could see a EUR1 trillion balance sheet in the next 12 months. That's a general questions on the Group.

And then we have several questions around Spain. If you want to link that to Spain. Francisco Riquel from N+1; and Jose Martin-Vivas from Mirabaud; they ask about the volume evolution in Spain, what should we expect. Also Alex Pelteshki from ING; what do we think in terms of segments or in terms of evolution, if we could see the lending going up again. And what is the reason of the drop in 4Q?

A - Javier Marin Romano {BIO 3961209 <GO>}

First thing, with respect to the balance sheet shrinkage. Of course, you saw through the presentation what happened in the macroeconomic environment and what happened in the different units. So this basically explains the balance sheet shrinkage.

We are not obsessed with the balance sheet. We are obsessed with the profitability, which is very important. However, having said this, we expect for 2014 an increase of the size of our loan book.

With respect to Spain and the growth of credit, I just said before that we are expecting a small increase in 2014. By segments, our view is that we will see the SMEs and the corporate business growing slightly; the mortgage book still being reduced because, as you know, the mortgages in Spain repay every year and we don't see the new production. Even though we launched some new campaigns and so on, marketing campaigns, we don't see the new production as being able to compensate the reduction due to the repayments -- to the annual -- to the monthly installments and the repayments of the loans.

And the drop in the Fourth Quarter, I think that Jose Antonio already explained that we had basically a reduction of EUR4 billion due to the fund for payment to the providers of the government and of the autonomous regions that was basically amortized. So this was basically the key to reduction in the Fourth Quarter.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to the marketing campaigns you were mentioning, Francisco Riquel from N+1; Jose Martin-Vivas from Mirabaud; and Alex Pelteshki from ING; they ask about the marketing campaigns in our branches, mortgages and car financing, if this changes the mood; if we see (solvent) demand in Spain recovering; and what do we expect and why do we do these campaigns.

A - Javier Marin Romano {BIO 3961209 <GO>}

Well, we do them because definitely we see better demand. Things are improving in the economy and we are seeing every month that the new demand for credit, of solvent demand, is growing.

So that is why we have not only launched the campaigns, we have oiled the machine, that was basically what I was explaining before, in order to speed up the processes going with the reclassifications and reviewing all the commercial process in order to be able that, if the demand is there. And we believe it's there and we are seeing some signs, we will be up to it. And capture as much as we can.

A - Angel Santodomingo {BIO 15757370 <GO>}

There are two specific questions, one from Francisco Riquel from N+1, if we could explain the q-on-q Group operating cost evolution. I think we have already explained this. And also, explaining the slide of what is growing. And why are the reasons in which we are going below inflation or we are investing.

And there is also a specific question by Raoul Leonard. Is the EUR1.5 billion reduction in costs gross or net of tax? If you want to elaborate there, in terms of costs, before we finalize with Spain.

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

Well, the first one was already explained. The second one, the EUR1.5 billion is gross.

A - Angel Santodomingo {BIO 15757370 <GO>}

In terms of Spain NII, there, Rohith Chandra from Barclays; Jose Martin-Vivas from Mirabaud; and Francisco Riquel from N+1; they all question about the improvement in the quarter, why the NII has improved. If we can elaborate on the positive pricing, how much is expected during 2014, both in NII and in deposits. How much we have a big upload of deposit maturities in the next months, the cost, the back book, front book, all the elaboration on the liability cost. And NII linked to both liability and assets.

A - Javier Marin Romano {BIO 3961209 <GO>}

Yes. I guess this is for Spain?

A - Angel Santodomingo {BIO 15757370 <GO>}

Spain, yes.

A - Javier Marin Romano {BIO 3961209 <GO>}

Well, definitely, there's been an improvement. There's been a -- the cost of deposits is going down, as we advanced, it has closed at (1.25) the cost of the stock.

The new production is coming very, very well. You remember, we had the campaigns last year and the year before, basically, the year before, with expensive deposits for the retail that have matured, because the (gross) of that was between September, October and January.

The new production is coming at more than half the cost of deposits that we had last year. And we are being able to retain most of the deposits. So that's good news. We should see the effect this year and next year on a full-year basis.

We don't have big maturities over the next months. So as I mentioned before, the bulk of the campaigns were before, between October and January. And what we expect this year, of course, is a big reduction in cost of deposits; a small reduction in the assets profitability; and overall, an expansion on the client margin.

A - Angel Santodomingo {BIO 15757370 <GO>}

To finalize with Spain, I will classify two questions or two things. One is from Ignacio Cerezo from Credit Suisse, with regards to fees. Why are they (seasonally) weak? If we can elaborate what is the trend there. And the reasons behind the last couple of quarters. That's Spanish fees.

And the second group would be from Andrea Filtri and (Jaime Becemil) from JP, in terms of real estate. In real estate, there is a question about SAREB, if we can give an update on the evolution of SAREB. And the second one is, in our unit, if we can expect NPL sales or we will continue to sell assets in a one-on-one basis. And what are our expectations there.

A - Javier Marin Romano {BIO 3961209 <GO>}

Fees, there's two impacts on fees of roughly EUR60 million. EUR40 million is, basically, due to the merger with Banesto. As you know, we had a program at Santander that is called (queremos su te banco), where we don't charge fees to a certain number of clients, under certain conditions. And this was extended to the clients of Banesto. And this was an impact that we had already foreseen. The other EUR20 million is, basically, due to the corporate banking activity.

The second one, SAREB, probably the update on SAREB, who needs to deliver this is the management of SAREB, not ourselves. However, I should say that we are happy with how things are evolving.

And with respect to sales of real estate, we have sold, this year, 15,000 units. We've been less aggressive as we are seeing the market better than in the previous years. We will continue to sell with the same levels of aggressiveness that we had this year; that is the mid-range.

At the same time, we're developing 119 new plots in certain areas where we see demand. And we never begin this development before we have 35% of the (new) development already sold which, this is good news and which another reason why we are less aggressive in the sales. However, you can expect for 2014 same level of sales that we had this year.

And if we are going to do it on a one-to-one or (in pairs), well, we will see. Wherever we get the best price.

A - Angel Santodomingo {BIO 15757370 <GO>}

And also, a general question from Sergio Gamez from Merrill Lynch; if we can give an update on the poupanca, on the Supreme Court decision for the remuneration of saving accounts coming from the '80s and '90s.

A - Javier Marin Romano {BIO 3961209 <GO>}

Okay. Some views on the macro. The expectation from the IMF is a growth of above 2%, which we are, basically, agreeing with. Interest rates should continue to peak and probably will end the year at around 11.5%.

I think the central bank is doing a great job in order to contain inflation. So we should see inflation, basically, at the same level as we're seeing it right now. We agree with the view of the central bank with respect to the depreciation of the real should be around (250, 255), between (250) and (260) by the end of the year.

However, we should just remember a few things. Brazil is the seventh economy of the world. The level of income of the families has increased 60% over the last years, which has created, of course, a big (discussion fuelled into) high consumption. The net debt to GDP sits at 35%, $400 billion of external reserves. 103 million of middle class; this is very, very important.

So we believe that Brazil will go through a period, probably this year, perhaps some part of next year, in terms of lower growth, which we believe actually is very, very good. By reducing consumption, increasing the savings rate, in order to be able to fund all the investment projects.

You may recall the (BRL200 billion) infrastructure project or plan for Brazil for the next years. So we believe this is very, very good. This will help to keep down inflation, a small depreciation will help with respect to the competitiveness of the Brazilian exports.

So we believe that this period of lower growth is good for the long and for the midterm. We don't believe it will have any implications, at least for us, not much. Aside from the economy, we have definitely great opportunities in our franchise.

The agro business, that accounts for around one-third of the GDP of Brazil, where we have a between 2% and 3% market share, that's one area to focus on. Residential mortgages, there's a big lack of housing for Brazilian residents and there's a very, very good opportunity over there. Infrastructure. And with (BNS), with (Banco Nacional Rosario), where we have, again, a market share of around 3%. It's one of the areas, basically of expertise of the Group. So we can definitely grow.

SMEs, where our market share is 6%, where we have a branch market share of 10%, there's good opportunities, affluent, especially linked to this 103 million of middle class where our market share is also below our presence. So there's huge opportunities for us. That aside from having an economy that will probably not grow at its growth potential, there's still big opportunities that we should profit off.

The other one is the decision of the Supreme Court with respect to poupanca; we don't expect this probably until March. So probably in March we'll have some more insight into this.

A - Angel Santodomingo {BIO 15757370 <GO>}

More concrete questions on the P&L side, we have Mario Ropero from Fidentiis; Stefan Nedialkov from Citi; Mario Lodos from Sabadell Bolsa; they are asking on the three main parts of the P&L. First on the upper part, loan growth for 2014, if we can comment. Linked to that what are our expectations for NII? What are the reasons of the q-on-q improvement of NII? If this is recurrent how do we see it going forward?

In terms of costs, the second big area, how much of the cost increase stems from agreements with unions, or how much is organic growth? What can we expect there?

Finally, on loan loss provisions, again expectations where do we see these, reasons of going down and going forward? Probably also linked to this, NPLs in terms of relative terms with peers.

A - Javier Marin Romano {BIO 3961209 <GO>}

Well, first thing loan growth. We've seen an acceleration of loan growth at our Bank over the last quarter. We have surpassed our peers in Brazilian loan growth, especially in the last months, which has, of course, with a lower decrease of margins, has come into the P&L with an increase in net interest income. This is the reason. More stable margins with growth in credit and growth in deposits, especially (poupanca).

How do we see this into the future? Well, probably for 2014 what we are seeing is nice growth. We think we will still grow, due to the opportunities I mentioned before, above our competitors, very much focused in certain areas. With margins much more stable than we have seen this year, whereas you know we saw a big decline.

Costs; the increase of costs in the quarter is basically due to the agreement with the trade unions. You remember this was an agreement for all the sector under (8.25). We had the full impact on the last quarter. So this basically explains. What do we expect for 2014? Growth costs well below inflation and below this (union) rate.

With respect to loan loss provisions, we expect loan loss provisions going down next year.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving to Mexico, I would say there are two main questions for Mexico coming from Mario Ropero from Fidentiis; Stefan Nedialkov from Citi; and Raoul Leonard from Deutsche Bank.

First one is loan growth and NII expectations for 2014, in terms of outlook and evolution.

The second one is fiscal rate. If we can update on the effective tax rate and why -- or what the positive impact has been in the fourth Q.

A - Javier Marin Romano {BIO 3961209 <GO>}

Loan growth, we see higher loan growth in 2014 than in 2013. There, of course, then a growth in net interest income. We see both nice growth in loans and good growth in deposits. So net interest income should definitely go up.

With respect to the fiscal rate and the impact in the last quarter of 2013, as you know, there was a legal change. So we were able to apply, from a tax perspective, deductions on our loan loss provisions, not with the cap we had before of 2.5% but with the expected loss basis. This accounted for this tax loss carried forward that we brought. We were able to compensate, it was around (MXN1.4 billion).

A - Angel Santodomingo {BIO 15757370 <GO>}

Finally, UK. There is Stefan Nedialkov from Citi. And Mario Lodos; both question around the evolution around NII -- also Ignacio Cerezo, sorry, from Credit Suisse. What is the dynamics we see there, if they are sustainable or not? If we see loan margin erosion on the asset side, what is our loan growth expectations?

There are specific questions around the eSaver. How much has it rolled off. And how much is left? And if the justification of the NII evolution is due to corporate lending or lower liability costs -- evolution in terms of the three main variables in NII, if we can elaborate there.

A - Javier Marin Romano {BIO 3961209 <GO>}

What we expect for next year is basically double-digit growth in NII. With respect to the eSaver, it's basically done.

The last question was the effects of -- what caused the growth, no, in net interest income?

A - Angel Santodomingo {BIO 15757370 <GO>}

The reason. And how we see loan growth, etc.

A - Javier Marin Romano {BIO 3961209 <GO>}

It was a little bit of everything. First thing was the decrease in cost deposits. Basically, as we substituted term deposits that were expensive by current accounts with the 1/2/3 World, which has been very, very successful with more than 2.5 million clients. And an increase almost doubling our current account levels. This implied a reduction in our cost of funding in retail.

We are growing at the double digit in the SMEs' area. At the same time, we have been able to keep the margins in our mortgage book quite nicely.

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay, I believe there are no more questions on the call. As I said, if we have forgotten some names, please do forgive me because it's been a lot of questions and a lot of analysts trying to make those questions. Of course, if there any pending issues or questions, please do call Investor Relations; we will try to address them. Thank you, very much, again.

Operator

Ladies and gentlemen, due to time constraint the conference is finished. Any questions, please contact IR department. Thank you.