Q1 2012 Earnings Call

Company Participants

- Alfredo Saenz, CEO
- Angel Santodomingo, Head of IR
- Jose Antonio Alvarez, CFO

Presentation

Alfredo Saenz {BIO 1422535 <GO>}

Good morning. We're going to begin the results presentation. As usual, I will be reviewing the basic parameters for the year -- for the quarter so far. Then Jose Antonio Alvarez will review the business areas and I'll close with some conclusions.

The first thing to be said is the economic context is still very difficult and also very diverse, depending on the geography. In Europe, at the beginning of the quarter, it seemed that there was some degree of stabilization. But now in the latter part of the quarter once again we see signs of instability in the market. The US, on the other hand, closed 2011 with higher growth rates and remained solid at the start of the year, while Latin America still showed dynamic growth rates of around 3% or more in the main countries.

In this environment the Grupo Santander has applied different strategies depending on the countries and the momentum in each economy. And our priority in all of them was to strengthen our balance sheet aided by our strong capacity to generate results.

Quick overview of the quarter. The three keys were, first, strong gross operating income with over EUR11.35b. That's 8% up on the First Quarter of 2011, enabling us to post a pre-provision profit of EUR6.26 billion (sic; see presentation), which is a new quarterly record and an attributable profit of EUR1.6b.

Second, the Group's diversification. At this time 56% of our profit comes from emerging countries. I remind you that in line with our strategy we have strong local franchises and we continue to improve our geographic diversification, as demonstrated by the latest acquisition in Poland.

And thirdly, we have continued to bolster our balance sheet significantly. In the quarter we have once again improved our capital ratios, both under BIS and EBA criteria. We've improved our funding structure and our liquidity, improving our loan-to-deposit ratio to 115%. And in credit quality we compare with well with the industry in the main areas where we operate. Let's look at each of these points in more detail.

We have continued to generate solid revenues. On the top part of our P&L, the net operating income in the quarter was EUR11.35b. This is an important figure because it sets a new quarterly record for the Group. And it does show a changed trend with respect to previous quarters, with growth over the Fourth Quarter backed by most units, mainly Brazil and Mexico but also Spain, Santander Consumer Finance and the US.

And as we will see later, in most cases the income was purely commercial and hence more recurring. Plus we also had a good quarter in trading gains. As well as this favorable trend in revenue, we see that costs remained virtually stable over the Fourth Quarter and this quarter.

The net result of that is a pre-provision profit of EUR6.28b, which is also a quarterly record, which has enabled us to maintain our excellent track record in this line in our P&L of the last several years in which it has been continuously increasing.

New growth in the quarter puts us again amongst the world's leading banks by profit generation. And it makes our P&L extraordinarily solid and we are extraordinarily able to absorb provisions in very demanding economic contexts.

As a result, at a point in this cycle in which there is high need for extra provisioning, we've been able to maintain sustained profits, as you see on the right hand of the slide. So you can more easily understand the underlying elements, we have subtracted the distorting effect of generic provisions and of the special provision fund we constituted last year in the Fourth Quarter.

These recurring results are due to the Group's diversification and to the right geography which generates 56% of the Group's profit. Of the rest 31% of the profit is generated in mature markets where provision levels are still fairly stable. And 13% of the profit comes from markets with cyclically high provisions and therefore with profits still depressed in relation to their potential, towards which we must move in the next quarter and year.

The Group's international expansion in the last few years has enabled us to build a business portfolio which is better than those of other big international banks. Today we have a stronger presence in emerging markets than our major competitors. We have very strong local brands with critical mass, whilst many of our competitors have banks without sufficient scale in many markets. And this has enabled us to have a better profit mix and a more stable and recurring profit. As a result of all of that we are in an excellent position to normalize our profit.

And speaking about the improvement of our business portfolio, I should refer to the acquisition that we've made in Poland which will merge BZ WBK with the Kredyt Bank. This is a very good transaction for the Group and consistent with our strategy and the Santander business model for several reasons.

First, because we increase our weight in a high-worth core market.

Second, it enables us to become one of the top three players in the Polish national system, far ahead of our nearest competitors.

Thirdly it provides us with an excellent opportunity for growth and to improve our profitability, with annual growth in this period of between 15% to 20%.

And fourthly it meets the Group's financial criteria. But it increases EPS and it offers an attractive return on the investment of almost 13% in the third year.

And according to our forecasts, fifthly, Santander will have at the end of the process a stake of between 76% and 81% of the new bank. Other shareholders will include the European Bank for Reconstruction and Development which has recently announced its entry into the Zachodni Bank's shareholding structure.

So in summary this is an opportunity, a unique opportunity in terms of scale, positioning, profitability and growth potential in Poland.

Third point in my introductory slide was strength of our balance sheet. Beginning with capital ratios, the quarter was a business-as-usual quarter. We closed it with the BIS II core capital ratio of 10.10%. It was up 8 basis points from the previous quarter. And that was obtained by 18 basis points of organic capital generation minus a negative impact of 10 basis points from exchange rate differences. As a result, we have stabilized our core ratio at over 10%, which we reached at the end of 2011.

In EBA terms we have gone up to 9.11%, which is well above the minimum requirement for June.

As for liquidity, the Group has improved the excellent position with which it closed 2011. There were two drivers behind this. On one hand the leveraging has continued in some markets. I should mention especially the Eurozone, mainly Spain, where our commercial gap shrunk by EUR11 billion in the quarter which has put us within the target we announced in the last presentation, covering (technical difficulty) policy, supported by our wide and diversified access to wholesale markets.

We've issued EUR12.2 billion medium and long-term issues to the UK, Latin America and Spain. Additionally, we have placed in the market EUR2.8 billion in securitization.

And the situation can be seen in the following parameters. Our loan-to-deposit ratio dropped from 117% at the end of 2011 to 115% at the end of this quarter. Remember that the ratio was around 150% at the beginning of the downturn.

Additionally the Group has also continued to resort to the three-year auctions conducted by the ECB, depositing most of the funds captured with the ECB as well, which has notably increased our liquidity buffer and improved its structure by replacing short-term funding with longer-term funding. The only bank within the Group with net significant structural funding is Santander Totta with around EUR5b.

The third item (referring) to our balance sheet is credit quality. The Group is still very actively managing its risks. And as a result, as you see on this slide, we compare very favorably with the market in main geographies where we operate. That is in Spain, UK, Brazil and the rest of Latin America.

Overall for the Group, our NPL ratio was at 3.98%, up 9 basis points from the end of 2011. This increase was basically due to the trend in Spain and Portugal which has continued as noted in previous presentations. Brazil's ratio also in line with the market increased in the quarter. On the other hand, Santander Consumer Finance has -- after the strong improvement in previous quarters is now at 4% NPL ratio, which is excellent in its business. Sovereign has continued to improve for the ninth quarter running.

As for coverage, coverage has remained at 62% for the Group. Continental Europe and the UK were constant. The US increased again strongly to over 100% already. And Latin America has maintained high coverage ratios of around 90%.

Moving on to the Group results, in this slide you can see our P&L with the year-on-year comparison by lower equity accounted income and lower release of generic provisions. We can draw the following conclusions from this P&L.

First, the strength of the upper part of our statement, I can summarize it as net operating income, pre-provision profit up 9.2% versus Q1 2011. This growth was based on solid and consistent revenues.

Net interest income and fee income have also performed well, up EUR851m. Trading gains were also better. And the lower income by the equity method was due to reduced stakes in the Latin American insurance holding and in Santander Consumer Finance US and a higher contribution to the deposit guarantee fund.

These good results did not fully feed through to profit because of three factors. Higher provisions due to a significant extent to a non-release of generic provisions, as we will see later; higher tax rate for the whole Group, up from 25% in Q1 2011 to 28% in 2012; and finally, the negative impact of the increase in minority interest after placing part of the capital of the banks into Brazil.

Moving on to gross income, good performance of basic revenues, trading gains and a slightly positive impact of exchange rates. If we look only at basic business revenues, that is net interest income, fee income and income from our Insurance business, the increase in the quarter was EUR530m. It's up 5%. We should underscore the dynamic growth in Latin America. Basic revenues increased for the eighth quarter running, reflecting the rising volumes at double-digit rates and the successful spread management strategy. Jose Antonio will explain in more detail. Both Brazil and the rest of the region have grown in net interest income.

Second, recovery in Continental Europe, partly due to commercial banks and also to a good quarter, particularly in January in GBM, that's our wholesale banking and markets business, after a very weak second half in 2011 in trading gains because of the situation of the market.

As for costs, the costs in Q1 2011 reflect cost containment and investments made in new branches and technology, as well the incorporation of BZ WBK to the Group, which has increased our installed capacity by 517 branches and almost 11,300 employees.

As regards just this last quarter, we see a clear slower growth in the cost of some units, which has enabled us to reduce expenses in the quarter slightly by 0.4% versus Q4 2011.

And finally, loan loss provisions are still high because of the phase in the cycle of some units. Specific provisions increased, partly due to volume growth given the double-digit growth experienced by -- in lending in some Latin American units. And partly also because of the rise in NPLs in some of our markets. This trend was amplified by the impact of generic provisions. In 2011 we released generic provisions particularly in Q1, EUR356 million compared to an allocation of EUR99 million in the same period 2012.

Very well. I will now hand over to Jose Antonio Alvarez so he can talk to you about the quarterly results of our business units.

Jose Antonio Alvarez {BIO 19692884 <GO>}

Good morning. Continuing with the business units, I remind you that on the website we post more detailed information than I will be showing in this presentation, which you may consult if you need extra information.

Starting with Continental Europe, the summary shows that it was a difficult environment for business, particularly in Spain and Portugal, with continued deleveraging and low interest rates as well as high provisions.

The year-on-year comparison for the First Quarter this year is distorted by two effects; the change in perimeter because of the incorporation of the Polish bank BZ WBK in the second semester. And the release of EUR400 million in generic provisions in the First Quarter 2011. So as to make proper comparisons I will compare Q1 2012 with Q4 2011.

Basic revenues have been growing solidly at 5%, with the rise in net interest income, supported by our more commercial banks and higher fee income, especially in GBM, which has had a very good quarter as we will see in the presentation. We had a good quarter for trading gains, also because of GBM and also a tender offer we made in Portugal which brought in about EUR80 million in capital gains. The results in Portugal have been allocated to loan loss provisions in full. So their effect on our profit in Portugal and the Group is zero.

Costs or expenses have gone down 2% across the board. But not Portugal and Santander Consumer Finance, which especially for consumer finance had some restructuring costs in

Q4 2011. Provisions have remained largely stable for this whole area. So attributable profit was EUR584 million in the quarter.

Moving on to the units, there are six units in this geography. In this breakdown you can see clear improvements in the trend. Five out of six units registered growth in Q1, especially Consumer business which posted a quarterly record.

Looking in more detail at the units, beginning with the Santander branch network, clearly reflecting strong deleveraging, as mentioned, with growth in deposits of 2% and a fall in lending of 9%, with an improvement -- significant improvement in our loan-to-deposit ratio, which went down from 130% to 116% in the quarter deleveraging

In the quarter deleveraging was EUR5b. This -- basically deposit growth and foreign lending accounted for this. The year-on-year comparison on profits was very affected by the release of generic provisions last year which did not take place this year. Improvement in net interest income and basic revenues. The return on lending was higher. The (re-pricing) of new operations and the cost of funding was lower thanks to the fall in Euribor from 1.5% to 1%.

Cost of wholesale funding has gone down since Euribor has gone down to below 1%. Provisions remained high because of the phase in the cycle. And our net profit was higher than in Q4.

So in spite of a very difficult environment we have seen gross income grow. And we expect it to continue to grow in the next quarters and costs to stay flat or go down slightly, while provisions will remain high.

The same could apply to Banesto. They've already posted their result and they follow the same trend, deleveraging, business trends similar in lending, improvement in commercial spread, slight recovery of income, costs under control and provisions still high and the non-release of generic provisions that I already mentioned for the Santander network.

Moving on to the business in Spain, overall this is our business in Spain. So combining all of our businesses, the Santander branch network, Banesto, GBM Spain and Santander Consumer Spain and Banif. Our total gross lending amounted to EUR215b, EUR280 billion after provisions, of which almost 50% was the businesses, without real estate purpose, significant mortgage contribution in the real estate purpose going down.

Total deposits were EUR188b, including EUR8.3 billion in retail commercial paper, which were actually term deposits that we have marketed as retail commercial paper. And that's the way we split them. And the rest are demand deposits, EUR80.4b. Which brings our loan-to-deposit ratio in Spain, all of our businesses in Spain to 111% with an excellent track record. And the drop demonstrates the deleveraging of the business in Spain.

Moving on to more detail about our lending portfolio in Spain, in the quarter, we see a clear trend. The fall, very significant fall in lending to businesses in real estate in the quarter, that's down almost 8%. And a fall also in lending to individuals, that's mortgages and consumer finance. Overall, lending to business remained stable and has been since December 2010 to the end of Q1. We are at a level that has remained fairly constant in Spain.

For NPLs I think the same trends continue. Mortgages are still performing well with stable NPLs at 2.6% for the remainder of our portfolio. This is all the rest except for real estate, a slight rise 3.7%, a ratio that is rising but very, very slowly. And in real estate NPLs have continued to rise. But that's also the denominator effect because of the shrinking size of our portfolio in that area.

But all in all, in spite of the slight impairment our credit quality remains much better than the industry, as our CEO has already explained when comparing different countries and ourselves with our peers in those various markets.

As for real estate exposure, I mentioned that we have reduced the balance sharply. Our exposure has gone down 43% since the beginning of the crisis, since December 2008. Allocated and foreclosed properties have remained stable for the Second Quarter running and so we think that they already peaked and they're beginning to fall. And we successfully sold a large number of properties in the quarter. We've sold EUR900 million in foreclosed assets, although we've only accounted EUR500 million because the contracts were not formally completed. So in the next quarters we will see significant drops in the Bank's foreclosed properties.

As for coverage, for our whole real estate exposure coverage is much higher than the average of the sector. And foreclosed properties were at 48%, (43%) for doubtful loans. And in those described as substandard we have EUR600 million in provisions. And these are all loans that are up-to-date in their payments. So we think these are the appropriate coverage rates based on our experience in the market.

But with the new law we expect prices of properties to gradually come down in the next quarters, as well provisions. And therefore by the end of the year we expect to be compliant with the level required by the new law.

Moving on to Portugal, the first point, here there's two sets of numbers. First we'll talk about data in local terms to compare ourselves with our benchmark in Portugal. You can see that our position in Portugal is much better than that of our peers in the country, both in our capital ratios. Our core capital ratio is much higher than the average of the market and our NPL ratio is less than half that of our peers in that market. And coverage is much higher. So local criteria, we are in a very strong position in that market.

Having said that, deleveraging continues very clearly. Lending falls by 6%, deposits rise by 6%. As a result we've been able to reduce our commercial gap and cover the maturity for the next years which you see in the last part of this slide, EUR1.5 billion in maturities over the next years.

As for our results, we've seen some recovery in the quarter. We've seen improvement in lending spread and a reduction in expensive deposits. Portugal is a country where we decided not to compete for expensive -- extraordinarily expensive deposits. And as a result we've been able to more efficiently improve our net interest income and improve our funding costs.

We've had higher fee income thanks to GBM. We've had significant trading gains due to that tender offer for securitizations issued by the bank which brought in about EUR80 million which have all been allocated to provisions, to loan loss provisions.

Costs have continued to be under control. That's for personnel and general overhead. And we posted EUR33 million in attributable profit in the quarter, which is a level of profit generation which we think will continue in the next quarters.

Moving on the Santander Consumer Finance, still positive trends here. What we see in Santander Consumer Finance versus other years does not include what is now part of the US geography. So Santander Consumer Finance US and Santander Consumer Finance UK, which is now part of the UK geography. And what we see here therefore is a business that is still growing well. It's ahead of the cycle and very geographically diversified. Half the portfolio, as you see, is Germany EUR30b. There's EUR7 billion in Italy, Nordic countries and Spain; Poland EUR3 million and the rest is basically Austria, the Netherlands and Portugal.

Good recurring results, flat costs, credit quality improving. This business is further ahead in the cycle. NPL's peaked, as did provisions a few quarters ago. And volume growth in Germany was particularly significant and also in the Nordics. As a result, strong growth in profit in Germany and Poland and Spain is also showing a positive evolution of profit because of a very strong fall in provisions which we saw already last year and which continues this year. So in short, a very solid area with good trends.

In the annex you have more detailed figures with the same perimeter as we posted last year, which has changed significantly in this area. That is if we included the US and the UK, profit would have been EUR317 million in the quarter.

As for Poland I'll just explain about BZ WBK since the CEO has already discussed the merger with Kredyt Bank. I'd say that BZ WBK continues to deliver in volumes and profits as well as in credit quality. The NPL ratio is going down significantly to 4.7%. That's 1.7percentage points lower than a year ago when it entered the Group.

Lending has increased 15%, deposits 6%. So significant business growth which does feed through to our profit, which was 16% higher attributable profit. If we compare with Q4 2011, we see a strong trend too, with a slight increase in income, lower costs and lower provisions and profit growing at double-digit rates.

So I'd say in summary that in Poland we are certainly on track to obtain the results that we issued as guidance when we acquired it.

For the United Kingdom the income statement has been very weak, affected by low interest rates and low activity and high funding costs by wholesale funding and deposits. This has exerted pressure on the financial market on the generation of income. Income fell 12% year to year, basically, as I said, because of pressures on the spread.

Volumes are flat in SMEs and growing well in SMEs, although very weak in mortgages. There is a fall in deposits because of our policy of not going into marginal deposits than in trying to optimize the account then for any other reasons. Therefore revenue has fallen because of these negative elements.

There are also some positive elements that you can see in the spread, the improvement of the margins on mortgages and corporate loans. There are more provisions because of the higher growth of corporate lending and also because we are keeping the same level of coverage which went down in 2011. So in a very difficult environment affected by low interest rates and high funding costs, our (account) nevertheless has gone down one notch. And we think that we are now at another level which we understand will be recurrent, looking forward.

Brazil. As you all know good macroeconomic environment, although growth has slowed down a little bit. Growth figures are 3.5% right now. Recently the government announced stimulation measures lending to the industry to try to re-launch growth which, as I said, is at levels of 3.5%. EUR848 million is the profit. Lending grew 19% year on year, spurred by mortgages, consumer credit and SMEs. So lending grew 19%, in line with the trend in the industry which hasn't grown too much in the First Quarter.

And results are also growing at two digits. The results reflect the growth in volume. The spreads are contained, despite the noise that is being generated, with the public banks trying to reduce some prices in the products that have the higher spreads in the country. But that hasn't had too much of an impact so far.

So the cost increased 8%, a combination of 5% inflation with the opening of 128 branches which is 6% more network.

Net operating income rose 17%. And then there is an increase in the NPL rate in the country. So provisions grew strongly. This is a sector trend. We hope that the NPL rate will remain at the same level. We don't expect it to rise significantly in the next few quarters. We think it's going to reach a peak in the second half of the year.

The bottom part of the P&L, there is a negative impact due to higher minority interest because we sold 5% of the bank. So, in brief, the bank continues, after finalizing the integration in June, at a very good cruising speed in activity, which affects the revenue. And there are favorable expectations for earnings. We think that we are in line, on the right track to achieve the levels of about 15% that the management of Brazil mentioned at Investor Day in September.

The rest of Latin America, in other words right LatAm ex Brazil, good growth as well. Deposits and lending growing at two digits. The margins are improving, good expectations for the rest of the year. Growth on GDP does help in this.

If we look at the P&L for the whole area, revenue is growing well. The net interest income is about 22%. It has evolved very well. Fees grew at 7%. So in summary what we see is an acceleration of profit, of the basic revenue, which means that the quarter has been much better than any quarter in 2011.

So two-digit growth in Uruguay especially and Puerto Rico, up 32%. Colombia increased 18%. The sale of our business in this country is expected to be completed in the Second Quarter.

If we look at Mexico in more detail, performance in Mexico has been very good. The business in growing at two digits, more than 20%. Lending and deposits are growing at two digits, as I said. We are gaining market share. And in deposits, sight and term deposits we are also gaining market share.

Basic revenue continued growing. Quarter to quarter we've seen this growth. There is a decrease in trading gains this year as compared to last year because in the First Quarter of last year we sold the shares of MasterCard and Visa.

The costs grow at 12%. There has been -- we've hired more people. So provisions grow in line with lending. Last year we had a (GE) mortgage portfolio with a very high coverage, about 200%. And the NPL ratio is 1.61%. Profit was EUR388m, a new quarterly record. For the franchise it's doing very well gaining market share and that has an impact on the P&L.

In Chile, growth is weaker here. We're focusing on spreads which is reflected in moderate growth in lending. The spread is not too attractive. It has increased more among individual customers and less in corporate. Retail deposits grew 16%. Our revenue is recovering. There is a reduction in the trading gains because of the rise in long-term interest rates. Costs are slowing down, at still high levels 8%. Provisions increased (52%). This is a specific impact in the financial system reflecting some impairment in credit quality and more restricted lending after the case of La Polar.

Therefore attributable profit was 20% lower and at constant perimeter it would fall 5%. We think that Chile is in condition to continue to produce consistent earnings in the next few quarters.

With regards to the United States, we're including this reporting area which includes the activity of two units, Sovereign Bank and the Santander Consumer USA business, which is consolidated by the equity accounted message. The 2011 results were restated with the same criteria so that we can compare figures. In 2011 Santander Consumer USA was included in Continental Europe.

If we focus on Sovereign's activities, loans and deposits grew at 5% and 7% -- 5% and 7% respectively, reflecting a certain economic recovery. $191 million was the profit up 9%. Net interest income declined because of the fall of long-term interest rates, which are practically zero. And the reduction of the portfolio. I remind you that when we acquired Sovereign we had a (EUR10b) portfolio that we put in a run-off and that has been reduced or it's been reduced.

Good performance of fee income and we have an increase in costs. As you know we are investing in changing the IT platform of the bank and also because of the commercial effort that we're making with new businesses, new market segments because we had a (first) status with certain restrictions and now we have a status that allows us to do all sorts of activities.

Very good performance of the NPL rate, under 2.5%. I remind you that a few quarters ago it was more than 5%. And the coverage increases as well. So we have to make less provision for that.

With regards to the Consumer business in the United States, it contributes a $123m. If we compare to 2011, where it was a $120m, well there are two things that we need to state here. That we sold part of the business and also that in the First Quarter of 2011, there was a releasing of provisions. If we compare to other quarters the business continues to have high recurrence. The perimeter effect is of (50m) because of the reduction of the stake. And, as I mentioned earlier, the First Quarter of 2011 there was an impact. So the profit of this new area reporting was $314m.

If we look at corporate activities now, in corporate activities the interest margin is practically the same. There are several elements here that we have to mention. A lower margin, a lower cost of the wholesale issues, that's why it remains relatively stable.

With regards to trading gains in the corporate center, well what affected it the most are exchange rates, the euro versus the other currencies that fall under this category and the impact that exchange rates have in the collection of dividends. And this is why the performance this year is relatively better than last year.

And the lower provisions and write-downs for foreclosed properties offset the reduced recovery of taxes. So the corporate center contributes as compared to last year EUR91m, EUR91 million less is reduced from last year figures.

And now I give the floor to the CEO who will give us the conclusions.

Alfredo Saenz {BIO 1422535 <GO>}

To conclude, Santander will continue to maintain differentiated management by areas in order to adapt to the specific conditions of each market.

In Spain and Portugal the Group will have to manage an environment that will be very weak in the coming quarters. We envisage deleveraging continuing due to reduced demand for loans and focus on funds. We will also be demanding in provisions as befits the economic environment. And in the rest of developed market our management will focus on strengthening key areas for future business growth.

In the UK, the focus is on companies, without forgetting the linkage potential we still have with individual customers as well as in retail deposits.

In the United States, we will continue to improve the commercial franchise, which will enable us to expand the range of products offered and the profiles of the customers that we target. The conversion of Sovereign Bank into a national bank association and a new IT platform will drive this transformation.

In consumer lending we aim to consolidate the levels of penetration and the results achieved and maintain profitability differentials with our peers. Moreover the strategy followed in agreement with producers gives us growth possibilities. Of note are Germany's solid results.

In the emerging markets we continue to take advantage of the good macroeconomic environment to maintain high growth rates. We see a good evolution of profits in Latin America driven by revenue growth. And in Poland we will progress in the integration while leading the envisaged growth path of profits.

In short, diversification, balance sheet strength and the generation of recurring profits enable Santander to face 2012 confident of continuing to produce good results in a still complex environment.

Thank you.

Questions And Answers

A - Angel Santodomingo {BIO 15757370 <GO>}

Good morning. We're going to start answering the questions that we got over the web page. We will try to cover all your questions. We will group these into different subjects so that we have time to cover all the questions and answer all the questions.

The first group of questions is on strategy and regulation. And Sergio Gamez from Merrill Lynch, Antonio Ramirez from Keefe, Britta Schmidt from Autonomous, Paco Riquel from N+1, Patrick Lee from Royal Bank of Canada and Alexander Pelteshki from ING ask two things.

First of all, the statements made by the IMS with regards to the need for public capital, proposals of ring-fencing and the creation of a bad bank in Spain and, related to that, the role of the deposit guarantee fund in Spain, whether you think more support will be required, more leveraging. What will be the schedule for that? If proper capital will be needed and, generally speaking, how do you think the funding will be solved for the deposit guarantee fund in Spain?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well there's nothing under the thumb here, nothing new has been said. The IMS has said things, very clear things with regards to the key Spanish banks and emphasizing their soundness, their solvency, their capacity to generate results and their strength. And we seem to forget that when we refer to statements made by the IMS. But the first thing the IMS said was precisely that and underlined these strengths and soundness of these banks.

And what the fund says is what we are also saying. This is what our Chairman said in our General Shareholders' Meeting. We have to continue with the provisioning of the sector and we have to agree with the fund in that regard.

With regards to what has been called the bad bank, although it's not really a bad bank but that's how we're calling it, the basic problem here is that banks must manage the real estate assets they have. And this process of managing these assets, some people believe they can do it themselves, which is our case. We have the capacity to manage our own real estate assets.

And in fact in the First Quarter of this year. And I think this appeared in one of the slides, we -- the last quarter of last year and the First Quarter of this year we are selling as much as is coming in. And we hope at the end of 2011 to have achieved a fall of these assets. So we are managing these assets ourselves. We're doing this well.

We are going to speed up the sales of those properties. The Royal Decree of February will make it easier to accelerate the selling of these assets. And this is very important that we manage this process well. How we do it is not that important. So, I repeat, we are managing this ourselves and we're doing it well. We're very pleased with how we're doing it. And you'll see that in 2012 you will see a fall in the net stock of these assets in our Group.

And with regards to the deposit guarantee fund, nothing has been decided yet but we know what is happening and we know what the rumors are. And we're not very enthusiastic but we will accept the fact that the deposit guarantee fund will have to pay for the remaining restructuring.

How is it going to do this? Whether through a loan that is anticipated to the fund or through quotas that have been -- or installments as have been mentioned, well we don't really know. We will have to see what the government has to say about this. The deposit guarantee fund increased from 0.6 to 2 per thousand recorded and we don't think they're going to change. They're going to continue at that 2 per thousand level that they are in now.

So the capacity to pay the bills, let's put it that way, to pay for the restructuring of the fund is of about EUR2.6b/EUR2.8 billion a year. And if I had to anticipate more, then we will have to see how that is done. So that is the situation we're in so that nothing has yet been decided yet.

A - Angel Santodomingo {BIO 15757370 <GO>}

And talking about regulations, the group of analysts that I mentioned before, together with an anyalst from Citi, asks about the Royal Decree 2012. With regards to real estate assets in Spain, if you've made any provisions in this quarter. If you're going to do that. When do you expect to do that? What will be the schedule for that? And what will be the impact of the expected Royal Decree, taking into account that we already announced the amount?

Britta Schmidt asks about the charges of Banesto, the (375) and (475). I remind you that the intergroup accounts are cancelled in the consolidation and the only thing there is a reclassification of some of the charges and payments of Banesto. So -- but the main question is on the Royal Decree.

A - Alfredo Saenz {BIO 1422535 <GO>}

We closed the year 2011 with very high coverages for real estate assets, much higher than the rest of the sector. The same thing can be said about doubtful loans and substandard loans and also for foreclosed and repossessed. We closed the year with higher coverages than the rest of the sector. And we did this because of the extraordinary charge of EUR1.8 billion that we used to improve these coverages.

And we can't forget that now what Banesto did the First Quarter was to -- was it catched up with the Group, because all levels should be at the same level within the Group. So what it did was to catch up with the rest of the Group. In the First Quarter we haven't charged any provisions for the Royal Decree because we're having to apply the international accounting standards, the IFRS. And the transactions that are made in the market are still at prices that would not justify applying the levels of provisioning required by the Royal Decree.

We will do this gradually in 2012 as the market reflects these new prices, which it will because of the higher demands of the Royal Decree. And therefore, quarter to quarter, we will see how our provisions and therefore our coverages coincide with market valuations of the different assets.

How much do we need in 2012 to comply 100% with the Decree? Well, after discounting the Colombia capital gain, which we haven't applied yet but that we will to this effect, we would have about EUR1 billion to apply in the form of additional provisions from here until the end of the year.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to acquisitions or M&A operations in Spain, Autonomous and Barclays ask whether we are involved in the processes of Catalunya Caixa and Banco de Valencia. If there are -- and other analysts ask if we are considering buying something in Spain. Do you think this is the right time to buy in Spain given the deleveraging?

A - Alfredo Saenz {BIO 1422535 <GO>}

We were asked the same question last quarter. Conditions have not changed since then. We have been considering and we will continue to consider and study all the banks that come up for sale and we will continue to do that. And I can't say much more than that. We'll see.

A - Angel Santodomingo {BIO 15757370 <GO>}

These two analysts with Antonio Ramirez from Keefe ask for the possible IPO in Mexico. Are you thinking about doing that? When would that be? And would it be 25% of the capital?

A - Alfredo Saenz {BIO 1422535 <GO>}

The answer to that question, because we've been asked that question in previous meetings, well the strategic decision of floating 25% in Mexico has been made. We made that decision, 25% of it. When, we don't know. It's going to be done in 2012 if market circumstances don't change. So we will do that this year, that IPO of 25%. And we have already started to prepare that IPO. And that's common knowledge.

A - Angel Santodomingo {BIO 15757370 <GO>}

Within the area of financial management there are several questions on the ALCO portfolio from Alexander Pelteshki from ING, Antonio Ramirez from Keefe and Paco Riquel from N+1 and Ramenghi from UBS. On the exposure can you break down the LCO portfolio of the Group duration and contribution to the margin, specifically how much do you have in public debt, Spanish public debt? What about the maturities?

And also Matteo asks do you think it's reasonable that it's gone up from EUR5 billion to EUR10 billion in the First Quarter?

A - Alfredo Saenz {BIO 1422535 <GO>}

The portfolio available for sale, we don't hold portfolios to maturity. We don't classify any portfolio as held to maturity. So the ALCO portfolio is what is available for sale. And that amounts to EUR86 billion for the whole of the Group, of which EUR63 billion are public debt and EUR23 billion are other assets. Sovereign debts basically in Spain, where we have about EUR35b, we've increased it by about EUR6b/EUR7 billion in the quarter.

We have (technical difficulty) for the rest of the Group another EUR16b. These are basically portfolios in Poland, Chile. And as for the rest of the EUR86b, EUR63 billion sovereign debt, EUR23 billion (is not). But basically those assets are mostly in Phoenix in the US. The rest is various assets in the different banks.

Mean maturities, we're asked about, or mean terms. In general it's between a year and a bit in emerging countries and three and bit, or three and a half, in the more mature economies. The contribution to our trading gains may be 3%/3.5% in the whole of the Group.

And I forget if there were some other questions.

A - Angel Santodomingo {BIO 15757370 <GO>}

Do try and speak closer to the microphone. And connected to that there are several analysts, Antonio Ramirez from Keefe, Matteo Ramenghi from UBS, Sergio Gamez from Merrill Lynch, Britta Schmidt from Autonomous, Rohith Chandra from Barclays were asking about the LTRO. How much have we used? How much is the net and the gross and were there plans to use what we asked for in the two LTROs?

The increase in AFS is EUR13b. I think you've explained already in a previous question. And the funding plans for '12 and '13 in wholesale markets, what are we planning to do and how do we see it?

A - Alfredo Saenz {BIO 1422535 <GO>}

Right, beginning with the LTRO the ECB and the two auctions, our position is still net, basically 5 in Portugal. They're gross figures which we're always asked about in Spain, in the whole of Spain, all the Spanish units. We've taken up in the two LTROs EUR35b. And we've deposited a bit over that amount, although that varies. Right now it's around EUR37 billion deposited with the ECB.

And as for Portugal, we're using EUR5.3b. That's the latest figure we have for Portugal. And those are the numbers for LTRO.

The AFS increase we've already discussed. And the funding plans 2012/2013, well it will depend on the subsidiaries. We have planned to issue depending on the subsidiaries. The biggest issues will be in the UK where we have the plan to issue EUR13b. In the year we've already issued EUR8b. In Spain and Portugal the deleveraging covers some need for issues. So the EUR35 billion we've deposited with the ECB is a cushion in a worst case scenario.

We will continue to issue if the market is open or in good condition to retain a presence in the market in the two products we generally issue. In the UK the EUR12 billion or EUR13 billion we've said basically with securitizations, covered bonds and some senior debt issues. And much more modest amounts. In Chile we might issue EUR1 billion or EUR2 billion and in Brazil EUR3 billion or EUR4b.

Additionally there is securitization activity. (Finance in) the US business is very active and it's funded with securitization. And the business in the Nordic countries and in the UK is also being funded with securitizations. And these are basically the issuance plans we have in the Group for 2012 and beyond, 2013. So, in summary, in mature markets, Spain and Portugal, deleveraging is basically equivalent to maturities and we will issue to retain a presence in the market -- in other markets, that's the specific plans we have.

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. There is a question about trading gains in Portugal. I think that was clear in the presentation. Jose Antonio has said that it was because of that tender in Portugal. And basically it's all been allocated to provisions. It's a high amount in trading games and a high amount to allocations in the lower part of the income statement.

Antonio Ramirez is asking about portfolio sales, if we've made any and for what amounts and what asset classes?

And there's a question by Rohith Chandra from Barclays also on trading gains and whether we can give them the breakdown and whether it's sustainable, this kind of figure. And he refers to Banesto again and the EUR154 million that Banesto reported. And, again, remember that they've reported everything. It's in different parts of the consolidated accounts. And specifically the EUR254 million we have at the top is because of the divestment of Banesto portfolios.

There's also a question about CB funding, which I think you've already answered.

A - Alfredo Saenz {BIO 1422535 <GO>}

Right. So the trading gains, I said that GBM has had a very good quarter. There is nothing beyond the Portuguese tender. So non-recurring. There's also some element to compare with Q1 2011. And we're sure that this quarter was better. But basically GBM has had a good quarter, plus there's capital gains in Portugal. We have not sold portfolios in any significant amount, nothing that has had a significant impact, well no impact really on the portfolio at all. So that's all I can say about that.

A - Angel Santodomingo {BIO 15757370 <GO>}

There's some people asking for more detail and financial aspects about whether Q1 includes the capital gains to the debt buyback. We've already discussed that. And what we announced yesterday, of course, is not reflected in the results of this quarter. A question about the tax rate ahead and basically extrapolating Q1, that might be a good proxy for 2012.

Andrea Filtri from Mediobanca is asking about EBA capital ratios, if we had reflected the provisions of the new Royal Decree? I think we've already explained what the impact of that law is going to be and how we're going to do it.

And someone from Natixis is asking about the impacts of the deferred tax assets and the Basel III. And in general the phase-in. I think we've announced already several times that the impacts of all those new frameworks will use up between 15 to 20 basis points annual, starting in 2015.

And finally to finish this part, we have some more questions on strategy and regulation about dividend. Jaime Becerril from JP is asking about the payout plan. Why don't we cut dividends instead of selling or reducing our stake in businesses or subsidiaries?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, we've already confirmed to the AGM what the payout policy is going to be. And I'll repeat it here. We are committed to maintaining the dividend of EUR0.60 per share. Placements of IPOs in markets are not connected to capital generation. And therefore with the alternative of bringing down the dividend. The IPO in Mexico was a strategic choice, as was the IPO in Brazil and as will be the UK IPO when it happens.

There are strategic reasons behind it, which we've already explained, which I won't elaborate on again for the fifth or sixth time. This basic strategic issue is connected with management, with the Group's valuation, etc., etc. So it's nothing to do with dividend decisions. And the dividend will remain at EUR0.60. This year we approved three scrip dividends, as you know, in the AGM. We will have four interim dividends of 0.15, of which three will be scrip dividends. And that's the policy we've announced and confirmed.

A - Angel Santodomingo {BIO 15757370 <GO>}

There's a question from Matteo Ramenghi from UBS about the amount of hybrids we have in Tier 1 and what the Tier 1 level is. There we have about EUR63 billion Tier 1, of which EUR4 billion and a bit are (preferred). And whether intangibles are included in core capital. You know that they're included according to EBA and Bank of Spain ratios but not under Basel today. But they will be in Basel III obviously.

Moving on to risks, for Spain, several questions. One by Matteo Ramenghi from UBS, Alexander Pelteshki from ING, Ronit Ghose from Citigroup about NPL trends in Spain by segment, mortgages, SMEs and trends in those segments. Coverages and ratios, I think you've already said something about in the presentation. And specifically with developers they want a breakdown of the loans per segment and the NPLs per segment and how do we expect our exposure to develop as to evolve in the future? So it's all about NPLs in Spain.

A - Alfredo Saenz {BIO 1422535 <GO>}

Okay. Let's see if I can be a bit more specific. I may not be able to give you the exact breakdown of everything you're asking for. Trends, we believe NPLs will continue to rise in 2012. And probably somewhat, although not as strongly, clearly. But will continue to rise somewhat in the first half of 2013. So the NPL peak will not, I think, happen in 2012 but rather in 2013.

Where will NPLs be in Spain at the end of the year or throughout this year? It's hard to predict. It may rise from the figure we've just posted to maybe another 0.5% by year end, less certainly next year. But it could maybe go up another 0.25 or 0.3 in the whole year. And this should peak probably middle of next year.

By segment there is a table that we showed in the presentation in which we tried to answer that question, looking at total NPLs in Spain and the breakdown between real estate, household mortgages and other loans, showing a breakdown by different segments, how much in our balance belongs to each segment.

And so in this graph, which I'm going to try and find again, here you go, what you see there is basically that loans with real estate purpose, which are basically real estate developers, EUR32 billion -- sorry, EUR22 billion -- the EUR22 billion which are loans for real estate purpose have had a very high NPL, as you see, of 32.8%.

On the contrary, the rest of the portfolio has performed quite well until now. Individual mortgages, NPLs have remained flat in certain fears and certain rather hysterical predictions about how, in the future, Spanish banks, because of the recession, would see their NPLs rise because of individual household mortgages. Well none of those predictions have proven to be true, neither here nor in any country where the economic context is similar.

Household mortgages are extremely resilient and their NPL is stable. It may rise a little but really quite insignificant amounts and really not a concern. In fact, in the quarter, if we look at the real data, not a prediction, in Q1 actually NPLs for household mortgages has gone down 0.1%. So that's the facts.

As for the other segments, basically, as you see in this slide, other loans to individuals and to businesses, not in real estate, you can see that NPLs have remained fairly stable, from (3.5) to (3.7). In the whole of 2011 it went up 0.4%. And of course it's gone up 0.2%. So a bit more. And probably that trend will continue. But we can't assume that there's going to be, in that segment, any major concern than what we might reasonably expect. With the EUR105 billion of loans to companies plus EUR19 billion to other loans to individuals, NPLs are at a very normal level.

As for how do we expect the developer loans to evolve, if you're asking me with the application of the Royal Decree where we will be at the end of 2012 in this segment, by applying the requirements of the Royal Decree, coverage will be high at the end of the year for doubtful -- for NPLs 33% and for substandard 16%. So that's basically what we predict for the end of the year. And we'll have not EUR22 billion but probably quite a lot less, EUR17 billion or so at the end of the year. So we expect fewer entries and certainly much more sales.

A - Angel Santodomingo {BIO 15757370 <GO>}

There's a question from Axel Finsterbusch from JP and Andrea Filtri from Mediobanca about our exposure to YPF. What do we expect to happen there and to (AFI) and ACS? You know that the Group policy is never to report customer-specific data or exposures to any particular names, our policy is to have well diversified portfolios and substantial final takes in these operations. So there's nothing new to add there, I think.

They're also asking why coverage has gone down. I think you've already talked about that for real estate property in Spain. Now that that entry's come in with less coverage and outgoing, go out with high coverage. So it's normal for small variations in the quarter.

Same question from David Vaamonde from Fidentiis. He's asking about sale of portfolios, if we sold off any portfolios. Can we elaborate a little bit about the sale of loan portfolios and whether the fall in our exposure is because we've sold portfolios and what have we planned to do in the future in this area?

A - Alfredo Saenz {BIO 1422535 <GO>}

Okay. Portfolio sales are recurring, a relatively recurring activity for the Group and we will continue to do it in every unit. It's more common in consumer finance and cards and so on, where it's very, very common indeed. And it's slightly less common in other areas. And I suppose that's what they're asking, whether we're planning to sell our real estate portfolio in Spain.

We don't have any specific plans. But of course we wouldn't discount that possibility. As a normal activity it's not going to significantly change neither NPLs nor standing balance. So it's part of the usual process of portfolio sales that happen in the different subsidiaries depending on their own default management policies.

A - Angel Santodomingo {BIO 15757370 <GO>}

Axel's also asking from JP about substandard in Spain. We produce an annual report that you received at the end of -- with the close of last year. It's been published just a few weeks ago. And about total generic revisions also in Spain, just under EUR400m, EUR369m, I think it is, or EUR370m.

Moving on to other areas, questions about the UK from Britta Schmidt from Autonomous, Ronit Ghose from Citi, Matteo Ramenghi from UBS and Patrick Lee from Royal Bank of Canada, asking us to explain about the rise in provisions in the UK and whether it's going to continue, whether this run rate of 33 basis points up to 40 across the risk could be a good proxy and whether we expect more charges from the corporate portfolio or any other. So by segments if there's a one-off. It's all about the UK and provisions.

A - Alfredo Saenz {BIO 1422535 <GO>}

Right. In the UK there has been a slight increase in provisions. And that's for two reasons. On the one hand, a change in our business mix, in fact in the last month we've had more activity in lending to SMEs. Mortgages we've grown, well, growth has been flat in lending. But for SMEs we have grown our lending by over 20%, although of course the initial volume was small. But nevertheless, 20% growth does change the mix and the kind of loan that requires more provisions than mortgages. That's one reason.

And obviously that will continue since Santander UK wants to increase its penetration in the SME segment. That's part of our strategy for the unit. That effect will continue. And that will affect NPLs and provisions because of this change in the business mix. And then we've also had, in the non-core corporate part, the part that's run off and not non-core, including social housing, we've had slightly higher increase in provisions. And that, together with what I've just explained, which was the biggest contribution, had meant a slightly greater need for provision. But I do want to underscore that our provisions levels in the UK are very conservative, very well provisioned indeed.

A - Angel Santodomingo {BIO 15757370 <GO>}

The same group of analysts, plus Paco Riquel and David Vaamonde from Fidentiis, are asking pretty similar questions about Brazil and whether the rise -- we consider that the cost of risk which has caused this increase will continue in the future and why there's been this increase and our expectations. Some of it connected to rising volumes, that 90% rise in the loan portfolio. And whether we're adjusting our net spreads, based on the question to the ones about the UK but about Brazil.

A - Alfredo Saenz {BIO 1422535 <GO>}

Okay. In Brazil, in the whole industry we are seeing a rise in NPLs. And when I say the industry, I mean particularly the private banks, our peers. Perhaps sometimes it's confusing because the sector as a whole, including state banks and private banks, sometimes have a different trend or trends which do not really correlate with what we see and our peers experience.

But in any case our ratios today, our NPL ratios, now compare very favorably to those of our remaining competitors in Brazil. For NPL trends in Brazil, if we compare it with Q1 last year and also with Q4 last year, also very similar to what's been experienced by our peers. There's been a strong rise in provisions in comparison with Q1 2011. But that's also been the case for all our peers and also rise, a significant rise versus Q4 2011.

But again this is connected to two factors, first a growth in lending. We are growing double-digit growth, high double-digit growth, our lending, in fact more than our peers. Having said all that, in our particular case there's also an effect that I should mention. And that is that this rise in NPL is very much in the individual retail segment.

Our business mix in Brazil is quite concentrated on the individual consumer side. And the usual loan products for individuals in Brazil have a higher NPL. So that's basically what we can say. I don't think NPLs are going to fall in Q2. They have -- I do expect them to plateau. I don't think that we can expect that there will be a fall in the second semester because it is an industry-wide trend again for private banks, not for state banks. They have other kinds of lending with other trends. And that's what we can say.

A - Angel Santodomingo {BIO 15757370 <GO>}

And finally to conclude the risk part, there's a question from Frederic Teschner from Natixis about Chile. Can we elaborate on provisions and NPLs in Chile in the quarter and our forecast for the year?

In Chile there is something that we feel has been rather circumstantial our transient because of certain things that have happened in Chile, as you know. A new credit bureau is being set up after the negative experience in consumer finance last year. This situation, waiting for this new credit bureau, has meant that the system as a whole has become more restrictive in lending.

As a result, in the system more NPL has emerged. And although this rise will probably stay, it's not really a concern. It's still very small. And the economic forecasts for the country are very good because the economy shows good fundamentals.Â And what we see in our bank has been experienced also by our major competitors in Chile, provisions up very significantly. But it's all due to the same underlying issue that I've just mentioned.

Right, that completes risks. Moving onto the business units, starting with Spain, Alexander Pelteshki from ING, Rohith Chandra from Barclays are asking about deposits in general in Spain and whether there is any kind of change in our deposit policy, whether we expect or see more competition from our peers or not given the LTRO. Has the LTRO had an impact? And do we see deposits or expect deposits to leave Spain or the Santander in the future?

A - Alfredo Saenz {BIO 1422535 <GO>}

We're not seeing any deposits flee. If you look long term, we have had stronger in deposits. Of course, it's hard to say whether there is a deposit war. There is always a deposit war, more or less intense. Right now there is a strong competition over deposits. Probably if we compare it with other times in the past we could say that it has slackened somehow, probably not so much because of the LTRO or maybe. But more because the sector has become more rational. We've seen concentration in their search for profit, which is essential in order to face the necessary provisioning level, the weaker banks. And that's, I think, promoting a more rational competition.

So the war for funds, I won't say it's over. But it's certainly slackened. And we're not seeing, that's the next part of the question, any deposits fleeing Spain towards other jurisdictions.

A - Angel Santodomingo {BIO 15757370 <GO>}

Patrick Lee from Royal Bank of Canada is asking about deleveraging. He says that our loan book is falling 8% or 9%, which is more than the country is falling overall 3%, 4%.

Are we reducing that book more aggressively than the country? And, if so, why? And, if not, are we just not lending to people demanding loans? Or are we being more restrictive in lending loans?

A - Alfredo Saenz {BIO 1422535 <GO>}

We don't have at all a policy, quite the opposite, of restraining or restricting lending or deleveraging lending by reducing lending. It's just that circumstances have meant there's been a fall in that portfolio, amongst other things, because all the real estate developer loans are falling, the demand for mortgages is falling, the demand for consumer finance is falling. And therefore demand for lending overall is weak because of the economy and especially because of the importance in Spain of the property sector in the past. And construction and mortgages.

If we subtract the trends in that segment, lending, at least for the Santander, would be growing. We're growing lending to businesses. If we now look at property and real estate in all of our areas, lending is growing, up 3% for businesses and other individual loans. So the overall effect is a little misleading in terms of our strategy. Banks and certainly ourselves are not at all restricting lending deliberately or deleveraging on that side of things.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving onto the UK, several questions. (Raymond Ortali) from (Unipo) is asking given that the GDP growth figure for Q1 in the UK was negative yesterday, what are forecasts for this unit in 2012?

And connected to that, two questions or, well, one in summary. Paco Riquel from N+1, Patrick Lee from RBC and Antonio Ramirez about our net interest income on our trading gains in the UK. And can we elaborate why the fall in the quarter and about future forecast for net interest income/net operating income.

Are the figures for the quarter to be extrapolated to the rest of the year? Have we exhausted the hedge that we'd announced before or have we changed the guidance that we issued for Santander UK in the Investor Day? So it's all about income and net interest income and net operating income.

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, in general, Santander UK is being hit. And we said it at the Investor Day by, on the one hand, a bad macroeconomic environment confirmed by the figures. GDP growth for Q1, which, as you know, showed a fall in GDP, also because we're having a clearly higher cost for funds and persistently low interest rates as compared to our forecast a year ago. And this, together with the hedge which we have in fact posted has meant that there's been a strong impact upon our income. And you see that very clearly on our income.

But, on the other hand, the macroeconomic level in the UK, spreads have held. And actually slightly improving for lending for deposits at very strong competition in the UK. It's based on competition for deposits. And so there we haven't seen an improvement in the cost of funding.

But together, lending and deposits, we have seen a slight improvement in spreads. So the impact on our net operating income or net interest income is mostly due to falling volumes and to the cost of funding, as well as the hedge not being there anymore. So current rate will continue during the next quarters.

And the profit we posted for Q1 is, I think, also going to be quite typical of the profit levels we expect for the UK in the coming quarters. That is if you multiply that by 4 you will have a good proxy for year-end profit for the UK.

A - Angel Santodomingo {BIO 15757370 <GO>}

There is a question from (Raymond) from (Credit Suisse). Are you going to charge more for PPI? I think we already mentioned this when we made that specific charge for the PPI. And with that we think it's covered for the time being.

And from Citigroup about the investment that we announced for three years of 190 million in the UK, can we elaborate more on that? If it's going to be an investment or a cost. And how is that going, the program and the investment itself? No news there? Well there's therefore nothing to say about that, there is no more news than what we announced in Investor Day about the technology plan linked to the RBS deal, which, as you know is -- has been implemented.

And then on Brazil on lending. Benjie Creelan from Macquarie, whether we still have the same opinion on the lending increase in Brazil of about 15%. And how do we see the volumes in Brazil?

A - Alfredo Saenz {BIO 1422535 <GO>}

The answer is yes. Despite the fact that it looked like the things were slowing down in Brazil, it is true, in fact, that we expect a certain slowdown in the year 2012 on the -- compared to the initial forecasts. But although it is true that the growth is going to be of about 3.5%, at other times we said 4% or more than 4%, today we think its 3.5%, which is growth under the potential that we have.

But economic growth is still a priority for the government. So it is accepted in the market that that might be the growth level. So with those levels of growth, lending we think might increase. And therefore we're going to see our business grow 15% to 20%, our lending, reaching about 17%.

We don't expect too many changes. The government, as we know, is making a great effort to reduce the spreads and the rates. And the industry is trying to follow those indications. We don't think that it's going to have a significant impact on the accounts though. And we think that Brazil, where I can confirm that this -- the guidance that we gave at the end of the year, beginning of this year, that the earnings will grow by 15%, we can confirm that now.

A - Angel Santodomingo {BIO 15757370 <GO>}

We have a more specific question from Benjie Creelan agreement on the growth quarter to quarter of our book in Brazil, which remains flat. But you have in the presentation on the slide on the country, you have a breakdown of that. It grew because of -- well, the corporate lending is more volatile. But consumer SMEs and individuals have grown from 2.5% to 4%.

And there are several questions from Inigo Vega from Cheuvreux and Ignacio Cerezo from Credit Suisse, whether we still have our prospect of the Investor Day, our forecast from Investor Day. Yes, no changes. And the price policy; I think that was already answered as well.

There is a question from Alexander Pelteshki from ING about Mexico. How much do you expect to grow in volumes of loans in Mexico? Do you expect to grow more or less than our peers? And how do you see the system growing in Mexico?

A - Alfredo Saenz {BIO 1422535 <GO>}

We have a very positive view on Mexico. It's had a very good year so far. We think it will continue to be very good. The country is growing well. And our forecasts are very positive for Mexico.

I don't think that the performance of Santander Mexico is going to be much different to that of the rest of the sector. We will be there at the sector average, perhaps exercising more lending to individual cards etc., more than we've had so far. But basically we're going to grow as much as the industry.

Good growth with good results and with a very good outlook for the next few quarters, because Mexico is performing very well. It is the one that is performing the best out of all the large Latin American countries. And we hope this trend will continue in coming quarters.

A - Angel Santodomingo {BIO 15757370 <GO>}

And to finish, a question on Argentina. I think it's the last question. Andrea Filtri asks about the situation in the country. Are you going to take any precautions there or how do you see our bank in Argentina given the latest announcements?

A - Alfredo Saenz {BIO 1422535 <GO>}

Nothing special to be mentioned on that.

Okay. So I think we've answered all the questions that we received. If there are any pending questions, please get in touch with our Investors Department. We are at your disposal to answer any further questions. Thank you. So much. And see you next quarter.