Q1 2014 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. Thank you, very much for attending this First Quarter results presentation of Group Santander. We will begin with the presentation on the offer to acquire the minority interest in Santander Brasil and then we will pass over to the presentation on the First Quarter results.

So, as we announced this morning, we launched a voluntary offer to acquire the minority interests in Santander Brasil; that accounts for approximately 25% of the shares in the Bank.

The Brazil shareholders will receive 0.70 Santander Group shares for each Santander Brasil shares or units or ADRs, equivalent to BRL15.31 per Santander Brasil unit. This is a 20% premium on the closing price of yesterday and then implies a 21% to 29% premium on the average price for the last one and three months.

If all the minority shareholders accept the offer, we will issue approximately 665 million shares, which will be listed either on the Sao Paolo stock exchange or they will receive Santander ADRs that are listed on the New York stock exchange.

Of course, all these shares will receive the Santander dividend and we expect to complete the transaction basically by the Fourth Quarter of 2014. The calendar expected is the following.

We expect to have Santander Brasil's shareholders' meeting between May and June. Of course, we should appoint the independent expert to issue their own financial opinion on the offer that is being launched by the Bank. Actually, the Bank is working with UBS and Goldman Sachs for this transaction. But Santander Brasil will need to engage their own advisors.

We expect to fulfill the legal requirements and regulatory requirements between May and August 2014 and we will call an extraordinary shareholders' meeting of Santander by September of 2014.

What's the rationale behind this transaction? Basically, the first one is to unlock the long-term value of our Brazilian business. I think we have -- everybody shares that there's some short-term headwinds in Brazil. But we are definitely very optimistic on Santander Brasil's long-term prospects.

I think we have very clear measures that we need to put in place and we are putting in place in order to enhance the value of our franchise and we have the team to do this, right. So this, together with the prospects of the country, makes us be optimistic about the future of our unit. That's why we're ready definitely to invest more in our Brazilian unit.

It will definitely increase the weight of markets with structural growth in our business portfolios. So the growth markets will increase their contribution to the -- or the weight on our contribution from 43% to 49% and it will enhance the long-term growth potential of Santander Group.

And well, financially, it's very attractive. It's a 20% premium for Santander Brasil but, at the same time, it's accretive for Santander shareholders since the first year.

With respect to the financial impacts, the premium we are paying, if you take a look to some of this transaction multiples compared to our peers, Santander is quoted at 8.8 times earnings 2014, 7.6 times 2015. Our peers are quoting at 10 times and 8.8 times. And with the premium we will be paying 10.5 times and 9.2 times on price to earnings multiples for 2014 to 2015.

For Santander Group shareholders, it will have a net attributable profit impact since the first year. Of course, to present on 2014 and the 7% for 2015 and 2016, on an earnings per share impact, accretive since minute one, is 0.4% for this year and 1.3% and 1.1% for the next two years.

It will have no material impact on the capital side with respect to the Basel III phase-in; 3 basis points. However, there will be a reduction of the consumption of minorities over the next five years of circa 20 basis points over this period.

So, in conclusion, it's a very interesting operation. We're paying 20% premium over the closing price. Santander Brasil shareholders to receive shares of Group Santander. So they will have not only the benefits of Santander Brasil but also the benefits of our diversified Group. We will be able to capture full long-term growth of potential of Santander Brasil. It is increasing the weight on high-growth markets and it will have positive earnings per share impact of almost neutral on a capital side.

So just these initial remarks to talk a little bit about the Brazilian operation and its rationale.

If we move over to the First Quarter results, 2014 has begun in a better environment, confirming some signs of improvement of what we commented on the previous presentations. In this scenario we are focusing basically on one side and maximizing the new cycle of higher profits and profitability. On the other hand, we are at the same time maintaining a solid liquid and low-risk balance sheet.

With this focus, the main developments over this First Quarter were a strong recovery in attributable profit, which was 8% higher than in the First Quarter of 2013 and 23% more than the Fourth Quarter. If we leave aside the exchange rate impact, this increase would have been comparing both periods on top of 26%.

Growth was supported by all P&L lines. So we saw an increase in income, a decrease in costs and a decrease in provisions, consolidating the good trends that we were seeing already during the last quarter of 2013.

Volumes, of course, they are reflecting the different macro movements that we see in the different countries.

In lending, the effort to recover growth in the mature markets is already gelling and we are already growing in places like the UK, reversing the trend. In Spain small growth but reversing also the trend. And we have good growth in emerging markets, except for Brazil, which we will discuss later.

In funds, we continue to focus on reducing the cost of deposits. And we see also a nice increase in mutual funds.

In risks, the non-performing loan ratio is slightly lower than the Fourth Quarter, due to the reduction in entries and the continuing normalization of the cost of credit. So if, during last year, we were seeing on average new non-performing loans every quarter of EUR4 billion, this First Quarter new non-performing loans came at EUR2.5 billion, which is a significant decrease.

Lastly, we keep a very comfortable liquidity position. Loan-to-deposit ratio at 2012% (sic; see report page four "112%") and the liquidity coverage ratio well above the minimum that will be required in 2015, with almost the Group and the main units already on top of the 100%.

With respect to capital, we feel very comfortable with the Tier 1 of 10.6%. There's a small decrease of 0.3percentage points that we will explain later. And our total capital ratio of 12% under the new regulations.

As I was mentioning before, attributable profit came at EUR1.303 billion for the First Quarter. This is 23% more than the First Quarter of last year -- sorry, 23% more than the Fourth Quarter of last year, 8% more year on year. Affected, of course, as I mentioned before, by exchange rates; excluding the impact, the growth would be of 26%.

My view is that the profit is of a great quality, backed by net interest income and fee income that represents 92% of the gross income. All the increase is coming from recurrent revenues and it is definitely not affected by capital gains from corporate operations in the First Quarter.

Both the capital gains that we have in Altamira and with the reconsolidation of Santander Consumer, these capital gains have been assigned to a fund that is pending allocation. So there's no impact on these First Quarter results of any of these operations.

In short, I think it's a clearer step towards a return to more normal levels of profits and a better level of profitability.

With respect to Group revenues, two points. The first is a change of trend in the First Quarter, with gross income growing by around EUR100 million and 1% in current (euro). If we eliminate the impact of exchange rate, the rise was 3.5%, mainly due to the recovery of net interest income and fee income, as we see on the chart that we see on the right.

The trend in net interest income is accelerating. The rise over the Fourth Quarter was 4%. This would provide an annual rate of close to 16%, when we are incurring right now an annualized rate of 8%. So it's more than doubling the trend.

In fee income, the same. We have a 2% growth over the last quarter. On an annualized basis, this would mean 8%. So it's more than doubling the trend that we were seeing on the previous quarters.

If we take a look into costs, we have different performance by units, depending on their momentum. And we have divided into three large blocks.

A first block with units undergoing integration or adjustment in their structures. This is Spain, Poland, from the integration point of view. And Portugal, which declined not only in real but also in nominal terms.

At same time, Brazil costs grew at well below the rate of inflation. They grew at 2.4%, which means a real decrease of 3.4%. On top of this, my view is that we will finish Brazil well below these figures by yearend and we will see the acceleration during the year.

A second block, including the UK, which is combining investments in its future, in its business platform, with an increase in costs mostly in line with inflation. Santander Consumer Finance can also be seen in this block.

Lastly. And a different dynamic, Mexico, Chile and Argentina, whose costs are higher because of their expansion plans or improvements in commercial capacity. As you know, in Mexico we're opening this year almost 100 branches; opening some branches also in Chile and Argentina.

The US is also improving the franchise of Santander Bank, growing strongly also at Santander consumer and adapting to regulatory requirements and, of course, recorded a double-digit growth in costs.

In short, the integration is underway and the efficiency measures that we began to implement in some units are enabling us to get the first cost savings, which will increase in the coming quarters. We've reaffirmed our goal of EUR750 million of savings this year, one-half of our EUR1.5 billion reduction three-year plan. This should enable us to increase our advantage over the sector in terms of efficiency.

With respect to provisions, these remain on a very good trend. We see a fall in most units year on year, while in the Fourth Quarter we see improvements in Spain, Brazil, Mexico and Chile.

It's not fully reflected in the whole Group because of the higher provisioning at the Santander consumer USA, resulting from an upfront system of provisions based on expected loss, which has a big impact in periods of a strong growth in new lending, as is the case following the agreement with Chrysler.

So in order to make a reasonable comparison of the evolution of Santander consumer, we will need to go into the second half of the year where we will see the full impact in both years of the agreement with Chrysler and the impact on the new production at Santander consumer.

The cost of credit maintained its normalization trend for the whole Group, improving from 2.45% in the First Quarter of 2013 to 1.65% a year later. This is still high compared to pre-crisis levels and should continue its normalization trend.

Summing up all the above in order to take a look into the evolution of the P&L, the first point to make is the large impact of exchange rates, particularly on a year-on-year comparisons. But also with regard to the Fourth Quarter of 2013. In the year on year, this explains all of the fall in gross income and net operating income.

If we eliminate the impact, gross income increased by 4.2%, net operating income increased by 5% and profit before tax and attributable profit grew at double-digit rates.

We see a very similar evolution for the First Quarter. Attributable profit over the Fourth Quarter, which, after correcting the impact of exchange rates, rose 26%. This growth was due, as we've seen, to the increase in commercial revenues and lower costs, which enabled net operating income to rise by 9%. Lower provisions, of course, also helped.

You should also remember, as I've said before, that the capital gains generated on the sale of the stake in Altamira platform, EUR385 million. And the reconsolidation of Santander consumer, that is EUR730 million. So altogether EUR1.1 billion, are not reflected on the quarter profit. And we've made that charge for an equivalent amount for a fund that is pending allocation.

Moving on to the balance sheet, this reflects the context in which business has been conducted and the strategy in the recent years.

Loans, we see growth in every country except for Portugal and Brazil. The year-on-year comparison, of course, is affected by deleveraging in some countries in 2013, which hides the growth in our Latin American units. On comparing Fourth Quarter last year to First Quarter, we see growth, as I was mentioning before, in every country except for these two; Portugal and Brazil.

For the first time lending rose slightly in Spain and also in the UK. It increased also in the US, not only at Santander Consumer but also at the Santander Bank. Santander Consumer Finance also improving. So we see the impact of the operation with El Corte Ingles but, leaving this aside, Santander Consumer Finance would be also growing.

There's a small reduction in Brazil, 1%. That is affected by lower-than-envisaged growth but also we are preparing a new value proposition for SMEs and definitely this segment has been affected in terms of growth over this quarter.

Other units have maintained or sped up their growth with annualized rates of close to, or more than, 10%, which makes us be optimistic with respect to the rest of the year.

Similar comments for funds, where the aggregate of deposits and marketed mutual funds improved its trend in this First Quarter. After the large volumes that we captured in previous years, the focus in 2013 was mainly on reducing the cost of deposits and moving some part for certain clients to mutual funds. This led to a drop in deposits and a rise in mutual funds.

In the First Quarter, mutual funds continued to rise, mainly in Spain, Brazil, Mexico and Chile. And there was some recovery in deposits, noticeably in Poland, Chile, US and Brazil.

In Spain we see an increase in deposits. This is affected by some wholesale deposits. Actually retail deposits have decreased EUR4.4 billion, out of which EUR3.1 billion have been moved into mutual funds. As the new production for term deposits, as Jose Antonio will show, is already below 1%, there are certain types of clients that are already looking for some yield and are moving into some mutual funds.

With respect to the Group credit quality, the total non-performing loan ratio was 5.52%; 9 basis points lower than in the previous quarter. This fall was due to a smaller volume of entries, which amounted, as I mentioned before, to around EUR2.5 billion compared to an average of EUR4 billion for every quarter of last year.

Coverage increased to 66%, which we consider is a high level for the mix of our portfolio where about one-half of the loans have a real warranty, requiring, of course, lower coverage. And the units with the lower rate of real warranties, such as Santander Consumer Finance, Brazil and Mexico, have a coverage of close or above 100%.

It is noticeable at Santander Consumer USA, which, after the provisioning effort made last quarters, as I mentioned before the provision considering expected loss, the actual coverage is 279%.

With respect to credit quality and non-performing loan ratios for the main units, the large units that represent 75% of our portfolio will see a much slower pace growth in Spain, with the non-performing loans growing 10 basis points in the quarter due to lower non-performing loan entries in this quarter and a much more stable denominator; a further improvement in non-performing loan ratios in the UK and the US, confirming the trends that we were seeing last year.

And in Brazil, after the sharp fall that we saw during the last few quarters, which enabled us to close the gap with our peers in the country, there was a slight rise in the ratio, as you see there, of 10 basis points on one side, basically due to the reduction of the denominator. We see definitely no signs of deterioration of the portfolio.

Solvency ratios. The core equity Tier 1, in accordance with the new regulations, was 10.6% in the First Quarter; a little lower than the performance estimated at the end of 2013 due to the net between the recovering generation, 15 basis points. And the negative impact already announced of the consolidation of Santander Consumer USA by the global method and Brazil's capital optimization operation.

We maintain our forecast of ending the year with a ratio around 11%.

On the other side, the Tier 1 reflects a favorable impact of the issuance of EUR1.5 billion of additional Tier 1 in March, which was well received by the market. The total capital ratio is over 12%.

Leverage ratio remained at 4.6%, exactly the same as at the beginning of the year.

And in liquidity, the loan-to-deposit ratio stood at 112%. On a like-for-like basis it was unchanged during the quarter and the liquidity coverage ratio exceeded 100% at Group level and in the Group's main units; much higher than the minimum requirement of 60% that will be needed in 2015.

In short, we are very comfortable with the capital ratios, with the liquidity levels and our capacity to improve them organically.

Let me now ask Jose Antonio to comment in more detail on the different Group units.

Jose Antonio Alvarez {BIO 19692884 <GO>}

Thank you, Javier. Good morning, to everyone. Let me to go quickly through the different business areas, starting with the usual pie we show where the profits comes from in the different units. Some changes this time in favor of what we so call mature markets that are gaining share, particularly due to the increased share of Spain and also in the UK. As of today in the First Quarter, UK and Brazil represent 20% each one of the profits, Spain 14% and the US 9%.

There are four countries that contribute between 5% and 7%: Mexico, Chile, Poland and Germany. The main change has been the shift towards more profit generation in mature markets.

Starting with Spain, on the activity side, on the volume side, we are close or around inflection point on the deleverage that has been happening in the last couple of years. Now we are more on a stable basis, grew a little bit in the First Quarter but it's the first sign that we expect to continue in the coming quarters.

On the liability side, the CEO already mentioned, Javier already mentioned that our main focus has been deposits costs. We reduced a little bit the retail deposits and we increased the wholesale deposits. But the main target here has been deposits costs.

As a result of this policy, the NII increased in the quarter 4% compared with the previous quarter; the main driver being deposits cost.

On the other side, the lower cost due to the synergies of the integration, along with the lower provisions, will produce a significant improvement in the profit after taxes.

We see the same trends in the coming quarters: solid commercial revenues, lower cost and provisions normalized towards the levels we guided to you in the previous quarters; going from 150 basis points cost of risk towards the levels between 100 and 120 basis points for the whole 2014.

(inaudible) the volumes is what I said before. Lending was lower in the First Quarter. But only due to the repo agreements. You take out the repo agreements, it was flat, the lending remained flat, compared with the previous quarter.

In the deposit side, all the deposits and the loan to deposits remain in a solid 85%. While in those quarters we have had expensive deposits that were not renewed and some of them translate, as the CEO mentioned, to mutual funds that we've been gaining significant market share in the mutual funds, more than 200 points in the last 12 months.

In relation with the credit quality, that is one of the main issues in the Spanish business, we are around or close to the inflection point. The NPL ratio rise a little bit. But it's fairly stable. What is more important on the right-hand side of the slide, you have a change in trend in the gross entries into NPLs.

We have been seeing, particularly on the companies with a real estate purpose, a continuous upward trend through this quarter that start to come down; the same that the mortgages and the consumer lending did a couple of quarters ago. So this is a remarkable change that (inaudible) that anticipate probably the lower cost of risk that we were anticipating to you.

Going to Portugal, well, we have better (macroeconomic prospects) in the country. The country is recovering very fast. So faster than the majority of the people was anticipating. Still a deleveraging going on. We are gaining market share, even if we are losing volumes. So the deleverage is still pretty significant.

We reduced significantly deposits costs, although the levels are still relatively high; 172% the cost of new term deposits in the quarter, relatively high.

NPL quality, the NPLs are lower and there has been a sustained improvement in the cost of credit.

We see strong a upturn in profits, as is shown by the 68% growth we show from when we compare with the First Quarter of the previous year.

We are relatively confident in the developments in the country and we expect to be translating this better environment to the P&L in the coming quarters.

Going to Poland, different environment here. So the recovery is going on. The interest rates are still at very low levels, the lowest ever in Poland; 2.5%.

In this country, BZ WBK is performing extremely well. Volumes are rising, on the right side. And lending to companies, we are growing at 6%, demand deposits growing at 10%. The results, we are translating this into the results. Basically, we saw a reduction of volumes and reduction of deposit costs.

Fee income performed well. We pushed the revenues and fee income by 15% year on year. Costs reflect the synergies of the integration with KB and provisions are basically stable.

So we continue to extend the franchise, improve the productivity, commercial activity and efficiency and the recovery of the economy is helping in this process. All of this makes us optimistic about the outlook of this unit.

Consumer Finance. The business is performing well. We continue to gain market share right across the board.

So the car sales in our footprint are growing at 7% year on year. Our production is growing at 12%. So continuous gains in market share. And the new lending rose 13% and the stock 2%. The results, a significant growth year on year; 24%. And also 5% compared with the previous quarter.

By country, we have double-digit growth in profits year on year in Nordic countries, Poland and all the peripheral countries, Portugal, Spain and Italy.

The (inaudible) on assets is higher than our competitors and it continues to (work on) to maintain this advantage.

In the First Quarter, we incorporated the business of Financiera El Corte Ingles and began negotiations with PSA to create a joint venture that will be incorporated to a unit, we expect, in 2015.

Finally, going to Spain run-off real estate. Well, the balance represents 3% of the assets in Spain now less than 1% of the Group assets. The balance was reduced by 14% in the last 12 months and this we expect to reduce between 15% and 20% in the coming years.

The reduction in the last few quarters has been mainly in loans, minus 24% year on year. Coverage ratios remain above 50%. And losses, we reduced the losses from EUR170 million last year to EUR146 million in the First Quarter. We plan to continue to reduce this (inaudible) around the pace I already mentioned.

UK. Well, I would say we are in the process of the transformation of the franchise, as you know. And it's reflected in volumes and results, as long as the good macro environment in the UK is helping.

There was a good trend in the First Quarter in volumes. It's the first time we saw some growth by deposits and loans and we expect to continue to show some growth in the coming quarters.

The profit was GBP311 million in the quarter, 63% year on year growth; based on net interest income, based on deposit reduction and the deposits in wholesale funding costs, mainly. It's still a relatively high and stable spread in mortgages and more corporate loans where we are growing at a significant pace.

The costs in the quarter grew significantly, because we're investing in business centers to grow our market share, as we are targeting in the corporate world.

And finally, lower provisions, due to the very good macro environment. That translates into significant improvements in asset quality.

If we look at the numbers, if we look at what I so call the transformation of the franchise, we have been having selective growth in several (inaudible) where we are focused. We are working in getting a greater linkage of the customers and enhance the service quality.

The pilots of this strategy are the range of 1/2/3 products where we are growing, as you can see in the charts. We are the leading company in switchers in the last two quarters. And we continue to strengthen our relationships with companies where we are growing at 12% the corporate book, while the market is relatively flattish.

In short, good dynamics in business and revenues, net interest income, enhanced efficiency and good (trending) provisions. These factors. And GDP growth around 2%, makes us optimistic for the performing of this unit in the rest of the year.

The States. Well, the combined Santander Bank and Puerto Rico, we include here as we state and we said to you one month ago, we include here Santander Bank, Puerto Rico and SCUSA business, the consumer business in the US.

The combined Santander Bank and Puerto Rico increased the volumes in the First Quarter, both in loans and deposits. This means that there is a change in trend by the startup of (how to) finance operation and the development of new products.

In SCUSA, we are growing very fast, as a result of the agreement with Chrysler. And strong growth in new loans 157%, compared with the previous year and the balance is growing at 36% compared with March 2013.

In results, the profit was $216 million, which is growing 4% compared with the previous quarter. Year-on-year comparison gross income rose 16%. Costs increased because we are building the franchise of the Santander Bank and expenses linked with the regulatory requirements in the US.

Provisions doubled. This is in line with the rise of the new lending. And due to SCUSA, they make the provisions for expected losses of one year. And when you grow the production very fast, you charge up against the P&L in provisions upfront.

In short, business growth in both units will continue in the coming quarters. Profits should recover quarter on quarter, once the provisions normalize in the SCUSA business.

Brazil, well in fact the macro environment in Brazil is similar to 2013. The economy is growing between 1% and 2%, inflation is around 6% and interest rates stand at 11%. The Central Bank has been increasing rates around 2013 and 2014.

Lending up 6% year on year. In the quarter we've reduced the lending 1%, basically because of the economic slowdown. Better trend in deposits, where we are still growing. And we also around 23% in mutual funds.

The main developments in results in the First Quarter were net interest income was virtually unchanged over the Fourth Quarter, due to a stabilization in the spread. This is a remarkable development. For the first time in the last six, seven quarters, we have flattish spreads.

Costs dropped over the Fourth Quarter and the increase in the year will be minimal, will be a very low rate, not only well below but very close to zero. Provisions fell for the Fourth Quarter running and the cost of credit improved. Attributable profit stood at EUR364 million; a growth of 24% compared with the previous quarter.

When we look into the details, what we have is three facts. The stabilization on the spreads, on the loan book, this you have in your charts as down 9.9%; the shortfall in NPLs, 116 basis points compared with March 2013; and provisions declined in line and the cost of credit was at low levels.

So stabilization of revenues, lower provisions and good costs control are the main drivers of the P&L in Brazil.

In short, in Brazil we see a country with underlying strength, although we have a period in which the growth is below potential; some pressure in revenues, with the stability in those spreads; and we are working on improving efficiency. The cost of credit we will continue to see this going down.

And, with these trends, our main objectives are in the retail arena to work on the customer side and plans to improve the productivity and the commercial efficiency.

In Mexico, well, Mexico is well below consensus. For one year, we've been talking about Mexico volumes 3.5%, 4%. And, as a matter of fact, these volumes were closer to 1% than 3.5%, 4%. So this is reflected in the activity.

Although the volumes are growing well. So you see the loan book growing at 15% and deposits in mutual funds growing 7%, we are gaining market share in those. So the activity is relatively good. And we are growing a faster pace than the market.

As a result of some seasonality the First Quarter, the net interest income was lower than the previous quarter but I will not take this is as a trend for the next quarters. We will see a recovery here.

The costs rose year on year, because we are in branches and ATMs. We are at 7% more branches and 5% more ATMs. So we are investing in the franchise.

Provisions year on year increased but, compared with the previous quarters, are going down after the house builders' (inaudible) (high) provisions were made last year and the net result was lower compared with the previous year.

After taxes, there is going to be a big difference this year between profit before taxes and profit after taxes in Mexico due to the increase in the tax rate from 12%, 13%, 14% to close to 30%. So this year you should expect a significant drop in profit before taxes and profit after taxes being much weaker due to the increase in the tax rate.

In coming quarters, we see faster economic growth. We've been saying this for a couple of quarters. We expect this time to materialize. In this environment, we expect the P&L of the coming quarters to be significantly better than this one. This is a recurring base for the next quarters.

In Chile, a very good quarter. So volumes are growing well. It's stable and the cost of risk is improving. So, as a result, we have a P&L that reflects this environment. It's true that the inflation has helped this quarter, like the previous one. Inflation was relatively high. As you know, we have a loan procedure in the US that is linked with inflation against the nominal rates and this position provides extra interest income in the quarter.

But, behind this, then the (inaudible) of the franchises, you can see the numbers. Good growth in volumes, relatively healthy spreads, lower provisions and the costs more and more under control. This produces a very outcome in the bottom line, where the profits are growing at 4% compared to the previous year and 12% compared with the previous quarter.

You cannot relate exactly this into the coming quarters because we do not expect the inflation to be as high as it was in the First Quarter. But we expect good results in the unit in the coming quarters.

Other Latin American units, very little to say here. We have Argentina, the profit EUR56 million, plus 1% year on year; Uruguay increasing 15%; Peru 16% higher. And we start the business in Colombia with a Group new subsidiary that began to operate in January this year and we will incorporate in the next quarters.

In the corporate center, corporate activities, nothing special to comment here. The loss is EUR405 million. A little bit better net interest income, due to the lower wholesale funding costs is the main issue. Greater trading gains, due to some exchange rate difference on the disposal of some available-for-sale portfolios. This is EUR100 million coming from the available-for-sale portfolios. And the provisions allowance were almost zero compared with around EUR100 million in the previous quarter.

So overall, a loss of EUR405 million. That is very much in line with the previous quarters.

Now I hand over to the CEO to elaborate about the conclusions of this First Quarter results presentation.

Javier Marin Romano {BIO 3961209 <GO>}

Thank you, Jose Antonio. Let me end just summing up the First Quarter and my view on the coming quarters.

As mentioned in previous quarters, at the beginning of the year Santander confirmed an improvement of its basic trends in profits, both at the Group level and its principal units in a more favorable economic scenario.

In the First Quarter, the Group recorded commercial revenues growing well year on year and over the Fourth Quarter in almost all units, underscored either by higher revenues or by a stabilization in those units where they were falling; lower costs in real terms in some of the Group's principal units, even before extracting 100% of the potential savings of ongoing efficiency plans; a sustained drop in provisions in six out of 10 core markets, with cost of credit improving in most units as a result of the better credit quality.

The combination of these trends is reflected in a significant turnaround in net operating income after provisions, which grew in constant euro at double-digit rates year on year in the First Quarter of 2014, compared to the sharp falls of previous years; almost 20% in 2012 and almost 10% in 2013.

All this places Group Santander on the path for a recovery in profits and profitability. That will continue in the coming years and will spread to all units.

Specifically in Spain and Portugal we see a recovery in revenues that will continue and join lower costs from the plans underway and reduce provisions due to the better environment.

In the UK we will continue to improve the franchise, with growth in target segments and products, including SMEs and companies, without losing the focus on spreads. Today we are well placed to take advantage of the country's faster pace of growth and the likely change of a scenario in interest rates.

In Brazil, in an environment of economic slowdown and high inflation, we have stabilized the spreads, controlled costs and reduced provisions. We have plans and the potential to grow in a profitable way in this phase of the cycle, backed by greater customer linkage.

A good example is the investment in the acquiring business GetNet, with high growth potential. We acquired this in the First Quarter of 2014. It's a leader in IT solution and services for business with electronic payments, with a market share of 6% and growth expectations of high-double digits.

Our goal is to provide our corporate customers with a new and more comprehensive business proposal, with an integrated Santander account that joins GetNet's products.

As regards consumer business in Europe, we see continued trends in revenues and provisions in a more favorable environment for this business, enabling us to grow organically and inorganically.

A key element for the future is the agreement, other negotiation or more other implementation with Bank PSA, which is Group Peugeot-Citroen, to finance the acquisition of vehicles on 11 European countries, which is expected to be completed in the second half of 2015.

Its materialization via local alliances will boost Santander Consumer Finance presence in markets where we already have critical mass, like Germany, Spain and the UK, as well as the entry into other markets, like France and Switzerland.

In the US, we will continue to grow on two fronts. First, we need to complete the franchise at Santander Bank, investing in commercial systems, service quality, adapting to regulations. As you know, we have the Federal Reserve pointed out some organizational deficiencies in our capital plan, which are in the process to be solved. And we are already. And we need to recover more growth levels with a more balanced business mix.

In the case of Santander Consumer USA, the objective is to transfer to profits the greater lending and revenues made possible by the agreement with Chrysler, once the pace of provisions returns to normal. As I mentioned before, we will see this already in the second half of this year.

Mexico will continue to grow faster than the market in its target segments, backed by the expansion of its branch network. The likely acceleration of the economy in the second half of this year and the efficiency plans underway will spur revenues and profits.

Chile, business remains good, which is enabling the Bank to gain market share and recover leadership positions. Higher volumes and high inflation will help maintain strong revenues that will feed through the whole income statement.

Lastly, Poland points to growth in revenues results based on greater business, higher productivity and lower costs from the merger. In other words, we see a very favorable outlook in the coming quarters.

Thank you, very much. Let us start with the Q&A. So, Angel, if you want to conduct the session.

Questions And Answers

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you, Javier. Good morning. As always, we will start with the Q&A all the questions we have received through the web. And if there any at the end, we will cover those on the telephone line. And as always, we organize the questions by fields, starting with strategy, regulation and perspectives.

So in the first group, first question would be with regards to regulation in Europe and AQR. Sergio Gamez, Bank of America Merrill Lynch. And Britta Schmidt, Autonomous.

They both ask about the AQR and the stress test results, what do we expect from there and the impact in P&L, as well as the new resolution mechanism, if we expect a quantitative impact in P&L.

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

With respect to AQR and the stress test, we will see this morning. This morning there is a press conference where we should know about the process and the economic scenario to be dealt with during the stress test.

We've gone already through some parts of the asset quality review. We don't expect any impact on the P&L. And we think that, with respect to the stress test, where we believe that we will see a very tough economic scenario, we will go through very, very well.

So we don't expect any impact either on the P&L and we look forward to get out of this stress test reinforced.

With respect to the cost of the resolution mechanism, we don't see any increased costs with respect to what we are doing before as basically we will have now two funds and the allocation that we're doing today, only the one will be split between the two of them. So one at the Spanish level and the other one at the European level. So no impact.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to dividends, Daragh Quinn from Nomura, he asks about the guidelines given by Bank of Spain with compared to our current dividend policy of EUR0.06 per share, if we are considering that a scrip to be maintained compared to the limit of payout. And what is our dividend strategy in general terms?

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

Well, you know the dividend policy of the Bank is approved in the general shareholders' meeting. So the dividend policy for this year has already been approved, EUR0.60 on four scrips. For next year, it will go to next year general shareholders' meeting. So this is the -- and I don't see any limitations to our dividend policy because of the recommendation of the Bank of Spain.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving to the Santander Brasil operation we announced this morning there are several questions so I will try to probably summarize them in three or four.

Juan Carlos from Espirito Santo, Antonio Ramirez from Keefe, Raoul Leonard from Deutsche Bank, David Vaamonde from MainFirst, Mario Lodos from Sabadell Bolsa, Frederic Teschner from Natixis and Sergio Gamez from Bank of America Merrill Lynch, they basically ask four questions.

First is with regards to our strategy of quoted subsidiaries, if this changes that strategy and if we are still thinking of IPO'ing the UK subsidiary or other subsidiaries. Or if there is a read across to the rest of the minorities that are currently quoted in Mexico, Chile, or Poland. That would be the first question.

The second question would be capital benefits. I think they have been summarized throughout the presentation. But if you want to elaborate there in terms of what are the capital benefits for the Group.

Third group of questions is if there are going to be more management changes in the subsidiary. We think that there will be some there.

And the fourth, which is made by Mario Lodos, is with regards to valuation. And he says that in the IPO we value the division at circa EUR30 billion, if we have to make an adjustment.

I can address this last one because we didn't revalue on the IPO. It was done at book value considering the regulation at that time. So we did not do any revaluation of the stake.

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

So we move to three questions; the strategy. The strategy of the Bank is to have affiliates that are independent in capital, independent in financing and quoted in the markets. And this strategy is not going to change. We're not going to squeeze out Santander Brasil. They will continue to be quoted.

And we have exactly the same strategy with some of our affiliates. So our affiliates should be quoted in the markets. So we keep our plans with respect to the IPO of the UK. However, as I mentioned in previous presentations, this is a mid-term operation, the quotation of Santander UK. So it will take place.

Is there any read across to buy out some of the affiliates? Well, no. This is now the case for Brazil. We're talking about Brazil. So let me stress that this strategy in terms of independent affiliates, in terms of capital, in terms of financing and quoted in the markets is not changing.

With respect to the capital benefits, I think I have already talked about this. It's on the presentation where it's 2 basis points on the core equity Tier 1, plus in five years an increase on 20 basis points due to the reduction of the excess of minorities.

With respect to management changes, as I said through the presentation, we have (reiterated) what needs to be done in Brazil. We have the appropriate team in place and there's not going to be any further management change. I think now what we need to do is to implement and to materialize the plans that have already been prepared.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to our cost plan, Raoul Leonard from DB asks about Group P&L costs. How should we extrapolate or should the market extrapolate the excellent performance in first Q 2014, if we are seeing some trend in cost synergies and what will come from our investment programs in that sense?

It's the same one. It's all around costs. How can we extrapolate the good performance of the first Q results going forward and how do we achieve synergies and what is the investments resulting?

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

Well, the efficiency plans that we had for EUR1.5 billion for these three years are yielding their first results. So we should see during the year an acceleration of the cost efficiencies that are supposed to be implemented this year. Let me remember that they account for EUR750 million, which is one-half of this three-year plan.

First quarter has been very good in terms of the implementation of new plans. So let me point out, as I said during the Fourth Quarter, that I'm not only confident to make this EUR750 million savings. But probably to be on top of this figure.

A - Angel Santodomingo {BIO 15757370 <GO>}

To finalize this first section, we have Andrea Filtri from Mediobanca asking two questions. With regards to the banking union, how would the establishment of a full banking union change our strategic (technical difficulty) change?

And the second one is, what are our expectations for a QE European program from the ECB?

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

Well, first thing, full banking union. I don't think it's going to change dramatically our plans.

And with respect to the QE program, I believe that the risk of deflations are not huge. However, it's good to know that the ECB is there to tackle that. So we will see. However, we don't have big expectations for this.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving into capital and financial management, there are several questions. Well, there have been some questions around dividends that have already been addressed. I did mention Andrea Filtri, Ignacio Cerezo and Santiago Lopez from Exane and Credit Suisse. But I guess that they are speaking about dividends and strategy with regards to Santander Brasil minorities that have already been addressed.

As I said, moving into the financial arena, we have a question from Raoul Leonard with regards to where are the capital gains from SCUSA and Altamira. Where have they been registered and netted?

They have been netted and they are in the lower part of the P&L in other provisions. But you will not see them because they are netted and will not impact net profit in 2014.

With regards to activity and volumes and balance sheet, there is a question around loan growth and total assets that we have grown for the first time since second Q 2012; if we see this as a turning point in the strategy or in loan evolution and if we can provide some high-level view on this issue, because we will be addressing afterwards division migration.

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

Well, a couple of things. First thing, we're seeing an improvement in the economic environment. So this should definitely help in terms of growth of our loan book. The behavior is very different by geographies. However, what we expect for this year is good growth in all the geographies.

So we should see the changing trend being confirmed, both in Spain and the UK. We should see definitely an acceleration in Brazil. We're looking forward to growth of low-double digits in Brazil, even though we had a decrease of 1% during the First Quarter. So we are still optimistic with respect to the loan growth in the country. We should see good double-digit growth in Mexico and in Chile. We're seeing good growth in the US.

So I would say that, for the next quarters, we should see an accelerating pattern on the loan book for the Group.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to capital, I would say that there basically are two questions and a third one on risk weighted assets. But let me first address the ones on capital.

They are made by Antonio Ramirez from Keefe, Carlos Peixoto from BPI, Benjie Creelan from Macquarie, (Pablo Rigrandi) from HSBC, Frederic Teschner from Natixis, Juan Carlos from ES, from Espirito Santo. And Sergio Gamez.

They ask -- basically, they said two things. One is the fully loaded amounts, how do we see where (is this stance)? What is going to be the evolution of the fully loaded capital ratio under Basel III rules?

And the second one is the evolution of the capital in the quarter. You mention it on the presentation but if you can elaborate on how the capital has evolved and that drop of the 30 basis points in this quarter.

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

Now, with respect to the Basel III fully loaded, our plans have not changed. So we already stated that we were looking forward to have by yearend a 9% fully loaded core equity Tier 1. And that is exactly our plans. So we stand to our plans to be at 9% by yearend.

With respect to the part of the evolution of capital during this quarter, I mentioned this during the presentation. We have 15 basis points of organic generation of capital. And we had the deductions from the minority operations in Brazil, the operations in Santander Consumer, which basically brought us to this decrease of 30 basis points during the quarter.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to capital, there is also some questions from Antonio Ramirez, Mario Ropero from Fidentiis and Andrea Filtri from Mediobanca and Paco Francisco Riquel from N+1, with regards to the goodwill in the Santander operation, if there is any impact from goodwill in Santander Brasil.

The answer is no. The impact comes, as Javier mentioned, from the lower reduction from minorities.

There is a question on the amount of those minorities by Carlo Digrandi. And the answer is EUR1 billion. The 20 basis points is the excess minorities that we have on Santander Brasil, which is the 20 basis points during the next five years that has been mentioned when the operation was presented.

With regards to risk weighted assets, also we have Raoul Leonard from Deutsche Bank asking basically two things. If we can explain the movement on risk weighted assets to almost EUR540 billion compared to the EUR490 billion that we had in the previous regulation, in the previous year, how we see the comparison between both regulations and if we can give a guidance on risk weighted assets evolution going forward.

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

Well, in the quarter you have a basically a EUR50 billion growth in risk weighted assets, which I will tell you EUR5 billion is what we so call organic growth and this is probably a little bit of a guidance for the next quarter. Probably the next quarters will be a little bit bigger than this, than the EUR5 billion we saw in the First Quarter.

The other comes from SCUSA and El Corte Ingles, like another EUR10 billion operations let's call inorganic growth. And the remaining EUR20 billion, EUR25 billion, comes from different changes in methodology, central and local, the adjustment in (inaudible) due to Basel III.

As a matter of fact, the guidance for the next quarter is the organic growth of EUR5 billion we saw in the First Quarter is probably a little bit more than that is what we'll see in the next quarters.

There is some negative. But probably you remember is that the operational risk model at some point in the year will be approved and this will add around 20 basis points capital. That's probably you had asked to talk about this in the previous quarters. It's still pending.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to liquidity and to finalize on the equity side, there is a specific question by Raoul Leonard from Deutsche Bank with regards to the improvement in equity adjustments in valuation, that it improved by almost EUR900 million in the quarter, that's AFS.

Remember that in Fourth Quarter 2013. And during the full year, we had strong impacts coming from ForEx, negative impacts. So some of them have reverted. Almost out of those EUR900 million, more than EUR500 million, or around EUR500 million are coming from there. And the rest is revaluation of ALCO portfolios, given the mark-to-market normal adjustment that is done to the first available-for-sale portfolio.

Going to liquidity and financing, there is a question by Raoul Leonard about the NII evolution. I guess he refers to the corporate center because he asks for the Q-on-Q improvement in NII, if we can explain that improvement in liquidity but also we can (lower) it if you want on general terms in the Group.

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

Well, basically it's reduced cost efficient. So that explains the lower cost of the net interest income at the corporate center.

A - Angel Santodomingo {BIO 15757370 <GO>}

And linked to this are Carlos Peixoto from BPI, David Vaamonde from MainFirst and Andrea Filtri from Mediobanca. They ask first an update of the refinancing schedule, the ECB exposure and amount of ECB (illegal) assets. So that's all on the liquidity as last financing side.

And the second group of questions is size of ALCO portfolio, if we can give some light in the sovereign holdings and contribution to NII.

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

Well, in relation with the ECB, we have some financing from the ECB in Portugal and in Consumer Finance, like in previous quarters is EUR4 billion, EUR5 billion; nothing more than that.

Illegal assets for the ECB, I don't remember the figure. But in total in the Central Banks, the Group has in excess of EUR200 billion of illegal assets to be able to discount in the Central Bank's windows. So it's a pretty large pool of illegal assets to discount in the Central Banks.

Refinancing the schedule, I mentioned in the previous quarters that probably we'll refinance probably 30%, 40% of the maturities, no more than that. As of today, the Group has issued EUR18 billion into the markets in (green) securitizations.

The ALCO portfolio, I assume you did the total available-for-sale portfolio. That is the what you call ALCO portfolio. We don't have maturity portfolio at the Group. It stood at EUR76 billion in total, of which EUR24 billion is the Spanish sovereign debt, EUR24 billion is from other sovereigns; mainly Brazil EUR14 billion, Poland EUR3.7 billion, Mexico EUR3 billion and minor amounts in other jurisdictions.

There has been very little change in this portfolio. In the previous quarter it was EUR69 billion. This quarter EUR76 billion, mainly due to increased size of the portfolio in Brazil.

Finally in relation with ECB I forgot to mention that we don't have any funding from the ECB in Spain, only in any other jurisdiction.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving into the next section, which is credit quality. And starting with Spain, again several questions here. Carlos Peixoto from BPI, Mario Ropero from Fidentiis, Sergio Gamez from Bank of America Merrill Lynch, they all ask about evolution of NPLs in Spain.

Linked to this cost of risk, how do we see both evolving? And how do we see -- and if we see a peak in the NPLs? And if we can give some light on the insight of that evolution.

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

With respect to the credit quality in Spain and new non-performing loans, I think Jose Antonio already pointed out by segments and by products what are the entrances of new and non-performing loans.

What is significant in this quarter is that we see a big decline in loans to companies without real estate purpose, which is a very important sign. We continue to see reductions in mortgages to individuals and to consumer individual cards.

The cost of risk is still going down but is still high. We said that we expected this to move on a normalized basis to 70 basis points by 2016 and this is exactly the plan that we have.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to again cost of risk and NPL evolution, we have the same question for three divisions, which are Consumer Finance, Mexico and Brazil. They are asked by Mario Ropero from Fidentiis, Carlos Peixoto from BPI and Benjie Creelan from Macquarie.

Again, it's the same question, if we can give some light with regards to consumer finance. How can we explain the credit provisions? And how do we expect them to go forward? In Mexico, cost of risk evolution expectations. And in Brazil, cost of risk and NPLs, given the small pickup we have seen in the NPL ratio.

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

Let me begin with Santander Customer Finance. The cost of credit is Santander Consumer Finance is abnormally low. However, the rhythm of growth in terms of new production is also abnormally low.

Just remember that the bulk of the business of Santander Consumer Finance is in Germany and in Central Europe and in the northern part of Europe. So I don't see, right now in the next quarters. But we should in the next years some pickup in this cost of credit. But that should come hand with hand with also an increase in the level of activity.

Mexico. My view is that we should see a much better second half of the year than first half. We saw already a decrease in the non-performing loans, especially on the consumer side, in this First Quarter.

The second half we will already have one year with a change in the pattern of provisioning, when we changed last year, if you remember, in June, from incurred lost into expected loss. So we will have a much better comparison during the second half of the year. And there, we will see definitely -- well, we look forward to see an improvement of the trend.

This, together with the improvement in the economic conditions of the country, makes us very optimistic with respect to this.

And with respect to Brazil, I mentioned during my presentation that the increase this quarter was basically due to the decrease of the denominator because of the decrease of the loan portfolio.

We see a slight growth of the non-performing during the rest of the year. I mentioned before we expect low-double digit for loan growth during this year.

We are growing very well in mortgages. We are growing very well in (inaudible), in infrastructure. We are growing also well in agriculture, even though there are still -- it's been good growth from a small basis. We are growing also very well in large corporates. We need to resume a loan growth again in SMEs, although we have decreased that during this quarter.

So I don't see any pattern of deterioration on the credit book in Brazil. So we should see a very stable non-performing loan ratio in Brazil for the next quarters.

A - Angel Santodomingo {BIO 15757370 <GO>}

With regards to activity. And specifically volumes in Spain, starting by Spain by divisions, there are several questions around volumes being asked by Mario Ropero from Fidentiis, Raoul Leonard from Deutsche Bank and Carlos Peixoto from BPI basically asking how do we see the loan growth for 2014, given that there has been a small decline in some segments or areas?

What is our sense of the new business, the new production? If we can give -- specifically for segments, there are also some issues around mortgages or SMEs, if we can give some light of how do we see there the volumes, the new production, both in the current quarter and going forward?

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

Let me see. During this quarter, we've had basically an almost flat mortgage book; almost flat. A small increase in loans to companies, except for discount of receivables, where we've seen a small decrease. And we've seen an increase in loans to administrations.

What do we see during the next quarters? We said at the beginning of the year that we expected a modest growth this year and this is exactly what we see.

In terms of by products or by segments, new production in mortgages has increased 69% over the same period of last year, good margins. The margins are around 200 basis points. Good credit quality, with loan to values very conservative. And we see this trend growing.

With respect to SMEs, we expect that, with the new advance proposition that we launched in the country and the focus on the network on SMEs, we should continue to see good growth in this area. We're seeing, of course, some margin compression. But it's still at very, very good levels.

With respect to consumer, we're seeing also good growth this year.

So we are confident to have some modest growth in terms of the overall book. But some growth this year with very good (grade) patterns.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving to the other side of NII, with regards to spreads, there are several questions coming from Mario Ropero from Fidentiis, Carlos Garcia from Societe Generale, basically focusing on deposits. How do we see spreads in term deposits? In general terms in deposits, if we could see deposits, term deposits, at 0.5% or 0.6%?

And if you want to link this last part with NII and NIM, with both net interest income and net interest margin, how do you see both variables, net interest income and net interest margin, in Spain going forward affected by all these variables that we have commented?

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

So first thing, with respect to the cost of deposits, Jose Antonio already presented what is the cost of the new production of term deposits. That is around 90 basis points. The cost of the book, of all the book, today sits at (1.08), coming down from (1.25) at the beginning of the year. And by yearend, it should be well below 100 basis points.

So we see a very good trend in terms of the reduction of the cost of deposits. This will definitely feed into the net interest income and into the margin. So we see a slight increase in the client margin and the net interest income continue to grow at double digits.

A - Angel Santodomingo {BIO 15757370 <GO>}

Going down into the Spanish P&L, there is a specific question about cost and cost-income ratio by Raoul Leonard from Deutsche Bank. What is our expectation in cost-income ratio in Spain going forward? I guess, linked also to the evolution of cost.

If you want to finalize in Spain with regards to P&L, there is another question by Mario Ropero by Fidentiis asking for return on equities in Spain. How do we see profitability of the P&L? So both cost-income and return on equities in Spain.

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

Well, we talked about this on the presentation we did in London already a year ago, with respect to where we saw the return on tangible equity for Spain. It was normalized between 18% and 20%. And the cost-to-income, my view is that we should go back to some of the pre-crisis levels that were between 40% and 45%.

A - Angel Santodomingo {BIO 15757370 <GO>}

Last question about Spain is with regards to loan to deposits in the balance sheet, given that we are at -- sorry, the question is done by Raoul Leonard from Deutsche Bank. Given that we are at 85%, we do have some expectations, some objectives. Where do we see that? Did we see it below 80%? So, in general terms, those volumes, how are they going to evolve? Fast. How will the ratio look like at in the future?

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

Well, as you mentioned, we are 85%. Well, we want to grow with clients. So this means that we need to grow -- we will grow both in deposits, we will grow in funds. But we need to grow the book, the loan book. And as the economic environment improves, the loan books should grow.

We don't have a specific target with respect to the loan-to-deposit ratio. We are very comfortable with the levels we have at the Group level right now. We have said always that between 110% and 115% we'll be very comfortable at.

So we don't have a target. What we want to do today is to grow more with clients and this will definitely help in terms of moving our loan-to-deposit ratio slightly higher.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving to Brazil, from Carlos Peixoto from BPI, Mario Ropero from Fidentiis, David Vaamonde from MainFirst, I would summarize it in basically two questions.

Volumes, specifically on the asset side, loan growth, how do we see even the performance of the quarter? Going forward, if we want to elaborate by segments or where do we stand in what we commented in previous quarters. That's the first one.

And the second one will be NII, if we think that the NII is reaching the bottom. And how do we expect it to evolve in local currency going forward during the year?

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

Let me see. With respect to loan growth, I mentioned during my presentation that, aside from the slowdown in the economic activity in Brazil, specifically I mentioned one area and there's two areas where we didn't have the loan growth that we expected or we did have the long growth that we expected. But we did not grow at the same pace as our peers.

So this was on one side loans related to payrolls. On the other side was loan to the SME segment. I mentioned that we did have what we expected because we had the plans for both of these areas in order to make things better, let's say like this.

With respect to SMEs, we are preparing a new value proposition and this is in the process of being implemented. And with respect to the payrolls, we have some plans that we will announce soon. It's the process and activity that we reduced at the end of last year in order to analyze correctly what was the profitability of this activity and how we were conducting it and we will resume this back again in next quarter.

Leaving aside these two areas, we will be growing quite well in Brazil. So in individuals we will be growing at around 11% and we would be growing also quite well in the corporate side with respect to companies.

When we come back with SMEs and with the payroll loans that is why our expectations for the loan growth in Brazil is at low-double digit for this year.

With respect to net interest income, on a like-for-like basis. And I mention this because you remember we have the reduction of capital in the country, we expect the growth during this year compared to 2013.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving to Mexico, Daragh Quinn from Nomura asks around the loan growth in Mexico, if we are changing any outlook for the division in terms of loan growth and profitability.

And Mario Ropero of Fidentiis makes a similar question in terms of loan growth, NII guidance. It seems that the quarter -- if we can extrapolate the quarter or not.

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

Well, I think we cannot extrapolate the quarter. The quarter we've seen a subdued growth in Mexico, which is -- actually the growth is accelerating. We look forward to see a much better second half of the year than the first half. So we're looking forward to have a strong loan growth in Mexico.

We're not changing any expectations with respect to the P&L or profitability of the unit for this year.

So we are confident that Mexico is going to do, both from a commercial point of view and from a P&L point of view, a very good year compared to last year, considering, of course, that there's a tax impact, as we all know, from 2013 to 2014. So profit before taxes level of activity, our market shares should behave very, very well this year.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving to the run-off division in Spain, there are two questions; one by Benjie Creelan from Macquarie and Carlos Garcia from Soc Gen. If we can elaborate if we're seeing higher entries of mortgages, if we are seeing increasing number of sales. When do we see these trending down and if we can give details of number of assets being sold in amount in euro?

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

Well, first thing, we don't see higher entries, for sure. Number of sales were 4,200 during the quarter for EUR702 million.

Of course, what you see is that some of the credits are feeding into the repossessed. And especially on the loans to companies with real estate purpose. So on that area, the bad bank, if you want to call it like that, you will see a reduction in credit and keeping the same figure for the real estate asset. And this basically is the net between the credit feeding into the repossessed and the repossessed being sold. So we don't see any higher entries on the mortgages to individuals.

A - Angel Santodomingo {BIO 15757370 <GO>}

There is one unique question on Portugal, by Andrea Filtri from Mediobanca, if we want to elaborate on deposits, spreads, re-pricing. If we have any comment there in our Portuguese unit.

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

Well, what we have new in Portugal, aside from the competition from our peers, is the competition from the Government, which is issuing this short-term paper that is paying a very extraordinarily high interest rate.

However, we see a stabilization in the cost of the new production of new deposits. This will feed well into the average cost of the book. We see a slight decrease in this quarter on the deposits, as I was mentioning before, due to this competition not only from our peers but also from the Government. But we see good trends in Portugal in terms of the P&L for the year.

A - Angel Santodomingo {BIO 15757370 <GO>}

Moving to UK, Raoul Leonard from Deutsche Bank. And Stefan Nedialkov from Citi, they ask about volumes, customer loans. How do we plan to grow them? Or how does the business mix move in terms of SME, retail? And if we see any standard variable rate (or any) cannibalization linked to this if the deposit re-pricing is done, or there is much more to do.

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

Let me see. Beginning with deposits, we are very happy with the evolution of this in the UK. First thing because we are onboarding 100,000 clients every month with the 1/2/3 proposition that is feeding our current accounts, which is very, very, healthy. Almost 90% of these clients we are the first bank. So these are transactional accounts, which is very important.

We're the number 1, the first net winner in terms of the switching of the current accounts in the UK, which is very, very, good.

So, of course, this is helping us to reduce the cost of our term deposits. So we are losing some of the term deposits at the same time that we are reducing the rate we pay. That is being compensated by the current accounts that we earn.

We have now the ISA campaign during this quarter. So we see a strong reduction in the cost of these deposits, which will have an impact on the year.

Loan growth. The SMEs is growing very, very well, as well as corporates. We see double-digit growth in both with the same trend that we were seeing last year. UPLs is growing, although from a very slow base. But they're beginning to grow well and the new proposition for UPLs. And mortgages are stabilizing more.

Is there any cannibalization into the SVR? Of course, there is. However, I think we're managing this very, very well. So what we basically see is that this quarter there's a slight increase in the client margin in the UK. That should be more stable during the next quarters.

A - Angel Santodomingo {BIO 15757370 <GO>}

Well, as a last point, I would like to address the new situation of the department after eight years, that is 32 sets of results. As you know, the Group has appointed me as Santander Brasil CFO, which I have to say I'm proud and very happy to announce.

So first, I would like to thank you all for all these years sharing of ideas, intense discussions and good professionalism that you have shown. It has been a pleasure on my side to have this opportunity.

And secondly, as you know, the new Global Head of Investor Relations that the Group has appointed, (Jose Manuel Campa). He's already sitting here with us but you cannot see him. I'm sure he will maintain. And even improve, the strong commitment that the Group has with the market, with analysts and investors and that you welcome him as you did with me eight years ago. Thank you, very much.