Q1 2011 Earnings Call

Company Participants

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

Presentation

Alfredo Saenz {BIO 1422535 <GO>}

Good morning. We are going to begin the results presentation for Q2 and, as we always do, I will review the main highlights of the quarter and the Group's results. And then Jose Antonio Alvarez will give you a more detailed overview of the results of the different areas. And finally, I will conclude with our outlook for the coming quarters.

The first chapter of the presentation will deal with the most relevant results of the quarter, which I'll review in the coming slides. First, I'll speak about the Santander Group's ability to continue to generate recurrent results in a market environment which is still difficult. We posted a recurring profit of EUR2.013 billion in the quarter, boosted by the recovery in our commercial revenues that we pointed to in our last presentation. With that the first half's recurring profit was EUR4.12 billion.

In the quarter we have made a one-off provision of GBP538 million, net of tax, or EUR620 million, in relation to payment protection insurance remediation in the UK, or PPI. After this charge, attributable profit for the first half was EUR3.5 billion.

The second feature is the Group's NPL, which has continued with the same trend as in Q1 with a small rise, mostly due to the increase in Spain. On the other hand, units such as Santander Consumer Finance and Sovereign have continued to show a significant improvement.

Third, we've improved our liquidity position in the first half, capturing EUR19 billion more than the need generated by business volumes and maturities.

And thirdly, we closed the -- or firstly we've ended the quarter with core capital at 9.2%, 40 basis points (sic; see slide 4) higher than in December. We continue to have very solid capital ratios, much to our business model, as demonstrated by the results of the recent stress test carried out on European banks.

I am now going to review each of these points in more detail. Results; in the Second Quarter attributable profit was EUR1.39 billion. So that the total up to June is EUR3.5

billion. This profit was impacted by the extraordinary provision to cover potential claims in the UK related to the payment protection insurance, or PPI.

PPI is an unemployment and illness insurance for personal loans, which was sold widely by banks in the UK, mostly before 2008. Since then the Group has implemented a prudent policy, has not participated in any legal action undertaken by our main competitors. And have continued to settle customer claims in this period. Nevertheless. And after analyzing the implications of the latest development with the rise in the number of claims, we have decided to constitute this extraordinary provision of EUR538 million net of taxes, to settle any potential claim.

Excluding this impact, the ordinary and recurrent profit in the Second Quarter was EUR2.01 billion, bringing the first half ordinary profit to EUR4.12 billion. These figures once again demonstrate the Group's ability to generate recurrent quarterly profit of over EUR2 billion, which we believe will enable us to close 2011 with recurrent profit at around that of 2010.

As a result, we continue to predict a total dividend to our shareholders, which will be the same as last year, EUR0.60 per share, as we've already announced.

Lastly, I remind you that the Second Quarter's results do not include the EUR850 million in capital gains resulting from our agreement with Zurich to sell our insurance factories in Latin America, pending authorization from the different regulators. And which we hope to record before the end of the year. These capital gains will be fully allocated to provisions to strengthen our balance sheet even further.

Focusing on recurrent results, in this slide you see the usual charts representing the contribution and relative share of the different units in the Group. Starting on the right, emerging markets have increased their profit significantly. Brazil's profits are up 7% versus the first semester of 2010 in local currency before minorities. Growth, which is impacted by higher tax pressure since the net margin for provisions, has risen by (12%).

The remaining countries in Latin America are also showing very positive trends, growing up to 16% in profits before minority interests. Attributable profit in Mexico, reflecting the purchase of minority interests, has risen by almost 30%.

Sovereign has continued to grow strongly year-on-year, while the UK was affected in the year-on-year comparison by regulatory changes and a low growth and tough competition environment.

Profit in Continental Europe on a like-for-like basis fell 21%, mostly in Spain and Portugal, due to a very difficult economic environment and to the reduced availability of generic provision.

Finally, the Zachodni Bank or BZ WBK, our bank in Poland, joined the Group in April and contributed EUR94 million in these three months.

Jose Antonio Alvarez will now review, in more detail, the results of the different units.

If we analyze this in depth we will see a different performance of different units depending on the point in the economic cycle of the various markets. In emerging markets, that is in Latin America and Poland, the three main developments are solid growth in basic revenues quarter on quarter, due to the greater growth in business volumes.

Operating expenses show the investment in IT platforms in Brazil and Uruguay. And in our retail capacity we've opened over 150 branches in 12 months, mostly in Brazil. But also in Argentina and Mexico. And we've increased our headcount in Retail Banking by over 3,000 people. So as to improve penetration and customer care in target segments, such as businesses, high income individuals, call centers, etc.

There's been a moderate rise in provisions as growth in lending has been offset by lower costs of credit or funding. And the net of all this is a strong growth in profit with mid double-digit rate and with good outlook for the future.

If we look at the more mature market, in general we're going to see a recovery of commercial revenues in the last few quarters, which will also benefit slightly from a perimeter effect in our Consumer business. Costs have increased due to this larger perimeter and, in the last two quarters, have been remaining pretty flat.

Net provisions are affected by the reduced release of generic provisions in Spain, which hides the sharp decline of specific provisions in all units. The net result of all of this is an improvement in the underlying business, which is not yet seen in the profit line.

The second item I mentioned in my first slide was risk quality. The Group's NPL ratio rose a little in Q2, up to 3.78% with NPL entries almost at the same level as in the first half of 2010. And with a lower risk premium. This increase in NPLs is basically due to Spain and Portugal where we see the change, that we've mentioned in previous presentations, continue. However, Santander Consumer Finance and Sovereign have continued to improve and for several quarters now have had drop in NPL ratios and rising coverage.

The remaining units have remained basically stable with some minor quarterly fluctuations in Brazil, which rose slightly in Q2 in line with the sector's trends.

As for coverage it has remained at around 70% for the whole Group. The trends in different areas have been similar to those of previous quarters. We've seen a slight drop in Spain. And a very strong increase in Santander Consumer Finance, up to an excellent 128%. After improving once again in the quarter, Sovereign has also continued to improve. On the other hand, Latin America still has coverage levels of over 100%.

I will now move on to the third item in my presentation, liquidity. As we have seen in previous presentations in 2010 we've substantially improved the funding structure and the Group's liquidity ratio, enabling us to begin 2011 in a comfortable liquidity position; and are able to properly manage prices and volumes. The strategy in the first half has continued to involve deleveraging in mature markets. And strong issuance. As a result, we have captured EUR19-more-billion above our needs with the following detail.

We've reduce our commercial gap by EUR8 billion, that's the difference between lending and deposits. And we've issued almost EUR11 billion more in medium and long-term debt than matured in the first half. Additionally, we've placed another EUR15 billion in securitizations in the markets. In summary, we have a loans-to-deposit-ratio of 116%, a level in which we feel very comfortable. And very far from the 150% we had at the end of 2008. Lastly. And apart from these figures, I remind you that we could discount immediately in central banks around EUR100 billion.

The final point I'd like to make in this quarter is the solidity of solvency ratios. We closed June with core capital at 9.2%, demonstrating the Group's ability to generate capital in the current environment. Specifically, we've increased core capital by 40 basis points (sic; see slide 12) since December after absorbing the entry of Zachodni WBK, which subtracted 55 basis points in Q2. This capital generation is boosted by high profits retained and the management of risk-weighted assets which, subtracting the Zachodni entry, went down again in the quarter.

Our core capital ratio target remains above 9%. The solvency levels are extremely solid for our business model, our balance sheet and our risk profile. And we are in a very comfortable position in any potential and favorable scenario, as demonstrated by the recent stress tests carried out on European banks.

These stress tests carried out by the European Banking Authority, the EBA, have shown that, even in the most adverse scenario, Santander Group would increase its core capital ratio up to 8.4% by December 2012, with a surplus of EUR21.8 billion above the minimum requirement of 5%. If we were to add counter-cycle provisions, the ratio would rise up to 8.9%.

In this worst-case scenario with tougher assumptions applied to Spanish banks, the Santander, of all the banks that underwent the tests, the one that would obtain the largest profit during the years 2011 and 2012 of over EUR8 billion, the one that would pay out the largest volume of cash dividend. And would retain the most earnings, EUR5.1 billion.

Moving on to the Group results, on the screen you can see the way we usually report our P&L. The first column are the accounts showing a small exchange rate effect. And a small perimeter effect with incorporation of the Zachodni WBK in the last quarter, following the acquisitions of SEB in Germany. And AIG in Poland. And for this reason we've included a second column subtracting these impacts.

The underlying income statement reflects the trends that I was describing in the previous slides; consistent and solid revenues in an environment of sluggish growth in lending with interest rates still low in mature markets. And with a strong pressure on funding cost; very stable costs in our European retail networks with higher cost increases in faster growth area; and a small decline in loan loss provision.

The net result of these three items in our income statement shows a rise of 5.5% in net operating income, or 2.4% if we exclude the perimeter and exchange rate effect, which does not feed through to the bottom line, mainly because of the higher tax charge which has absorbed 7percentage points of growth.

Let us now look in more detail at the trends in the different items of our income statement. In income we see an accelerating trend boosted by the growth in basic income in the two business areas we mentioned earlier. Thus in this last quarter. And excluding the revenues from BZ WBK, gross income rose 2% over the previous quarter. That is around 8% year on year, which is well above the 2.9% year-on-year growth we showed in the previous slide.

Also, as for costs the trends are good and already show a slower pace of growth. Specifically in the last quarter costs went down 1% versus the previous quarter. In this trend, costs and income, are already fuelling annual growth over 10% in net operating income unlike the percentages we saw in previous quarters.

And finally, provisions which show two opposing trends. On the one hand an 8% drop in specific provisions due to lower provisioning requirement in most geographies. And on the other generic provisions release was much lower than last year. The net effect of the two was that total net provisions went down very slightly since the sharp falls in Santander's Consumer, Sovereign, UK and Brazil -- or rather Latin America, except for Brazil, were offset by rises in Spain and Brazil.

If we look at the quarterly trend we see that in Q2 we've had a halt in the downward trend in net provisions due to changes in generic provisions, as you can see in this slide. In Q2 there was a small amount of provisions compared to releases of EUR412 million in the First Quarter, similar to previous quarter. This was largely due to generic provisions in Spain, as our CFO, Jose Antonio Alvarez, will discuss.

And with that I am now going to give him the floor so he can review the business areas in more detail.

Jose Antonio Alvarez {BIO 19692884 <GO>}

Good morning. I will now review in more detail the different units. I'll remind you that we always post a more detailed presentation on our website about the different business units. And also, that in this quarter for the first time we've also included data about our new bank in Poland.

Beginning with Europe -- with Continental Europe, I'd say that our income statement reflects the difficult business environment. In spite of that, income -- well, there's rather diverse performance in the different units within this geography. Overall. And discounting perimeter effects, income has remained pretty flat. With the perimeter effect basic income rose by 6.3%. But the main driver for that was the recovery that we are seeing income in Spain, which we will look at in a moment.

As for costs in our retail networks in Spain and Portugal, they remain basically flat. The increased costs were mostly due to the perimeter effect due to investments made in global businesses and also in Consumer Finance.

Provisions increased, as our CEO has explained, because of generics. Profit was EUR1.87 billion in the semester, which is 17% down from first half of 2010. In the slide, on the right, you can show that -- we can see that the upper half of our income statement has very positive trends.

If we look now at business in Spain. And when I refer to the business in Spain it includes all the Bank's businesses in Spain, Santander network, Banesto, Consumer Financing Spain, Banif, Wholesale business and Asset Management and Insurance in Spain, we see that business volumes show the deleveraging of the Spanish economy overall. Our loan portfolio has shrunk slightly. And this deleveraging is clearly seen in the loans to deposit ratio which is already at around 120% when it was at over 180% at the end of 2008.

Deposits in this quarter fell a little because of the maturities and non-renewal of a portion of the EUR30 billion we captured last year with that massive advertizing campaign. We've prioritized reducing our funding costs over volume. You can see that the peak was 1.54%, the first half of 2010. Now spreads have improved significantly and so we've successfully managed our spread, which is what has enabled us to improve our income ratios. We've retained about 60% of the deposits we obtained last year. And so that's why, as we'll see later, gross income has been growing.

If we look at our results, the underlying fundamentals are very positive. Income growth is accelerating, connected to what I said before. There's been a slight drop off in lendings and deposits, while our income is growing because of successful spread management.

However, in accounting terms profits fell, even though specific provisions have also fallen, because of the reduced release of generic provisions in the semester in comparison with the first semester last year. So the idea here is that we have good underlying trends in income and specific provisions continue to go down.

As for our different units, the Santander network main highlights for the quarter would be that a significant part of the balances captured in 2010 have been retained. Our costs for deposits, which have gone down from 1.42% in December to 1.15% in June 2011, as a result our basic revenues have grown, all of which was transferred to net operating income since costs have remained flat and, in fact, slightly down.

Provisions were higher than in Q1, as you can see in the top white box in the chart on the left, the result of the impact mentioned by the CEO at the end of generic provisions. Specific provisions fell from quarterly levels of around EUR500 million at the beginning of the year to under EUR400 million in Q2.

So in short, the underlying trend is good pointing to an increase in gross income in the coming quarters, costs flat or slightly dropping. And specific provisions continuing to decline.

For Banesto I won't go into detail. The trends I would say are almost identical to those we've seen in the Santander network. And since they've already reported their results I won't go into detail; same underlying trends in volumes and in improving spreads, which we've seen in the Santander retail network.

Moving on, finally, to the details we always provide about the structure and evolution of our lending portfolio in Spain, particularly for real estate purposes. We can see that the total portfolio dropped slightly mostly, because of the drop in real estate lending, down 7% in the year, by almost EUR2 billion since 2010.

The other lines have changed only very moderately in Q2; have remained pretty flat for businesses, individuals, mortgages basically flat.

Looking at lending with a real estate purpose, this is the only one with a high NPL ratio of around 20%. Non-performing loan balances of EUR5.3 billion, substandard EUR4.01 billion in total. Over 70% of the balances, like in the previous quarter, are actually up to date with payments.

All the substandard by definition. And 50% of the NPLs, are up to date with payments. Overall coverage is 26%, slightly better than in Q1. And this shows a better estimate of potential losses (for) this portfolio.

And as for foreclosed assets, we've had moderate entries in the quarter of EUR470 million net. Coverage remains at around 32%. And there you have all the details about the structure where 50% is for homes and other buildings, 48% for developed and zoned land. And only (4%) for other land. Furthermore, coverage is matched to the type of collateral in each case up to 25% for buildings. And between 38% and 42% for land.

All the detailed information that the Bank of Spain requires be reported on loans with real estate exposure, mortgages and foreclosures, are included in the appendix to this presentation.

Moving onto Portugal, first, just a comment about Santander within the context of the Portuguese banking sector; I think our Bank's position is relatively good, both in terms of core capital, which is substantially higher than our peers, NPL is half that of our peers and coverage almost 50% higher.

As for our funding, our maturities are very moderate; no more maturities this year for our wholesale funding and in the coming years EUR1.5 billion annual maturities, with an exposure to Portuguese public debt of only EUR1.6 billion nominal as we've reported. So in that context, I'd say that since our position is substantially better than that of our Portuguese peers, it's a comfortable position both in absolute and relative terms.

Deleveraging of Santander Totta continues, as you see on the right-hand side of the slide. The loans to deposit ratio has gone down to 131%. This deleveraging process continues. In the first semester lending went down by EUR1 billion. No, this is the target for the year, sorry. In the first half we've reduced our commercial gap by EUR1.4 billion of the total of EUR2 billion. So very much in line with the deleveraging target that we have set as the target and that we will see in the Portuguese banking sector for the coming years.

If we look at the Bank's figures, the performance of the income statement and the volume, we can see exactly the strong deleveraging process together with strong competitions for deposits, which makes its margin smaller. And margin over total assets is still negative -- of a negative trend, because of the competition for deposits. Costs are evolving well; 6% less in the second half of 2010.

Provisions increased; the cost of credit is limited 0.5% annualized. And therefore the attributable profit is at levels which are in agreement with the current scenario. About EUR100 million or EUR200 million is what the Bank has generated in this environment.

In Santander Consumer Finance the situation is different; it's much more positive. It's in an advanced position in the cycle and there is business diversification. There are four drivers that explain this.

First of all, a faster growth in new loans and volume, because of new businesses and also because of a very strong growth in the Nordic countries and in Germany; spreads that are at high levels, despite the strong increase of rate in this first half of the year; controlled costs; and a lower need for loan loss provision in line with the reduction of the risk premium. The coverage is at high level, (120%).

All this means that an increase in profit, particularly in the Nordic countries, the US, Spain and Germany, with EUR365 million in the first half.

After a good Second Quarter of EUR306 million some provisions are freed up in the United States and this consolidates a leap in relation to all the previous quarters for this division.

For the first time we consolidated BZ WBK, the Polish bank. Let me set the Polish macroeconomic context. I would say that there are basically three elements that are important there. It's the size is 40% of the new EU. And the levels of leverage in the country are very low and a strong capacity to grow in the next few years, therefore a very good macro environment to develop this banking business.

That is with regards to the country but when it comes to the Bank BZ WBK, in this first half we confirmed our expectations -- the expectations we had on this bank. The figures prove that there is a high level of solvency, core Tier 1 of 14% and a high return with ROAs of more than 2%. And, therefore, a very good macro environment; a very good quality of the brand and the franchise that will allow us to grow in the Polish market in the next few years.

And if we look now at the figures for this quarter, the figures show exactly what I said. The growth in the lending activity is strong. We are much more selective in the deposits, where return is more important than volume. This bank has excess liquidity that is invested in public securities. Therefore, in that context, this policy makes sense.

Revenues in the income statement show a strong increase. The costs, although they're at 7%, I think at the end of the year the figure will be lower, less provisions and an increase in profit of 33%.

We're starting the integration process of this bank into the Santander Group. Plans are being designed to obtain synergies in this integration. And the introduction of the control and cost savings mechanism are good and we see a very good potential in Global Banking and Markets particularly.

And now the second area that I'd like to cover is the United Kingdom. The year-on-year comparison is impacted by the regulation, basically the bank levy. We are -- there's going to be an impact and the net impact in the taxes is of (GBP250) in the quarter, almost (GBP200 million) than in 2010. There's going to be a lower impact in the Third Quarter and in the Fourth Quarter we're going to have a like-for-like comparison in homogeneous terms.

If we eliminate the impact, what we see is that in the first half of last year the margin would grow at two digits as compared to the first half of 2010. So we do see a strong impact of the regulation on this first half of the year's accounts.

The business trends show that British economy is not growing yet, despite the stimulus (issued). And despite the fact that the interest rates are minimum low. Mortgages are flat, although we have 15% of new mortgages. And our credit quality is better than the average in the industry. We are still increasing our rate to 4%.

In operating expenses and deposits we grow at 3% in a market that has a strong competition and high interest rates due to liquidity tension, which is forcing some competitors to be very aggressive in trying to attract deposits.

Net interest income reflects the high cost of wholesale funding and the increased pressure for deposits. This is clearly seen as the net interest margins decline, which, even excluding the liquidity requirement, was lower than in previous quarters.

Less need for provisions, less than in 2010; so, in short, a good delivery in an increasingly complex environment, because of the pressure on the deposits forced, in part, by the new liquidity regulations of the FSA which, in turn, has an effect on the P&L.

Brazil; I would say that Brazil -- well, the trend continues. Increase of basic revenue, particularly in Retail Banking, as you can see on the right-hand side of the graph; increases in the net interest income quarter after quarter; revenue growing at 13%, costs growing 10.9%. This is a combination of high inflation, 7%. And a 4% increase in the retail network, because we've opened 140 branches. Nevertheless, a growth was on a downward trend, (13%) in the First Quarter.

Provisions also rose. Their growth over the First Quarter was high, as I will mention later. The net impact was double-digit growth in net operating income after provision. But this does not feed through to attributable profit, mainly to the rise in minority interests and higher tax pressure.

And activities lending growth at 17% continued the higher growth shown since the middle of 2010. Strong growth in individual customers; 32% more in cards; 30% (sic; see press release) more mortgages; also strong growth in SMEs and companies; 28% growth. On the other hand, large corporates only rose 8% due to less attractive prices.

And fund deposits also accelerated with year-on-year growth of 16%. And 15% in mutual funds.

(inaudible) just to finish this part, a record quarter in revenue. We already doubling the rate we had at the end of 2010. Provisions increase as compared to 2010 because of the increase in the last quarter. And this increase is due to several factors; double-digit growth in lending, or levels of 30% -- or 30-some-% in the consumer segment; and with a risk premium which is higher than the portfolio average; slight deterioration in the sector's provision in the Bank in the Second Quarter, some impact of the prudential macroeconomic measures introduced by Brazil.

And finally, the business mix is more aimed at individuals and consumers, that is growing very strong. Nevertheless, we do not see this growth extrapolating to future quarters. We think we're going to remain at these levels, growing with provisions remaining stable.

If we look at the rest of Latin America. And I'll talk right now about the region as a whole. And then I'll focus on Mexico and Chile.

Attributable profit rose 29% due to the double-digit growth in business. There is a faster rise in revenue from Retail Banking. There's an improved cost of credit and consequent reduction in provision; and a favorable, good evolution in Mexico and Chile. And also Argentina, where the profits grow at 12%. And Colombia too.

There's more lending activity. In December 2009 we had negative growth rates. Now the growth rate is 21% positive. This is impacted by the GE portfolio in Mexico. Without that portfolio, we would be growing at 18%. A double-digit growth in all segments except for cards in Mexico as compared to June 2010; It is true that in the past few months, the credit card dynamic in Mexico is already showing some growth after five, or six or seven quarters where it hasn't grown. On the savings side also growth and deposits are growing 16%.

And results; higher volume, then fees and commissions grow, 11%; insurance 32%, foreign trade and 11%. And cash management 12%. So profit before minority interest is growing by more than 15%.

If we look at the different countries now; Mexico. The most important thing to say here is a change of trend in gross income. We had negative income. Revenue did not grow, or they didn't sell, because of the Credit Card business there. Now the trend has changed, because the lending is growing 23%, excluding the perimeter effect. And we're still gaining market share in all segments, with the exception of the Card business.

This growth offsets the fall in lending spread, because of the higher relative share of lower risk products. Double-digit growth also in savings with the demand deposit up 20%. And improved position ahead of future rises in interest rate.

After solving the credit card problem, the situation is very good. The NPL rate is improving, excluding GE. And particularly the risk premium, which is about half of what it was 12 months ago. So the net operating income after provisions grew at a faster pace of 24% year on year; we closed at 14% in 2010. And then jump to 72% in attributable profit, because of the purchase of minority interest in the middle of 2010. Therefore. So far, the situation is very good in Mexico. And we think that in the future, the volumes will grow.

In Chile, the trend is similar in activity and provisions, enabling attributable profit to grow by 2 digits. We're gaining share, despite the fact that we have already a high market share. There is a pressure on lending spread from the sharp rise in interest rate this year; 20 basis points. Most of the lending activity in Chili is at a fixed rate. And this hurts the spread.

This combination of strong activity and the deterioration of the spreads, because of an increase in interest rate, gives us a revenue growing at only 3%. The costs are growing at 3%. Every two or three years in Chile there is a signing of an agreement which itself is increasing costs. And we are also opening market shares -- and market branches and doing private banking.

There is a sharp fall in provisions in line with the decline in the risk premium. So the business is doing well; the volumes are good. A little bit of pressure on the side of spread, because of the rise in interest rates, which, we think, will continue. But not as strong as we have seen so far.

If we now take a look at Sovereign; Sovereign is making a very good delivery. Lending is growing for the first time, despite the fact that, as you know, we discontinued a portfolio of $9.7 billion when we acquired the Bank. It's only $2.7 billion now. Despite the reduction of this portfolio, for the first time lending is growing at 4%. Deposits increase at 14%. Also, the cost of funds is improving 26 basis points less. And there's been a replacement of expenses placement.

Net interest income remains at a quarterly high. And we're making investments in changing all the IT systems. This is why costs have increased. A sharp reduction in provisions has improved the credit quality and coverage, narrowing the gap with our competitors in both.

Attributable profit in the Second Quarter was $183 million in line with our target for the year. Therefore, the performance is good in line with our plans in a context where we are changing the technology and improving the operations of our Bank.

In corporate activity, two elements; what we see here are the changes that have taken place as compared of the first half of last year. Net interest income negative minus $260 million, because of the increase in interest rates; of course, that increases the financing cost. And the credit spreads are high, of course, while the negative impact of both was more than EUR200 million in relation to the first half of 2010.

The liquidity position of the Bank is very high right now and this entails a cost.

The second factor is lower recovery of taxes this year, because of less result in the units that generate those taxes. The impacts are offset with a higher trading gain. Higher training gains come, basically, because of the hedging of interest rates. Last year, they had a negative impact, while this year the impact is positive, because of the depreciation of the dollar vis-a-vis the euro 8%; the pound 5%; the Argentinean peso 11%; and the Chilean peso 8%. These comments can be extrapolated, if we compare the average exchange rates of the Second Quarter with those of the First Quarter. So the tradings are very positive, because of the impact of the exchange rates. This is neutral because, of course, it's offset by the results of the unit.

And now, let me hand back to the CEO, who will talk about future trends.

Alfredo Saenz {BIO 1422535 <GO>}

We have revised the Group's strategy and the evolution of the main business units. And I will end with my view on the business trend in the coming quarter.

Starting with the units operating in a more complex environment, I would like to emphasize that Spain will continue to improve its revenue dynamics, taking advantage of the upward trend in interest rates. And the management of prices.

The non-availability of generic provisions will prevent the year-on-year reduction in specific provisions, fully feeding through to profit. We still see some pressure from NPLs on provisions.

In Portugal, the strong economic and financial adjustment means a stagnant banking business; a fall in commercial revenue and higher non-performing loans. In any case, Santander Totta is very well prepared. As we have shown, our NPL ratio is half that of the (unit) sector. Our coverage is higher. And we have higher solvency; almost 3percentage points more in core capital, than our competitors.

The profits will continue to be impacted. But we do not envisage any erosion of capital, given the income statement's great capacity to absorb provision.

The outlook for the rest of Continental Europe units is better. Santander's Consumer Finance will continue to generate solid profits for the Group. Key drivers will be diversification of results; a better evolution in the large markets, where we have critical mass; and a more efficient business model. In the next few quarters, we will continue to focus on the large key markets, in order to improve their contribution.

In Poland, our new Bank entered the Group, with very good business trends and results. We have already begun to integrate and unify systems, practices and teams, particularly in global businesses. And our first impressions are very positive.

In the UK, the economic and regulatory environment will be increasingly complex for the business. Sluggish economic growth, interest rates are low and strong competition in liquidity will step up the pressure on the income statement, which, in 2011. And excluding regulatory effect, remains solid.

We also have another focus of uncertainty, regarding the new scenario which could come from the Independent Commission on Banking. And its impact on business.

In Latin America, we see big improvement in results. The trends of stronger growth in lending. And high spreads, will gradually seep through to revenues and profit. We will continue to improve our commercial capacity. And take advantage of the region's macroeconomic and demographic dividend. All of this makes us optimistic about the region's future performance.

Lastly, Sovereign will keep up its good delivery, while continuing to build its operating, technological and commercial platforms. Good results added to a stronger balance sheet, with further gains in liquidity, solvency and credit quality, which are laying solid foundations for future growth.

And that is all. Thank you, very much.

Questions And Answers

A - Unidentified Speaker

Good morning. We're going to take questions now. First of all, we will be answering the questions that we've got over the web; and then, we will answer the questions that come over the phone. And, as usual, we will organize these questions by subject, to try to answer as many questions as we can in the time we have.

So the first part is strategy, capital and regulation. And there is a question from Rohith Chandra from Barclays; and Carlos Berastain from Deutsche Bank; and Sergio Gamez from Bank of America Merrill Lynch, with regards to the results guidance and consensus.

The question is whether we give the guidance of repeating the net recurrent profit that we obtained last year, after the PPI impact. If that will mean that we will have net profit of

EUR10.5 billion in 2011, after the PPI impact. And, therefore EUR8 billion in recurrent profit, after the impact? And if the profit remains in line with profits from 2010?

Well, in 2010, we obtained EUR8.2 billion in net profit -- attributable net profit. And, although in this quarter, we took into account that PPI one-off in Santander UK, as we have seen in the presentation, our capacity to generate ordinary profit is similar to the one we had last year.

Therefore, we still believe that the recurrent profit this year will be in line with that of last year. Ordinary recurrent profit will be more or less the same.

We also would like to remunerate our shareholders by EUR0.60 per share, we have announced repeatedly. And as I can confirm now.

On the PPI charge, several questions on that. Rohith Chandra, Carlos Berastain, Sergio Gamez. And Carlos Peixoto ask about this; and also, David Vaamonde is asking about this subject. Andrea Filtri from Mediobanca, too, is saying that, compared to the UK peers, the PPI charge seems to be lower for the Santander UK Bank. What is the reason for that?

David Vaamonde is asking the opposite question; why is it higher than our initial estimate? Sergio Gamez; can we give more details. And shed some more light on the PPI charge? And then, if we expect future PPI charges in the future? These are all the questions, I think, on the PPI.

The calculation of what we have to pay for this PPI is in line with the other large banks have had to pay for this charge in the UK; HSBC, Lloyds, Barclays, etc.

The industry, as a whole, in the UK, set up an extraordinary fund of about GBP6 billion. We have a market share of about 10% -- from 9% to 10%. And, therefore, our charge is, clearly, in line with what we would have to pay according to our market share. We don't expect to have to make any future payments for this. We think that we are more or less well covered with regards to future possible claims.

And this figure is higher than we had envisaged originally. We didn't announce it, we just made a general comment, because we really didn't know back then. And we hadn't done the calculation. Now the figure is more precise. But as I said earlier, this figure fits well with our market share in the UK. And with what the other large British banks have provisioned for this concept.

Then questions on possible IPO plan, there's quite a lot of questions on what plans do we have with England -- with the UK, with Argentina regarding any possible IPOs in these countries and what are we thinking about IPOs, in general?

Okay. About an IPO in the UK, actually we currently have some uncertainty which will certainly affect the timing of our IPO in the UK. So we still plan to have an IPO but, clearly, we will delay it beyond the initial dates that we had announced.

The UK is still in a very open-ended regulatory environment. There is significant uncertainty about what the regulatory impact will be ultimately, especially after the Independent Commission for Banking publishes its conclusions and that's significant as open-ended regulatory context.

We also have some delay in the execution of the Royal Bank of Scotland transaction, plus obviously the situation of the market doesn't help either. But having said that, the plan is to have an IPO but we won't have it in 2011. We will delay it. That's for the UK.

And for Argentina, I could say practically the same thing. There is a lot of uncertainty in the markets and we'll have to decide what the right time is for that IPO.

As for capital, there is a question from Rohith Chandra from Barclays asking the capital ratio's gone down 50 basis points. But your risk-weighted assets have also gone down.

But actually that's not true. The risk-weighted assets have remained at 47%, which is stable, in the quarter but we've used up some capital because of the BZW integration. The question is whether we expect risk-weighted assets to drop further in the future.

Well, we are very comfortable with our capital structure as you've seen, both at the end of 2010 and in the First Quarters of 2011. We maintain our target of ending the year about 9% core capital, which is the guidance we'd given. And so we don't foresee any surprises there let's say.

And continuing with capital ratios, there's more questions, one from Hiroyuki Fujii from Daiwa Asset Management, also about our capital ratio targets which you've already announced. What would be the impact of Basel 3 on capital? We've already said that it would be 75 or 80 basis points less approximately.

A question from Neil Smith about whether convertibles have been taken into account for the EBA stress tests. We already reported that they weren't in December 2010. But yes, for December 2012, in this stress test. And in the stress test, there's also a question about the deduction of intangibles which were also, yes, deducted.

Britta Schmidt and Sergio Gamez are asking both about whether we can clarify the SIFIs charge or what do we expect there, what will be positioned; between 100 and 200 basis points. And what impact might it have on Santander. Both questions are pretty similar.

Okay about that point, I want to be very prudent, because it's not something that we can be sure about. We don't know what kind of charge will be allocated to us for SIFIs. We've had no official announcement. But unofficially, we believe that will be on the lower side, or on the lowest side of the different scale for that.

So we expect, because of our business model and our risk profile, the diversification of our business and our legal structure of independent subsidiaries that the surcharge that will be applied to us for our being a systemic bank will be in the lower end of that surcharge. But, of course, that's only an unofficial estimate, because we've not had any official confirmation on this point.

Okay, there's several questions about potential impact of the (SB), which I think you have already discussed when you talked about the core capital in Santander UK. We'll have to wait and see what happens with that regulatory framework.

From (M&I) in Spain, they're asking -- also Yuki Fujii and Britta Schmidt from Autonomous. And Antonio Ramirez are asking what our plans are for any potential acquisitions in Spain. Are we planning to invest in any cajas or savings banks? And given the high integration costs and the potential reputational risks that might be entailed or involved in some of these transactions like acquiring the CAM, would we be interested? And if the (inaudible) were to offer an asset protection plan would we interested in the CAM. And so on and so forth?

Okay, this is a question which is highly speculative. So the answer can't really be any more definite either. We don't know. It depends on so many things and a lot of those things were contained in the question, certainly price and guarantees and different aspects. So we don't know. We'll have to cross that bridge when we come to it, as they say.

There's also a question about Poland, same direction from Britta Schmidt. What do we think of that market? Are we considering potential future acquisitions? Would we be interested in the Polish (inaudible) Bank?

Well, our position in Poland is solid. It's good. We have a significant market share plus the market -- the Bank's performing very well. As we've explained, it's growing and growing its business and its profits significantly. So we really don't need any additional acquisitions in Poland.

Having said that, of course, if there were some good opportunities in the market, we would assess them. But it's really too early now to say what our decision would be in the end, because we don't know.

And as far as your payout policy, this question's from Raoul Leonard from RBS, Santiago Lopez from Exane, Carlos Berastain from Deutsche Bank and Ignacio Cerezo from Credit Suisse all about our payout policy, asking how much will be a cash dividend, how much is scrip dividend?

If profits go down this year, will we retain the EUR0.60 dividend, since payout would rise to above 60%? How are we going to split those EUR0.60 between cash and scrip. And whether it's still going to be the 50% payout target? So they're all pretty similar as you see.

I think I said before when I was answering a previous question or in the presentation -- yes, the question about the guidance on our profits. And as I said, the Bank will maintain its total shareholder remuneration of EUR0.60 per share and the same policy as far as the split in cash and scrip dividend we had last year, exactly the same.

Okay. Question about risk-weighted assets, Ignacio Cerezo from Credit Suisse. Have we recalibrated our risk-weighted assets or is it just a balance sheet effect?

It is a balance sheet effect plus new entries in this quarter such as, for instance, the Polish bank, which we've explained already.

And to finish with this part, there's two questions; one about convertibles, whether since -- or if there were out of the money in October 2012, do we have any plan -- any contingency plan to act on that conversion? What do we do with our market price or not, (or) being a loss?

And the second is about the (Bankia) IPO, have we bought any shares or not? Raoul Leonard from RBS is asking this. And have we participated in the IPO?

Okay, about this last question. I also want to be very clear. Our basic principle is to treat our current shareholders and our potential future shareholders, because of conversion of these convertibles, in the same way. And so the issue will be fully realized (or) converted to equity. It will become equity, no matter what.

And, in fact, our (BPA) figures include that for dilution. It's been included in the EBA stress tests, as we've explained already, 100% as equity. And that's basically what's going to happen. The holders of these convertibles have received an attractive remuneration over these years and basically, the yield with the final conversion price will have had the same yield as any other Santander shareholder. So we think that's the right approach and that's how it's going to be.

Bankia?

And it will be market price, yes.

Moving on to risks, credit quality, there's a general question about NPL entries in the semester. Can we elaborate a little? Given the rise without the perimeter effect, what did we think of the NPL in the Group, in general?

And then I can ask more specific questions. But I can tell you already that in Spain there's quite a lot of questions; also from Hiroyuki Fujii, Rohith Chandra. And Raoul Leonard. And Benjie Creelan from Macquarie about the NPLP; when do we expect that to peak? And what trend do we foresee for NPLs? And so these are all questions about the Group NPL and Spain NPL.

Right, the number for the Group is greatly impacted by the number for Spain, as we explained in the presentation.

In Spain, we have been provisioning and reporting in previous quarter presentations. In January and back in April, we said that we expected NPLs to peak this year at some point on Q3 or Q4. We, basically, maintain that belief. But I should make some observations about it.

First that the NPL ratio is a ratio and when we were doing our estimates and our forecasts, we had always considered that lending would remain constant. But lending is actually now dropping at a rate of approximately 6%, which means that probably this drop in the bottom figure of this ratio, if the top remains the same, will have an impact on the resulting ratio.

We don't think that the top is going to change. We think the absolute number or volume of NPLs we will have at the end of 2011 will be the peak and will not grow further in 2012. But the ratio, because lending's dropping, may go down -- may rise. But anyway, that's our guidance right now.

Some questions also about Spain. Rohith Chandra from Barclays is asking about generic provision. How much is left? Have we used them up completely?

Well, in Spain, we still have EUR330 million in generic provisions, which is approximately the legal requirement.

Another question about whether we are at that regulatory limit yet and yes, we are, approximately, as you've seen, because we've not used any generic provisions this quarter.

David Vaamonde is asking about whether the quarterly rise in provisions is due to a release in generic provisions or rising NPLs, or a combination of both, which I think has already been explained.

A question about coverage from Raoul Leonard and RBS and Benjie Creelan from Macquarie; and since coverage is at 49%, whether we expect it to drop further. Do we expect it to drop below 40%? How much more do with think it can go down? Or how much more will we allow it to go down in the next quarter?

Well, no, we don't think that's a number that's going to change. It's gone down slightly. But rather immaterially. And we don't think it will go down further. We don't expect any change there.

Antonio Ramirez is asking about problematic assets or doubtful assets, basically real estate. There's also a second question about this point.

What trends do we expect for real estate assets in Spain, prices? If the share of the total is going to continue to rise; if we expect additional impairments in the rest of 2011 and 2012; so assets in our balance sheet right now, plus any additional ones and the situation in Spain in general?

Okay, well we have 11% of our loan portfolio in Spain and 3.5% of the Group's loan portfolio is real estate; it's EUR25 billion. And as we've said. And as you know. And as is in the presentation, we've provisioned 25% of that to cover our doubtful real estate exposure.

We've also increased provisions for foreclosed and allocated assets up to 32%. And that reflects our views of the market, the question about how much will property prices drop or how much have they dropped, whether our provisioning level reflects our views on that.

We've also provisioned for land. Land now is provisioned at about 40%, because that's also our view on land prices and their evolution. And that's basically it. That's basically the answer I can provide for that.

Okay, there's a question about the information that we included in the Bank of Spain presentation on exposure to real estate developers, whether it's Group or Spain. And I'll answer that, it's Spain. It's the information required by the Bank of Spain with regards to our developer exposure on our foreclosed and allocated assets.

And then about Brazil, we have several questions from several analysts. Why there's been a quarterly rise in provisions in Brazil? And what our outlook is for provisioning in Brazil in the second half. Do we expect quality to continue to worsen? What is worsening most? Do we think there might have been a credit bubble or not? So these are basically the questions.

Okay Brazil, there has been a rise in NPLs for the whole sector, for all of our peers in Q2. Why? Well, it's something that has several causes.

There had been some indication that this was going to happen in the past, because there had been a rise in defaults between 15 to 90 days in the First Quarter for Santander and for the sector. Santander had 34% defaults up to March 2011. And that, of course, is the early warning that you'll get NPLs. So that's the first point.

The second point is that it seems, both for -- we and the sector believe that Q2 (it is because) -- well, or in Q3, these will drop because we're seeing the fourth drop already. So there's been a peak that the whole sector has seen in Q2. But it will go down from now on.

Reasons, well, probably because individuals were hit by some lending restrictions in Brazil; shortening of terms; increase in the initial payment of credit card lending. And that's had an impact on these defaults, which increased in Q1. There's also been some effects in SMEs, probably because of some earlier refinancing in the system.

So basically, the whole sector has experienced this rise in NPLs in Q2. But the forecast, which was the second part of the question, is that in Q3 the peak will normalize, will go down.

And what about Santander specifically? Same thing as in the whole of the sector. But slightly amplified, because our business mix is more focused on individual consumer finance than our peers. We, for example, have a percentage of lending to individuals in -- where our total loan book is 41%, when the sector's average is 32%.

So we're more focused to retail individual loans and we're growing faster than the sector, than our peers in that segment, which means that our NPL rose slightly more than that of our peers this quarter. Although it's also true that there's higher NPLs, because of this particular business mix, also means higher spreads because this is a more profitable business.

And there's a couple of questions going back to Spain to finish dealing with the risks area. There's a question from Jaime Becerril about loss in our trading revenues in Spain, EUR10 million.

That's basically Wholesale Banking. You have the details with a breakdown by units and you'll see that it's basically Wholesale Banking.

Alvaro Serrano from Morgan Stanley has two questions. One is whether we have any guidance on specific provisions. You've spoken about risk in Spain already. But do you think or do we think it's sustainable? And do we have any visibility on specific provisions?

And the second is at what rate can you reduce your real estate exposure in Spain? And do we have any target to deleverage or reduce our exposure to that segment?

Right, specific provisions in Spain are dropping slightly. They've dropped strongly in the first -- well, last year in Q1. And between Q1 and Q2, they've dropped a little, very little, specific provisions.

And basically, I think that in the next quarters specific provisions will remain at similar levels, perhaps slightly lower than those we have now. Although the fact that we have no generic provisions left means that the impact on our income statement will still be significant, without that cushion that we've enjoyed in previous quarters.

And the second part of the question was what? Yes, target, to reduce our real estate exposure. Well, the target is to reduce it as much as possible, as quickly as possible, that's the target. But, in fact, we've already reduced it by EUR2 billion, as you see in the tables, in the annex or in the appendix.

And, of course, we'll continue to reduce that exposure. Unfortunately, not as fast as we would like. But our goal and our focus is certainly to reduce that exposure as much as possible.

Moving onto the financial side, we have several questions about the corporate center, basically about the net financial margin. Can we explain that trend and how much is it due to funding costs or ALCO?

Second questions or line of questions is about our ROFs, our trading gains. We have EUR160 million up compared to other banks which are weaker in that area.

And the third line of questions is about provisions for that area. Can we elaborate a little about provisions?

Okay, I think I already discussed the financial margin. I think it was down, as I mentioned, with respect to the previous year. And I mentioned that there was a general effect with rising interest rates. So funding for the corporate center is slightly more expensive because of rising rates.

The second impact, the spread is higher, as you all know, for funding -- wholesale funding. And there's another question or -- with the ALCO, which is charged to the corporate center and it's about EUR14 billion. The margin there is a bit lower. But that is still pretty minimal. And the whole of the year will be a bit more but overall, the ECB that rising 25 basis points in the semester has not had much of an effect. So the main two impacts; rising rates and rising spreads.

As for our ROF, as I have explained, the hedges for our exchange rate risk this year, the euro has appreciated versus other currencies and therefore, that has generated capital gains; that's the main effect.

There's a question about our exposure to sovereign debt, saying that we had EUR42 billion exposure, countries like Brazil, Mexico with low ratings and whether this exposure has changed since last year. And what is our take on that?

Another from Jaime Becerril from JPMorgan about the impact of wholesale funding on our net financial margin, which you've already answered I think.

Right. As for our exposure to sovereign debt, BBB, I suppose, he basically means, Brazil and Mexico, because in Chile not BBB. We do have ALCO portfolios in Brazil of $25 billion. And in Mexico it's a lot smaller, $4 billion.

There's been no significant changes. The last significant change there was when we did the capital increase in Brazil where, as you know, the liquidity excess was applied to public debt. So this is public debt, all of it, in local currency. There's no public debt in dollars or euros. This is all in local currency and the amounts are as I've mentioned.

Second part was --?

No, again, about whether you wanted to explain the cost of funding change. But you've explained that already.

Yes, I've answered that already.

And to close these two areas, a question has come in from Banco Sabadell about whether it would make sense to buy back some minority interests in Santander Consumer. There are no minority interests in Santander Consumer Finance.

Irma Garrido from Ahorro Corporacion is asking about capital gains and the sale of your insurance factories in Latin America and whether that's going to go to core capital provisions. We explained that it was going to be used to reinforce the balance sheet and when charged, we will use it for that purpose. I think they said it expressly in the presentation about payout and the surcharge for systematically significant bank, we've already answered.

Another question is about rising tax pressure in the year. That's due to profit generation in countries with high tax rates. And that's basically the reason. It's a trend that we've been seeing as more profits generated in countries with higher tax rates.

About Spain, there's several questions about deposits. Antonio Ramirez and Benjie Creelan from Macquarie are asking about the loss of deposits we've had, EUR11.6 billion, (resident), of course, that's ex. wrappers. It is, of course, connected to the 2010 campaigns. Do we expect any more withdrawals in 3T? What have been the results of the -- of last year's campaigns, net? How do we see it? Also, the competitive environment for deposits in Spain. And some more questions along the same lines.

Okay, let's take each of those in turn. (It's) true that in the results reported for Q2, the Second Quarter, we've had the maturities of that special campaign we organized last year, to attract customer deposits; that 4% campaign. And so in Q2, we've had the early maturity of that.

How much have we retained? Just over 60%. So we've lost 40% -- no, just under 40% of that. And that's why there is that annual drop in deposits in the results we've reported. We've had a drop in deposits in Q2 versus Q2 last year, because of the loss of just under 40% of the deposits attracted by that campaign, which were just EUR30-some billion. That's on the side of the explanation of default of deposits. And the result of that campaign.

Now we've been able to keep more than 60% of those deposits. So I have to say that it was a very successful campaign, indeed. Because when we extended that 60% of the money that came in at 4%, the price now is 120 to 150 basis points below what we gave last year. Last year, we gave 4% on those deposits. And those that we kept are -- we're paying 2.6%. So let's not forget that, in this period, the Euribor went up by 100 basis points. So I have to say that the campaign has been very successful.

I'm being told that, on the insurance capital gains, there are some questions about that. They will be -- they will not have an impact on the capital. And how we will allocate that money, we will decide when the time comes.

Also, on deposits, a question from Marcello Zanardo on Spain, on the performance of the net interest income. And revenue in general. How do we think that's going to perform?

What do we expect from the competition? The evolution of deposits, lending and, therefore, the evolution of the commercial gap until the end of the year?

Well, the policies that we are applying in Spain are making revenues grow. And the net interest income is increasing because of two things. First of all, because of the impact of the reduction of the strong fall of the costs of deposits, as I mentioned a few minutes ago; that 4% that we were paying for deposits, now we're paying 2.6%. So it's 140 basis points less than what we gave last year.

Plus, with the interest rate that is 1percentage point higher, that is having an impact on the income statement. And, apart from that, we're also being very selective in our lending policy. So these two things together are giving these results.

Despite the fact that our volumes are lower, because there's less economic activity. And lending has fallen by almost 6%. But all -- but despite that, despite all those variables, we are still getting very positive revenues.

And we think that these policies, we will continue to implement in the next few quarters. And that will make our income grow in the future. So the trend we've seen ever since Q1 this year, with a turning point on the revenue curve, we will continue to see in the future.

On Spain, there is a question from Santiago Lopez. Why Banesto figures are different to those published by Banesto? This has been happening for a year now. And that is because of the deposit campaign and the cost of it, that we just explained.

Several questions on the exposure to sovereign debt; basically, Spanish and Portugal -- Portuguese from (Santiago) Lopez. And Andrea Filtri; can we specify the exposures to sovereign debt of Spain and Portugal, have these changed? Can we give details on the exposure in Portugal, given the fact that, in the EVA, you talked about EUR3.6 billion, as compared to EUR1.6 billion?

EUR3.6 billion includes not only sovereign debt, also loans and other items as well.

And then a question on the current situation in Europe of sovereign debt. What do you think can happen? Can we -- can you absorb the funding costs that you have at present? And if our treasury activity has changed, given the situation in Europe?

Well, no, our exposure to sovereign debt hasn't changed. We have about EUR20 billion or EUR21 billion of Spanish risk; EUR14 billion in the parent Company; Banesto, EUR5 billion; another unit, all of them put together, another EUR1 billion. So that hasn't changed.

In Portugal, we have EUR1.6 billion of Portuguese public debt. It is true that we have loans for another EUR700 billion. So it's EUR2.3 billion exposure in total, because we have these loans to publish to Portuguese public companies. So that hasn't changed. These ALCO portfolios go beyond maturity.

With regards to the situation in Europe, well, an agreement was reached last week, which we think is very positive, because I think it goes in the right direction with this agreement on Greece; and also, the possibility of giving more flexibility to the (FSA).

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

With regards to (revolving) funding costs, the CEO elaborated on our policy that we have of extending the asset spread. And that is the natural way to go. Of course, that has an impact on economic growth. And that is the main concern at a macro level.

The cash management activity, well, it's basically activity with customers. How has it changed? Well, basically, the prices try to reflect the market conditions, as couldn't be otherwise in this activity. But apart from trying to reflect that in the prices, I would say that another aspect that hasn't changed.

There are banks that are much more specialized in the world of issues and fixed income. And there is very little activity right now. And we don't do that as much as some of our competitors. But this just reflects market conditions and couldn't be otherwise.

A - Unidentified Speaker

Now in Mexico, there is a question from UBS on the increase of the NPL rate from 1.6 to 2.6. And Irma Garrido asks about the increase in lending. And the NPL ratio.

I remind you that, in Mexico, we bought a portfolio for $2 billion. And that affects the NPL rate as well as the lending figures.

UK; Hiroyuki from Daiwa Asset Management is asking about the volumes. How do we think mortgage volumes will change. And also loans to SMEs? What conditions do we have for those loans? And do we see a growth opportunity for the loan book, given the economic situation, which is quite weak in the country?

I think the question is answered by the question itself. It's a weak situation of the British economy. And therefore there is a weak demand for loans. On the part that we're very strong, which is mortgages, growth is flat. Growth is very, very little. Practically no growth at all, although there are remortgage activities. And that is an ongoing activity, because this is a very -- this is a characteristic of the British market. But otherwise very little activity. And that will continue whilst the economy it doesn't grow.

Now, the situation for us is a little bit different in terms of SMEs. We have a very small share among SMEs. And this is a segment which is a priority for Santander UK, given its weak penetration in this market. So in relative terms we're growing quite a lot, relatively speaking, of course.

We're going a lot in SMEs, given the fact that our market share there is quite small. But I remind you that it's because we start off with a very small market share. So that saw flat or very little growth; if it's not flat growth it's very, very little growth, because of the weak market condition. And we don't think that the lending market is growing it all.

In terms of the net interest income there are several questions from Raoul Lenard and Marcello Zanardo. And Rohith Chandra from Barclays. Basically, how do we see the performance of the net interest income? Can we give any outlook, given the fact that it's growing very little? Are there more impacts apart from the regulatory or liquidity impact? And could you say something also about the deposits? It looks like costs are going up on deposits? How do you see that?

Well, there is a tougher competitive environment, because British banks that in previous years were in a negative situation are now competitive again in the market. And we do see that there is a greater pressure on margin. But not exaggerated. That might erode our spread a little bit, although spreads are remaining more or less the same in loans and deposits.

The thing is that there's not much activity. And if we keep the same level of spreads, well, the net interest income doesn't grow very much. And that is what is happening in the UK. And we think that it will continue to be that way in the next few quarters, because we don't think the economic situation will change drastically in the UK in the short term.

And to finish with questions about the UK, Britta Schmidt from Autonomous is asking about the impact of regulations. Do you think there's going to be more impact?

No, we don't think so. The impact in like-for-like terms is basically already included.

Another question on the performance of fees and commissions, which are very strong in the UK. Antonio Ramirez asks if there's any change there.

Basically, it's from Wholesale Banking, from corporate financing activities.

And to close questions on the UK, we have a question on quality. Rohith Chandra from Barclays would like to ask what is our forecast regarding our quality. And he also asks about costs.

Santander UK has stated very clearly that quality is their priority for the Bank. We are still in the comparative quality ranking. We are not doing well as compared to our British competitors in those rankings. We have improved our position somewhat. Last year we were the last one in the ranking. And we're not there any longer. But we're still on the low side of the ranking. And quality, for us, is one of our priorities.

Now, that doesn't have a clear impact on the cost. This -- I've never believed that it's either cost or quality, that they are so inter-related. Of course, yes, we have had to hire a few more people in the call centers, because we brought the call centers from India to the UK. And we've had to hire new people. But it's not that important for it to have an impact on our cost base in the UK.

Now, quality is very clear for us. It's a slow process. We think that it -- we will see the results little by little. It's a very slow process. But I hope that in 2012 we can be on the top part of the ranking instead of being there at the end of the list.

Yes, a couple of questions more; Brazil, Rohith Chandra, how do we see the macro scenario for Brazil. And Benjie Creelan would like to ask about the performance of volume? Do we think that 15% that we mentioned is still valid, or do we feel any pressure in terms of growth?

And also, the question on revenue in the country on the mid-term and also the quality of risk.

Well, the macro scenario in Brazil it's not too different -- it won't be too different in the future. Last year grew a lot. We think that for this year it's going to grow 3.5% to 4%.

Volumes, 15%, yes, we think that is still valid. We're growing at 17%; 15%/17% is what we see in the system. And we think that we will be there, in line with the industry.

On the mid-term in the country, well, the growth rates are having an impact on the revenue; the revenue is growing at two digits. I think, in this first half the growth has been 13%. And on the mid-term we think that that will continue to be positive.

And the spreads remain the same, or they have increased somewhat in this first half of the year. And on the mid-term, I would say that we are quite optimistic with regards to the performance of Brazil and the possibility of generating a profit there. 20%, more or less, is a figure we would like to reach in terms of our result generation in Brazil.

Regarding quality of risk, we already mentioned this. We think that provision in absolute terms will grow. Depending on the mix, it will grow a bit more or less. If it's more consumer then that will mean that it will grow more. But if it's in wholesale, it will grow slightly less. But we're growing right now at almost 30% in the consumer area.

We have a question from Brazil, which is more or less the same as it -- will it grow as much as last year?

Yes, it will remain stable.

And there's a question on the net interest income in the United States. This responds to asset liability movement that we see. There is nothing new there with regards to possible outlooks.

And the last question, Ignacio Cerezo from Credit Suisse on Portugal, can we give an opinion of the performance of the P&L given the macro scenario in the country. And the aid that has been negotiated, plus the structural measures that the Government has been announcing?

Well, the P&L in Portugal is going to suffer on different sides. On the one hand, because the country and the Bank are deleveraging, which means that the growth of lending is going to be -- well, it's not going to be growth; it's going to be a fall in lending. And this will have an impact on the revenue. And the higher funding costs at the retail level, which in Portugal has always been high because of the war on deposit, as well as wholesale level also have an impact on the earnings.

And thirdly, a higher NPL rate, we think that in the economic context of Portugal in the next few years we will see a higher NPL rate. So therefore, less activity from the business point of view, less activity the deleveraging of the Bank could strike a balance between loans and deposits. It's a bit high now. It has to be no more than 120% as established by the Bank of Portugal, higher costs of funding, retail as well as wholesale and a higher NPL rate.

Now, nevertheless, Portugal will continue to have profit. We mentioned this earlier when we talked about Portugal in the presentation. We don't expect to have losses in Portugal. We don't expect to destroy capital there. Even taking into account all these impacts, the Bank will generate positive results. But less than what we've been generating in previous years. And less than the ones we will generate this year.

Okay, I think we've already answered all of the questions. If that is not the case please get into contact with our department. And we will send you the answers later. Thank you, very much for coming.