Q4 2011 Earnings Call

Company Participants

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

Presentation

Alfredo Saenz {BIO 1422535 <GO>}

Good morning. Let's begin with the 2011 results. As we always do, I'll be reviewing the main highlights of the year and the Group's results. And then our CFO, Jose Antonio Alvarez, will give you a more detailed review of the different business areas. And finally, I'll conclude with some final remarks.

2011 was a year characterized by an unfavorable global economic context, which has worsened in the last half of the year. As a result, there has been an increasing downturn in the global economy in the Fourth Quarter, which, according to the latest forecasts, will have a negative impact on growth in 2012.

In this environment the Santander Group has adopted a conservative strategy. We've prioritized our balance sheet strength, supported by our ability to generate both ordinary and extraordinary revenue. The main developments in 2011 and, first, solid generation of recurring profits, profit before provisions was over EUR24 billion and before extraordinaries was EUR7 billion.

Second, the Group has made a significant effort in extraordinary provisions with EUR3.18 billion net of taxes, which is double the capital gains obtained in the year.

Thirdly, we have significantly boosted our balance sheet. And we've done it by combining a strong improvement in the coverage of foreclosed properties in Spain, which is now up to 50%, with a significant reinforcement of our capital ratios. We have now achieved the EBA requirement in record time and improved our core capital ratio, according to BIS II criteria, up to 10%.

Fourth, we have continued to offer our shareholders a return higher than the average of our European peers.

I will now review each of these points in more detail. First aspect I mentioned about 2011 is the generation of recurring profit. For the first time we have obtained over EUR24 billion in net operating income, or pre-provisioned profit. And we've done this by continuously growing our income, which is, we feel, a significant difference with respect to the sector in the last years.

The figure is particularly relevant for three reasons; first, because it puts us amongst the best banks in the world in income generation. Very few banks have been able to post around EUR25 billion a year in profit before provisions. Second, because it enables us to maintain an excellent track record during the downturn; in the last four years we've obtained profit -- or pre-provisioned profit of EUR90 billion. And thirdly, because it makes our income statement extraordinarily robust and gives us an extreme ability to absorb provisions, even in the most demanding environment.

After provisions, taxes and minority interests, recurring attributable profit in the year was EUR7.02 billion, 14% less than in 2010.

And as for the trend, both our year-on-year and in the quarterly comparison, we see the impact of the big fall in trading gains mostly in global banking and markets, hard hit by weak markets with very low volumes. Provisions were also higher in 2011.

(Spoken in Spanish).

The Group has allocated almost all the profits of the Fourth Quarter to voluntary provisions for an amount of EUR1.7 billion. And these provisions have had two purposes, a fund of EUR1.8 billion to increase coverage for our real estate exposure in Spain. And the amortization of EUR600 million of Portugal's goodwill.

In summary, if we look at recurring profits plus capital gains, we've obtained a total of EUR8.5 billion of which EUR3.18 billion have gone to provisions, leaving an attributable profit of EUR5.35 billion. These profits do not include the capital gains from the agreement to sell our bank in Colombia, as the operation had not been completed at the end of 2011 and these will be recorded in 2012.

As we've seen, the greater asset in provisions was mostly allocated to increase coverage for real estate risk in Spain, particularly for foreclosed properties. Coverage is now at 50% anticipating possible legal requirements.

Two points to be made here. First, with this increase we are once again ahead of the banking sector as we were in 2009, when we raised our coverage for foreclosed properties up to 31%, way above our peers. And ahead of the requirements subsequently established by the Bank of Spain. Secondly. And in addition to real estate, in the quarter we've also improved coverage for doubtful and substandard loans, as we will see later on.

Increasing coverage provisions has been followed by an improvement in our capital ratio. I should mention the speed, because in just two months we've met the 9% core capital requirement established by the EBA. This has been possible, on the one hand, through organic capital generation. And, on the other, due to the Group's strength and high financial flexibility, which have enabled us to adopt different measures to raise our capital ratio from 7.53% in September 2011 to 9% today.

The effort made on our capital ratios in the last quarter have enabled us to meet EBA requirements. But also to speed up the rise in core capital ratios, according to the BIS criteria. We've ended the year at over 10% versus 8.8% in 2010. As a result, the Group's solvency has been improving for five years running. In short, we have very solid capital ratios, appropriate for our business model, our balance sheet structure. And our risk profile.

For our liquidity, we've also maintained an excellent position. Our liquidity drivers are well known; great retail capacity through our almost 15,000 branches; wide and diversified access to wholesale markets through our subsidiary model; and also the deleveraging in some markets, which is also bringing in additional liquidity. And we see this in the numbers. We closed 2011 with a structural liquidity surplus of over EUR120 billion.

The loan to deposit ratio is at 117%. I'll remind you that it was 150% at the beginning of the crisis. We've issued EUR40 billion versus EUR32 billion in maturities. And we have also placed securitizations for a total of EUR25 billion, mostly in the UK. Recourse to short-term wholesale funding was very small. And finally, we still have a total discounting capacity with Central Banks of around EUR100 billion.

Therefore, we begin 2012 with excellent position. We have no significant maturity concentrations in the coming years. Annual maturities are lower than the issues made in 2010 and 2011. We also do not need to cover all maturities, because of the different strategies planned. In Spain and Portugal, we aim to narrow our commercial gap by almost EUR15 billion. And this, together with less recourse to the parent bank by Santander Consumer Finance, means we don't need to make any additional issues to maintain our liquidity position.

Santander Consumer UK and Sovereign enjoy better access to wholesale funding, because of their market conditions. In emerging markets, where overall we have strong liquidity positions even a surplus, like in Poland, we will combine growth in lending and deposits. So in summary, a solid starting position, limited maturities and favorable business dynamics, will be the drivers that will enable the Group and its subsidiaries to retain a comfortable liquidity position.

The Group has closed the year with its NPL ratio at 3.89%. It's only risen 3 basis points in the last quarter. This increase is, basically, due to the trends in Spain and Portugal, which have continued with the trends we had reported in earlier presentations. On the other hand, Sovereign has improved for the eighth consecutive quarter; Santander consumer Finance for the sixth quarter running; and Latin America except for Brazil has also been improving in every quarter of 2011.

And as you see on the screen, this trend enables us to compare ourselves favorably in local criteria with the average of the financial sectors of the main countries in which we operate; Spain, the UK, Brazil. And the other Latin American countries.

The final point that I mentioned in my initial slide was total shareholder return. The strategy followed by the Bank in the last year, the results obtained, the high solvency. And the remuneration policy, are bringing about a total shareholder return, which has clearly exceeded our sector's -- our European peers' average. And we have achieved this not just in the final quarter of the year. But also medium and long term, as you see in this slide.

Moving on to the Group results; on the slide you can see our income statement on the accounting basis. And then another column subtracting the perimeter effect and the exchange rate effect, which for the whole year were almost zero.

We can draw two basic conclusions from that. One, the strength of the upper half of our income statement, with pre-provision profit at EUR24.37 billion, which is 2.2% higher than in 2010. This growth was based on solid, consistent revenues with net interest income and fee income performing well, in spite of a very low growth in lending, with very low interest rates in a mature market. And a strong upward pressure on funding costs.

The positive evolution of the upper half of our income statement does not feed through to profit due to three factors; higher provisions and write-downs in 2011, in part due to the PPI charge in the Second Quarter in the UK, a higher tax rate for the Group overall, from 24% in 2010 to 27% in 2011. And lastly, net -- I mentioned already between capital gains and extraordinary provisions, of minus EUR1.67 billion.

Revenues have grown -- or gross income has grown 32% in the last three years. And if we look only at basic revenue, that is net interest income, fee income. And results from our insurance activity, growth was at 38%. Looking at 2011, basic revenues are still very solid, in spite of sluggish volumes, with an inter-annual growth of 6%; that is over EUR2.3 billion in absolute terms.

I should mention strong growth in Latin America the seventh quarter running, with a year-on-year growth of 12% in local currency. First, a growth in volume since mid-2010 and their gradual feeding through to revenues is behind this trend.

Progress at Santander Consumer Finance, both from organic growth and also, of course, from the entry of SEB in German and AIG in Poland; positive impact of the nine months' impact on our accounts of Poland's Banco Zachodni, or WBK. All of these comfortably offset the fall in revenues in mature countries, with special impact from the cost of funding in the UK and the corporate center.

As for costs, costs reflect our usual cost of doing business, as well as the investment in our retail network and technologies, as well as the various integrations into the Group. As a result, the number of branches has increased by 1,400 and our headcount by almost 22,000 employees in three years.

If we look just at 2011, the trend was the result of very different policies in different markets and businesses. Over 70% of the increase came from emerging countries, where we continue to invest, to which we must add some pressure with the signing of collective bargaining agreements of the increase in the Fourth Quarter. And also inflation in some countries such as Argentina.

In other emerging markets we've also had the perimeter effect of the BZ WBK entry. The rest of the increase was in countries and units where we are improving our franchises to which we should add the incorporation of Santander Retail in Germany. Finally, in our retail units in Spain and Portugal we are reducing costs at nominal rates of between 1% and 3%.

Provisions have continued with the trend observed in previous quarters. In the year specific provisions fell by almost EUR1.2 billion which was offset by a lower release of generic provisions, EUR569 million in 2011, versus over EUR2 billion in the previous two year. Net of both effects is a small rise in total provisions, which are still at high levels due to the downturn in some units.

By geography we've had increases in Spain and Portugal, which are very connected to the economic environment. And in some Latin American countries because of credit growth, or lending growth. On the other hand, we've had declines at Santander Customer Finance, Sovereign and the UK.

And how does this compare with our peers? No trend. In revenues we have a clearly superior position with stronger growth and larger impact on our balance sheet. As for our cost income ratio, we are managing to be best-in-class, improving our cost income ratio by 15 points versus our peers' average.

As for the cost of lending, the lower use in generic provisions means that our income statement doesn't yet reflect the drop in specific provisions. So we're not taking advantage of the year-on-year comparison of results -- on the results of the declining provisions, as some of our competitors are already doing. But as our provisions normalize our improvement will be faster and greater than that of our competitors.

I will now give the floor to our CFO, Jose Antonio Alvarez, who will present the results of the various business units.

Jose Antonio Alvarez {BIO 19692884 <GO>}

Thank you. I will now review, in more detail, the different units and business centers. As usual, I remind you that on the website we've posted much more detailed information.

And, starting with the breakdown of our profit by geographies, my first point is to say that our Latin American units now contribute 51% of our total profits, starting on the right, Brazil, in our latest income statement, attributable profit dropped 7%. That's basically at the lower end of the statement due to taxes and minority interests since, actually, pre-provisioned profit grew at 11% or more. And we will see it when we look Brazil that there are solid trends in volumes and revenues.

As for the rest of the Latin American countries attributable profit grew by 11%, also boosted by improvement in commercial revenues. It's more about volumes and favorable impact of lower minority interests in Mexico. These are the main drivers in our statement, as we will see.

Also, trading gains were weaker than in previous quarters in a more difficult market context.

And finally, Continental Europe profit was down 15% impacted by Spain and Portugal. But with very diverse trends. On the one hand, growth in Santander Consumer Finance in Poland was very positive. But weakness in Spain and Portugal.

And now looking at the different units in Continental Europe, what our income statement reflects is the difficult environment in which we're doing business. We have lower volumes, because of the leveraging in these economies and low interest rates, especially in Spain and Portugal. We have a negative impact -- stronger negative impact of trading gains. We were at running rates of EUR200 million per quarter trading gains. And in the last three quarters that's gone down to almost zero. And so that has a significant impact.

If we look at the annual comparisons, basic revenues grew 8%. Here there's a perimeter effect, because of the BZ WBK integration, which represents 4% of the basic revenue. Without that revenues would've risen 4%. Costs also reflect that increased perimeter and the investment in global businesses.

As our CEO has pointed out, Retail business in Spain and Portugal has cost falling at about 2%. Provisions have risen a little, even subtracting the perimeter effect, since the positive impact of the fall in specific provisions was more than offset by the low release of generic provisions. So the net result was a profit in Continental Europe, EUR2.85 billion, that's 15% down from 2010 by unit, the differences that I've just mentioned. And which I will now review in turn.

The Santander Branch network reflects the leveraging of the business in Spain. There are three elements there. On the one hand, a liquidity element and, of course, there the leveraging has a positive impact in the last three years, because of less lending and growth in deposits, our need for funding has gone down by EUR24 billion, a positive impact on liquidity.

The fall in risk weighted assets is also positive for our income statement. But as far as profit, only asset spreads which have significantly improved in the last two years are having a positive impact on our pre-provision profit in a context of strong de-leveraging.

Revenues have remained strong, because of the fall in lending rather than by the growth in deposits, although they have grown in the year in a very competitive context, 1.36%. Earning provisions remain very high, although specific provisions are around EUR400 million/EUR450 million per quarter, which is below the EUR600 million we had on average in 2010.

So in summary, the underlying performance was good in a difficult environment. Revenues in the coming quarters, we feel, will be sustained; costs will be flat or going down slightly; and provisions still high considering the others, the cycle.

Banesto has already posted its results so I won't go into too much detail. But the same underlying trends, the leveraging; the same effect I mentioned for the Santander Retail Network also affect Banesto. The leveraging of EUR7 billion/EUR8 billion in the last three years with the corresponding impact on income. And capital consumption and profit.

Also, affected by negative trading gains in the last quarter, a lower release of generic provisions. And mainly increased voluntary provision to increase coverage on foreclosed properties, as they explained the detail in their own results presentation.

If we look at, like we usually do, our lending portfolio in Spain; it's still falling. In 2011 our loan portfolio declined by 5% with EUR225 billion. Why this fall? Basically, because of real estate lending, which is falling at 14% and loans to other individuals, which basically is consumer lending, which is falling at rates of over 10%. On the other hand, loans to businesses, which represent just under 50% of our portfolio, have remained stable.

NPLs; as far as NPL ratios, still rising significantly in the real estate sector. And here, of course, there's both an effect on the denominator and enumerator. NPL ratios will continue to grow in the last quarter if only because there is still going to be a sharp fall in the balances.

NPLs in Spain, therefore, have risen from 4.2% to 5.5%, basically because of the property sector. In the other segments there have been very slight increases. But it's only a few tenths of a % in a year. So, all in all, 5.5% NPL ratio, which is much better than the sector's average in Spain.

If we look at our real estate exposure, our loans with a real estate purpose, they amount to EUR23 billion, as we saw earlier, down 14% of which, doubtful, EUR6.7 billion coverage for these doubtful areas of 33% after rising 4 points in the year.

The substandard loans around EUR3.9 billion and coverage there is 16%. As usual, I'd like to remind you that 100% of substandard loans are up to date in their repayments. We've increased coverages, based on what we expect is the reasonable value of that portfolio.

The other side of our real estate exposure is for foreclosed assets. And we've had very adequate management of balances and coverage. As for volumes, although there has been a rise in the year, the Fourth Quarter was the First Quarter in which the balance did not grow. We expect, maybe not quarterly trend. But in the year in 2012 we expect balances to fall significantly for the first time. We think that there will be a change in trend.

As our (CEO) pointed out, we've made a significant effort with voluntary Provisions, bringing coverage up to 50% for foreclosed properties, applying -- allocating for this purpose most of the EUR1.8 billion voluntary provisions the end of the year.

As you will see. And while we await the new regulations we have not yet allocated this fund to any particular line. But in the appendix, or in the annex to this presentation, you have the allocation we have without including this additional fund we've established voluntarily.

As for Portugal, I don't need to tell you that the environment is very difficult, with strong deleveraging. We have balances falling by 10%, good growth in deposits, fall in lending. As a result our liquidity is stable, maturity is -- annual maturities in Portugal between EUR1 billion and EUR2 billion. Annual deleveraging last year in 2011 was EUR3.5 billion. Therefore, we are able to absorb maturities of wholesale funding with the natural deleveraging of our balance sheet.

Our commercial GAP is falling and, as a result, an impact on our profit, mostly because of the higher cost of funding -- of deposits and funding. Through that, spreads on lending are growing. But the cost of deposits and funding is what is having the biggest impact on our revenues and our net profit.

In spite of falling costs, we also have higher provisions with NPLs at 4%. And that has an impact, a significant impact, on our resources, naturally. Our net profit after provision has fallen by 56% year-on-year.

Now let's continue to look at Portugal. And let's see what happened with the results of the Troika inspection program. Specifically looking at provisions, we're looking at specific needs in here. You can see the specific results of this program. And you see the Santander totta, the balance sheet has no deficit in provisions. And there is a slight improvement, 10 bps in capital ratio. So, we're seeing that it's solid; we see that it's the most solid. And we see that NPL performance is much better than peers; better coverage and better in capital ratio.

So let's look at Santander Consumer Finance now. We see that evolution is very, very different; it's much more positive. We see a growth to and in excess of (50%). Why? Well, because the cycle is at a different point. It's at a more advanced position. And because the business is diversified. We're growing in Germany, in Scandinavia and in the UK.

The spreads, well, they are good for business. Costs are moderate, constant. I remind you that we've seen that SCF has grown in them also. We've seen a lower need for loan loss provisions, minus 19%; although the coverage is enhanced.

We see that profits have grown across the board, especially Poland and the US, where we've almost times two our benefits, our profits. And double-digit growth, both in Germany and in the Nordic countries. So the sum total explains this profit in excess of 52%; in other words, over EUR1.228 billion.

As of December 31 we've seen our activities in the US; we've consolidated by the equity accounted method. This has no impact on results as of December 31. But it did impact the balance sheet. And NPL and coverage ratios, as I say dated December 31.

Okay, we're off to Poland now. The macroeconomic setting definitely was okay, with GDP growth of 4%. And the forecast for this year, the forecasts for this year, are relatively sound. We've integrated the Bank. And we have seen some operational improvements taking place; very good performance in terms of volume; very good performance also for our results.

And here's the pro forma. On the slide you can see that graphically rendered. Balances are doing fine also; we're talking about 14% lending and deposits. And this is translated into practically 10%, practically double-digit. And this (outweighing) and growth, because of lesser needs in an economy, which is performing, frankly, in a healthy way.

So I think it's fair to say that, basically, our Bank in Poland, BZ WBK, is making good our promises. We committed back in September 2010. And I think that we are, in fact, making good on that promise, as I said before.

Let's go to the United Kingdom, please. The United Kingdom has definitely been affected by sluggish activity; as it says sluggish activity; regulatory impact, low rates. And the PPI in the UK. So we were hard-hit because of all of these reasons that I just explained.

We see a 9% fall in our income, flat volumes basically; I'm referring here to mortgages. And deposits have also shrunk slightly, although it is true that we've looked at streamlining the more expensive deposits. But as to SMEs, as you know, we are very interested in growing our market share in the SME market. And we're growing in excess of 25%. And growing.

We're squeezing the spreads. And we have to talk about regulatory issues, liquidity requirement, regulatory costs, which explain the high spreads and this, of course, is what hits us in our bottom line.

Interest rates also were low. So this explains why in deposits we're not generating much either.

As to costs, well, they're nicely under control; they're growing only by 1%. We see our provisions, a major fall of 36%. We're outperforming the peers in NPL ratios and under-performing loans also. And as we see what happened to our pre-provisions profit is (down) 8% after that second half. So in short, we see that it's a complicated market. And things do not seem about to change. So we have some uncertainty (of our plan).

Brazil now; Brazil is a different world. Brazil benefits from a very healthy macro-environment. We've achieved a profit of $3.629 billion (sic; see slide 38); lending growing at 20% (REITs), especially individual but in all segments; in Funds, a growth to the tune of 12%, less intensely, perhaps. But at a nice brisk pace.

And in terms of results, these volumes are growing. And we see that those basic increases have grown, it's consistent, we're talking about 14%. And the major increase in the Fourth Quarter was basically due to volume and spreads. Costs increased, also, to the tune of 12.5%.

There's inflation; there's the collective agreement; and also there's growth in our sales network. We've grown by about 6% or so in 2011. And this, of course, impacts the numbers, which is explains why the net margin growth. The pre-provisions profit rose by 11%, thus absorbing the larger provision. This is due to the volumes. And it's also due to a moderate growth, moderate growth, in our NPL ratio.

If we see that, if we look at these things locally, it's a little bit less than the rest of the sector. And in our case was growing more in individuals, basically, consumer credit and cards, which, as we know, usually have higher NPL ratios.

Growth in the upper part of our income segment did not trickle down to the bottom line, because of higher provisions, which had to do with litigation; we know that that calls for higher provisions; and a negative impact, because of the tax rate and a minority interest.

I think it's fair to say that the Bank continues to gain momentum; there's traction there. We achieved the end of the integration a little bit longer than we expected. And we've seen, as I say, how we're doing, I think, very nicely. For the first time in I don't know how many quarters we're growing. We're growing as the sector is growing, if outright outperforming the sector.

So I think that this explains that it's fair to say that we can be optimistic regarding Brazil. I think we promised a double-digit growth and we are making good on that promise again.

The rest of Latin America now without Brazil, ex Brazil, very similar results to what we saw in previous quarters; we see that 16% (Sic -- See Presentation Slides) deposits. That's Retail Banking, profit growing by 11%; stable margins. And we see how this actually evolved.

It's true that capital gains, especially in wholesale banking activities, have been slightly weaker. And this explains that we have this Retail Bank, which is growing more quickly than the results would show. And wholesale banks that, because of those results, have slightly worse trends than Retail Banking growth.

We see then the net interest income rising. Fee income plus 9%, especially insurance 28%,cash management 10%, cards 12%. So we're delivering there. We also see an improvement in the cost of credit. And there is a positive impact, I remind you, because of lower minorities in Mexico. So this is the other side of the Brazil coin, if you will.

Breakdown by country; I'll be going into the details of Mexico and Chile in a few minutes. But Argentina is growing at double-digit rate, net operating income by 16%; we see that for (January). Colombia also is growing at a double-digit rate. Puerto Rico declined, although costs before taxes are up 38%. And Uruguay's attributable profit was lower than in 2010, because of trading gains and the launching of the new IT platform.

But let's go to Mexico; healthy growth, 31% in loans and deposits. We see that mortgages are in there, which we bought from GE. (Expenses) we've been growing by 22%. So we can talk about healthy results.

There is improvement on the share in major parts of our activities; mortgages, I repeat, SMEs and cards. And basic revenues have grown quarter by quarter, in accordance with our volumes. And also in accordance with income coming from our fees. There is a worse performance here, because of returns on financing and higher costs. This has to do with the GE issue. And it has to do also with the generation itself. So costs were 4.6%. And we need to add the GE integration.

And there's a drop in provisions. We have for many quarters been talking about credit cards. And, at this point, we see that, well, those provisions have plummeted. We see an increase, to the tune of 12% of net operating income after provisions. And profit before minority interest grew by 22% in comparison with 2010.

So to summarize, a healthy performance; there is a major strengthening of the franchise. We grow our share and it's only the weakness of that (ROS) that has slowed us down, if only slightly.

Let's go to Chile now; in terms of activities, very healthy dynamic, deposits specifically. In terms of our loans it depends on the segment. We've given priority to spreads over volume. And there are segments in Chile where spreads guarantee lesser returns. So we've been a little bit selective there. And this explains this 7% growth in a country which is doing very well.

The quarter has been standardized. If you remember last time around, I said that these profits were not typical, because of revenues, because of differences. Well, those profits now are back to the current level. We're talking here about $440 million/$450 million. And the year has closed with revenues that did not grow spectacularly. We're talking about a 3% increase.

Costs are basically flat in the Fourth Quarter. But they've grown by 10% in the entire year. So we've seen that the commercial structure is different and also, a collective bargaining agreement and increase in leases. So I would say these provisions have normalized in the Fourth Quarter after the hike in the Third Quarter.

So profits were normalized in this quarter, although, as in Mexico, not perhaps as intensely. But the environment continues to be rather reduced trading gains.

Now, off to Sovereign. I think Sovereign has made a good delivery in its management achievement; good growth in revenues and profit. And a healthy credit quality.

In loans and deposits we've gone from negative in 2009. We've seen, as you see, minus 12%; that was back in 2009/10. This year we're growing at 5% loans. And 13% deposits. So, we can talk about turning things upside down regarding market presence.

So, if we look at the results we see that income increased by 9%, the interest income did very nicely, management of spread was good. And fee income has been a little bit weaker, affected by regulatory changes. And there have been some capital gains generated by ALCO portfolios.

Costs; we've increased these costs by 10%. Because of IT investments we are going to have to continue to invest. So current -- expenses and amortizations and so on this will begin in 2010.

NPLs are doing very nicely, indeed. And this results in a sharp drop in provisions. But we continue to see ongoing improvement in coverages quarter after quarter.

So we see this net operating income after provisions being 34% higher and profits 30% higher. So Sovereign results are in line with our announcement when the 75 remaining parts of the Bank were acquired. So I think it's fair to say that we have delivered.

If we now go to look at our corporate activities, without those EUR1.67 billion capital gains and extraordinary provisions, if we leave that to the side, we see less losses. So EUR128 million less than in 2010.

We can look at three factors; first, we're seeing that there are two elements here. Net interest income is more negative than in 2010. Interest rates were more in 2011 than in 2010. So were the credit spreads. And this explains why our wholesale funding cost was more than we expected. And there's also a buffer, which has an impact on corporate activities, although to a lesser degree.

There's less -- a lower recovery of taxes. And we're seeing that 80% of the ROS is exchange rate. So in 2010 we're seeing coverage in exchange rates ensuing that appreciation of different currencies. This explains more than EUR500 million improvement and this explains these results.

Now, I'll give the floor to our CEO, who is going to be elucidating on the results. And our outlook.

Alfredo Saenz {BIO 1422535 <GO>}

Very good. Well, my summary of 2011 is that 2011 was a good year for the Bank, for Santander. The Bank overcame the challenges of a very complex environment. And performed very well in three key aspects in the current setting; first, in its capacity to generate profit.

In 2011, our pre-provision profits were more than EUR24 billion. And this places us at the head of our peers. It is a buffer, a cushion, which allows us to contemplate provisions, distribute dividends. And bolster our capital. And we can be optimistic in the face of future activities.

Secondly, the quality of the balance sheet; ordinary profit and capital gains have allowed us to make a major effort in provisions. And we're able to close the year with a coverage ratio of 50% in foreclosed real estate in Spain. We're doing very nicely, in view of future regulatory requirements.

And finally, we've done very well in terms of capital. In barely two months, the Group's flexibility enabled us to attain that 9% Core Tier 1, as demanded by the EBA; the deadline being June this year; and this, without affecting the growth capacity of Retail Banking.

So, our profits, balance sheet and capital constitute a solid starting point for 2012. We know that this is going to be a very demanding year for us. I think it's fair to say that we will maintain a clearly differentiated management plan by areas, in order to adapt better to the specific conditions of each market we have a presence in.

So in Spain and Portugal, we will have to manage an environment that will be very weak. We will see deleveraging, less demand for loans. And this will call for our focusing on spreads. And perhaps more specifically, on deposits. We will also have to be very demanding, in terms of provisions. And this is as befits our economic environment.

In the rest of developed markets, we will strengthen the key areas for future business growth. The focus in the UK; companies, without forgetting the linkage potential we have with individuals. In the US, we will take advantage of the business gap, which is opened by Sovereign becoming a national bank association; and our new IT platform. This will allow us to expand the range of products. And our customer profile.

In consumer credit, after a very good year for SCF, Santander Consumer Finance, we aim to consolidate our penetration levels, our results. And maintain the profitability differentials vis-a-vis our peers; and the strategy followed in our agreement with producers guaranteeing further growth.

And finally, in emerging markets, we will continue to take advantage of the healthy economies, in order to maintain healthy growth rates; in Latin America, by twining revenue growth with investments, in order to continue grow. In Poland, we will be looking at integration and developing global businesses, as we continue to grow our profits, as promised.

So to summarize, in 2012, Santander has diversified, has a strong balance sheet. And has generated recurring profit to such a degree that we will continue to perform well, in a very demanding fiscal year and scenario.

Thank you, very much.

Questions And Answers

A - Unidentified Speaker

Good day. As always, we will be taking the questions, first from the web; and if we have time, we will be also taking incoming phone calls. We have broken down by subject, by areas, strategy and regulation. There are questions regarding new rules in place in Spain, specifically referring to real estate.

David Vaamonde; Fabio Mostacci, Ahorro Corporacion, Antonio Ramirez from Keefe have a double-barreled question to pose. First, what is the provision that we expect, what are the requisites, when we talk about the bottom line and capital requirements, because this is new regulation which, in principle, the Government will be giving the go-ahead to, on Friday, this week?

And the second part of the question is, do we believe that (50%) of assets is sufficient? And how much more will be called for, in the case of substandard loans?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, the fact of the matter is that the new legislation, which, in principle, will see the light of day next week, is actually not very transparent at all. We don't know very much about it at all; there's a lot of speculation. Every day, we see news and numbers. The media provide coverage, experts talk about this upcoming plan. But we don't really know what's going to happen. And we have unofficial contacts, if you will, with the authorities. But we are not seeing much disclosure. So really, there's not very much we know.

We have wanted -- as Santander, we have wanted to take a step forward. We've considered extraordinary provision, which is what we've seen in these accounts that we've discussed. This has been explained generically. So that when the new rules are finally implemented, we will specifically be going into the concept, the ones that are relevant, in accordance with the new legislation and -- as I say. And we will be needing new amounts in 2012, additional amounts in 2012, in order to be duly covered.

We don't know for sure, because we don't know what the legislation's going to mandate. But we'll have to think about increases, perhaps, in substandard; we'll have to think about risk. But, I repeat, unfortunately, we don't know what those requisites are going to be.

Now, in order to be able to respond in 2012, as mentioned, we have some capital gains, which have already been achieved at Colombia. In the case of Colombia, that perhaps (could go). And at this point, this is what we're thinking, because this is what we're going to have to respond with. As I say, this has not been accounted for yet, it's not been included yet, for legal and accounting reasons. But it will be, once the operation is fine tuned.

We have other capital gains in mind. I am not going to be going into the details right now, for obvious reasons, because this is confidential information. And what with one and the other, we have sufficient funds to actually take on those further requisites. And should we need more, should those capital gains not be sufficient, well, we would look at the bottom line.

The budget for 2012 specifies that there will be improvements in the coverage of NPLs and substandard. So this is, if you will, already included in our standard budget.

So we have Colombia; we have other capital gains, as I said before, which are coming along very nicely. And we will be providing information, when the time comes. So as I say, perhaps we would have to look at our P&L, as we did in the year 2011, in the year that has just wrapped up.

So this is what we are contemplating, in the face of new legislation, which, as I said before, we don't have specific information about.

A - Unidentified Speaker

Antonio Ramirez, also from Keefe, wants to know whether this would hinder us from holding on to that 9% EBA capital, or 10%, as an objective.

A - Alfredo Saenz {BIO 1422535 <GO>}

No, no. I'm sorry, I'm not even allowing you to finish the question. Everything we've said; everything I've said; clearly, this is not going to be affecting us. It doesn't affect our capital ratio. And we have the intent over the coming months throughout 2012, we will be making that 10%. So we will be improving on that capital ratio. And this will not be an obstacle, no matter what the new provisions might be.

A - Unidentified Speaker

Another question, again, talking about new legislation, Antonio Ramirez from Keefe and Juan Lopez from Espirito Santo. Do we believe that these new needs in terms of further provisioning in the case of aging assets, is it going affect the sale of assets to the market? Is this going to affect the consolidation itself in Spain? And what role do we believe we will be performing?

A - Alfredo Saenz {BIO 1422535 <GO>}

Right, for the first part of the question it's pretty obvious that it will, of course, since we have higher provisions. As you have seen, we already have 50% coverage. And that certainly is going to, we hope, make the sale of those assets easier. In fact, our provisions for the year are to grow the sale of these assets, of those properties. So, yes.

And as for the second question, I guess, it depends. Depending on how the new regulations take shape, these provisions may, perhaps, facilitate -- will these new requirements promote more concentration, more mergers and acquisitions? Well, I can't really answer that, because it depends on so many factors.

And the third question I've forgotten now. Our role in such a consolidation processes. Well, we have always said. And I'll say it again today, that look at all opportunities. We did analyze the CAM. We're now studying the (NuNim) and we will continue to do so. When opportunities come up, our responsibility is to analyze those opportunities and make the right choice in each case. And that's what we're going to do.

A - Unidentified Speaker

Okay, there are several questions about dividends and payout policy. Francisco Riquel from N+1, Andrea Filtri from Mediobanca, Ignacio Cerezo from Credit Suisse is asking whether this new regulation might affect our payout policy. What is our payout policy? Will we be offering more scrip dividend less scrip dividend, both in general and for 2012? And how much is cash how and much is scrip; so our payout policy from now on?

A - Alfredo Saenz {BIO 1422535 <GO>}

Right. Our payout or our shareholder return policy is already set. And I will confirm that there will be no changes. We will continue with the same percentage of scrip dividend we've had until now. If a change were to be proposed, it would have to be approved by the AGM. But for now, this will continue to be our payout policy. But as the Chairman also reported during our Investor Day it will continue to be EUR0.60 per share. And there is not really very much else I can add to that.

Yes, I am told by Juan Antonio Alvarez that there might be some confusion here. There are two scrip dividends that we are now planning for 2012. So again, we continue with the same payout policy in all aspects; the same shareholder return policy.

A - Unidentified Speaker

David Vaamonde from Fidentiis is asking, whether we think it possible or feasible to use the European Financial Stability Fund, or any other fund, there are some questions about that, either way to support the structuring of the Spanish sector? I suppose I mean both in general or just the financial sector, because it doesn't say.

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, as I said earlier about our inability to predict what the new rules are going to be, it seems that they will be ready next week and we assume that there will be some indication there about how to fund the restructuring of the financial sector. But we don't actually know anything about it yet.

I don't think that recourse to the European Fund is going to be an option. But we await developments.

A - Unidentified Speaker

There is a question from (Fujiyuki) from Daiwa Asset Management. How do we see the Group's composition in terms of the percentage of profit coming from the different geographies or units over the next three years?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, right now, I think the mix in the pie chart, probably in 2011 and perhaps also in 2012, there is a very significant Latin American contribution, both including Brazil and excluding Brazil.

And probably in 2012, we will see a point in which this part of our business will become the biggest. And then starting in 2013, as Spain and Portugal recover. And the US continues to grow. And the UK also recovers, even though Latin America continue to grow, these other areas will probably grow more strongly. And so there will be a more balanced contribution back to the levels we had maybe in 2007.

So basically now, because of the rather difficult economic context in Continental Europe. And also in the UK. And also in the US where, what we call, the mature markets are probably at their lowest contribution. And the emerging markets in relative terms are at their peak contribution. But starting in 2013, I think it may continue to -- in 2012, although there will be some improvement in the mature markets. But especially starting in 2013, we expect that the percentage contribution of these material markets will increase.

A - Unidentified Speaker

There are several questions about the extraordinary revenues; Marcello Zanardo from Bernstein; (San Juan) in Espirito Santo; Francisco Riquel, N+1; Ronit Ghose at Citi, about first what do we still have to write-down and what have we already in 2010/2011? And then, can we give more detail about the EUR893 million and the EUR620 million in extraordinary revenues that we've allocated to provision.

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

Remember that the only thing that remains, as our CEO pointed out, to be accounted for, is Colombia, which will be accounted for in 2012. Everything else is in 2011. And it goes either to our income statement or to equity, depending on the type of transaction. We announced the amount in each case; and the same goes for Colombia.

And the breakdown of the positive extraordinary revenues, we can give you more details from Investor Relations. But basically, in the EUR893 million, there's maybe EUR300 million/EUR400 million which are intangibles. And there's another EUR200 million which include wages, pensions. And so on, or severance packages rather. And so on. And then, there's another one for the Greek debt of about EUR75 million. And the other is for the Iberdrola Generali and so on equity, which is about EUR400 million.

But if you want to see the detailed breakdown, we will give it to you, we have more details, at Investor Relations.

A - Unidentified Speaker

There is another question from Antonio Ramirez, also from Keefe. And that is do we think that we might reach some bancassurance agreement in Europe or Spain short term, like in Latin America. And what kind of capital gains would that generate?

And along the same lines, Francisco Riquel is asking whether we're thinking of an IPO in 2012. He's asking especially about Consumer US.

A - Alfredo Saenz {BIO 1422535 <GO>}

Right, as for the first question, it's very hypothetical. We might obviously reach such a bancassurance deal. But it's certainly not easy right now, given the general market context and how -- and the situation in Spain and Portugal, which is where we have a strong insurance business. So, of course, it's always possible but it's not very likely.

As for IPOs, we're not planning any in the year. What we've done in the US has been a brilliant operation at Santander Consumer. And those that we had considered or talked about in the past, such as the UK IPO, current market conditions do not make it advisable in the near future. So we'll leave it for later on. And in the US we have no intention. I guess you were asking whether we were planning an IPO for Santander Consumer US or US. No, we have no such plans.

A - Unidentified Speaker

Okay, Benjie Creelan from Macquarie also asking about a possible sale in the US. We just talked about that.

And as for costs, Fujiyuki from Daiwa and Ignacio Ulargui from BBVA are asking whether we can give some forecasts, some guidance on cost increases. Do we plan to keep investing in areas, like Latin America? Do we expect them to keep growing as they have been? Can we give a bit more detail about what we think of our costs and their trends, medium term?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, especially in markets where we have good growth in emerging markets. And this applies to Brazil and to the Latin American market. And it applies to the US. And to some extent also to the UK. In these markets where our Santander franchises still have certain gaps and weaknesses that need to be reinforced, we need to improve our IT, our systems; for example, open new business lines, invest in some cases in more retail capabilities.

In those countries that I've just listed we will see costs rise still, mostly because of new investments. On the contrary, in the mature markets where the environment -- well, on the one hand, of course, we have a much more consolidated position, more complete business, more optimized business. So there costs will be flat or falling slightly, for example, Spain and Portugal. And some other countries under the Santander Consumer Finance footprint.

Overall, costs will rise slightly in 2012. It's in our budget, because we will continue to invest in practically 60% of our units, which are still growing strongly.

A - Unidentified Speaker

Frederic Teschner from Natixis is asking about the goodwill. In Portugal, how much goodwill is there left? Do we expect more provisioning needs, given the latest (bout) from the rating agencies. And might we do this in other countries?

A - Alfredo Saenz {BIO 1422535 <GO>}

The goodwill pending in Portugal is about EUR1.1 billion approximately. We think there is no other country where we might need to provision for that purpose. Remember that this is all connected to the ability to generate future profit. And in all cases the goodwill is low in comparison with the profit that's being generated.

A - Unidentified Speaker

Frederic Teschner from Natixis is also asking. And Ignacio Ulargui from BBVA, about a Polish transaction with KBZ. And how far along is that? And how would we fund it or finance it?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, it's under negotiation. We are talking and if we reach an agreement we will, of course, let you know in detail about how we will finance it. So we'll have to wait 'til then.

A - Unidentified Speaker

Moving on to risks, although it's connected to what we were just discussing, there's a couple of questions on Santiago Lopez, from Exane; Andrea Filtri from Mediobanca about what we said in the past, that we felt that provisions for real estate assets were sufficient. So why are we now provisioning more? And the do we expect that to continue in '12 and '13. And that's already been partly answered.

And Britta Schmidt is asking about NPLs for the Group and for Spain. Do we maintain the same guidance? What do we think it will do in the future?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, in the Group this year NPL has remained pretty stable; it's gone up I think 3 basis points in 2011 versus 2010. So basically at the Group level it's very stable and we don't expect significant changes or attention in the future that will make our NPL rise more than a couple of basis points up or down, which in such a large or diversified Group can happen for various reasons. But, basically, we don't expect any significant growth in NPLs in Brazil or the UK, or basically the Latin American countries overall. So we have no real concerns there.

As for Spain and Portugal, NPLs in my opinion in 2012 will continue to rise slightly. How much? It's hard to say. We will, I think, get up to 6%. We're at 5.8% right now. We closed 2011 at 5.8%. So we'll probably, in 2012, be about 6% possibly -- at 5.5%. Okay, then it's probably close to 6%, I think.

Portugal doesn't really have much of an impact. It will grow. But it has a small impact on our Group NPL. So basically I think the Group will either remain flat or have a very slight rise, just a couple of basis points, because of Spain, because the other units, as we've seen in 2011, are very stable, in fact, with a slight drop in NPLs. And we don't expect that to change significantly in any country other than Spain and Portugal at the levels that I just mentioned.

A - Unidentified Speaker

Question from Juan Pablo Lopez from Espirito Santo about the foreign generic provisions in the quarter from EUR5.1 billion to EUR4.2 billion. Remember that this quarter we have deep consolidated drive for Santander Consumer Finance US and that's having a direct impact on the specific total generic provision figure as well as other exchange rate effects and so on.

And (Fuji) from Daiwa Asset Management is asking about NPL ratios by segment and by sector. In the presentation you have the detailed breakdown of these NPL ratios in Spain by sector and segment so you could just look at it there.

Juan Pablo Lopez and Britta Schmidt from Autonomous are asking about our coverage ratio in Spain. And do we think that's it's sufficient? So we think 45% is where we need to be, or do we expect that to rise?

A - Alfredo Saenz {BIO 1422535 <GO>}

No, we are comfortable with that percentage. We think that's its appropriate and sufficient. It may perhaps rise slightly depending on whether the new regulations require any provision for launch with live balances, with real estate collateral. But otherwise we feel very comfortable with this coverage level.

A - Unidentified Speaker

Marcello Zanardo from Bernstein is asking why we think assets, volumes, real estate asset volumes will fall. Do we expect fewer entries, more sales, less foreclosures?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, specifically the Group for 2012 in our budget we expect smaller entries and also significantly higher sales for the first time in the year, because in the last quarter of 2011 we've already had a significant net fall. So fewer entries and more sales and, therefore, a net reduction of our balance; nor in 2011 overall where our balance rose.

But in 2012 we do think there will be a fall in the outstanding balance and foreclosed assets. So our sales will be greater -- significantly greater than their entry. So fewer entries and more sales -- a lot more sales. And so that's going to -- and there, of course, the higher provisions are going to help, as we just explained when that question was asked earlier.

A - Unidentified Speaker

Alejandro Ruyra from Kepler is asking about the EUR2.5 billion expenditure in 2011 of real estate exposure. Actually, if you like, we can give you this detail later from the Investor Relations. And can we give more details about the EUR400 million other provisions in Spain, I suppose that's what you mean?

A - Alfredo Saenz {BIO 1422535 <GO>}

Specifically in the last quarter, I think it was the EUR130 million/EUR135 million that's from Banesto. Banesto reported its result a few weeks ago and that's basically that.

A - Unidentified Speaker

Juan Pablo Lopez is asking whether we expect NPL's to rise. Our in-Government debt in Spain both regional Governments and local and what do we think of that risk?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, our exposure there is very small as you know. We have few loans to Government agencies and Governments, in comparison with other banks and with the savings banks. And so, basically, we don't really see a significant, in principle, direct threat. There may, of course, be some minor rise in NPL's. But we don't really see it as a concern.

A - Unidentified Speaker

Antonio Ramirez and Paco Riquel are asking about the deposit guarantee fund and the comparison between 2012 and 2011. We charged about EUR70 million/EUR75 million in 2011 and we are planning to increase that to EUR170 million to a total of about EUR200 million for the Group for Spain.

And there's a second part of the question which is what do we think of the sharing of losses amongst the Spanish financial sector.

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, we don't like it.

A - Unidentified Speaker

Brazil, NPL ratio; two questions from Juan Pablo Lopez, David Vaamonde. First the provision charges have fallen. Is it because things are improving? What do we think and, in general, about NPL in the country both in terms of ratio and cost of lending.

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, in the last quarter last year, can't remember whether it was Q3 or maybe at the Investor Day, we said two things about NPL's in Brazil, which are actually being confirmed.

First, that NPL's would rise in Q4 and the reason was that our business mix, which is mostly individual loans, consumer finance, products that have bigger spreads and higher cost of lending was behind this rise in NPLs in this final quarter. But that was really where it was going to peak and thereafter we would not see further rises in NPL's, which would remain flat or even tending to fall medium term.

And that's actually what's been happening; Brazil has been following the trend that we have predicted. I can't remember whether it was at the results presentation in October or at the Investor Day in September. But it was around then that we talked about our forecast for NPL in Brazil and that's, in fact, what has happened.

A - Unidentified Speaker

Frederic from Natixis is asking about the breakdown of exposures to different types of real estate assets, similar to (Fuji Yoriyuki) question before.

A - Alfredo Saenz {BIO 1422535 <GO>}

The breakdown is all in the presentation, as I explained, of exposure by segments, by sectors and so on.

A - Unidentified Speaker

Moving on to financial management there's quite a lot of questions about LTRO. A question from Antonio Ramirez from Keefe; Rohith Chandra from Barclays; Britta Schmidt from Autonomous; Ignacio Ulargui from BBVA; Fabio Mostacci from Ahorro Corporacion; Andrea Filtri from Mediobanca; and Frederic Teschner from Natixis; and Santiago from Exane, let's see if I can summarize the basic idea.

That is how much have we used in December? How much do we expect to go in February? How will we be using those funds? And then can we elaborate on the cost of repos; authorization for buying debt; liquidity injection; and the impact on the financial sector and on Spain; so a long list of topics, all connected.

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

Okay, we have taken part in the ECB's auction in December, different units, both the parent. And Banesto. And Consumer and Portugal the net amount we've used -- we are using are is EUR3 billion/EUR4 billion in Portugal. In the other units, the net amount is zero. But we have taken part and we have, basically, deposited the same amount with the ECB. So that's basically our position.

For February we haven't decided yet. Our liquidity position, as we showed, is still very comfortable. The leveraging as I showed you is EUR24 billion in two years; Banesto EUR7 billion in two years; Portugal EUR4 billion. And if you pick up the current context and as the CEO explained in the presentation, for liquidity we don't really need to issue in the year to improve our liquidity. So if anything, it would be to just as a buffer more than for our liquidity position.

As for the use of those funds I have already explained.

This whole discussion about whether -- this comes up again and again, about this is worth really having a negative impact on sovereign debt and -- well. And that's still planned. And repo, you don't need to go to the ECB. And it's actually a lot cheaper than with the ECB right now. If you look at the market, the public debt is now being financed at between 0.35% and 0.55%. The ECB, as you know, costs 1%. So per se that's not necessary.

And the impact on the financial sector, I think it has a positive impact in terms of confidence and (there's) additional insurance, that's the most positive impact on confidence, which is really what the mad market needs right now. So that's been very positive.

A - Unidentified Speaker

Two questions from Barclays. One has to do with the breakdown of that increase in core capital in this quarter, which I believe has been dealt with in the presentation.

And the other has to do with the evolution of that financial margin on assets in the quarter, those (9).

A - Alfredo Saenz {BIO 1422535 <GO>}

I think that we will need to look at that on our per unit basis and I think that it's also been set forth in the presentation.

A - Unidentified Speaker

As to funding, there are a number of questions from Daiwa and from Keefe. You've responded partially. So the question is what are the funding plans for this year. Are we looking at the market? It's the same, is it the Group? I believe it will be both. How much debt has been issued in January? And again, what are aiming at throughout this fiscal year?

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

Well, as you know, our businesses subsidiary and there all independent or standalone in terms of liquidity. So they, each one of them, have their own (submissions) plan. Our CEO also made a reference to the fact that we don't -- our budget, at this point, in Spain and Portugal, does not encompass (submissions) or issuances. It's not the case in the UK, Latin America or in Santander Consumer Finance.

In the UK where we have already issued in January, I think GBP2.5 billion, I repeat GBP2.5 billion, we have sold securitizations SCF to the tune of about $1 billion, a little bit more perhaps. So, if my memory doesn't fail me, that was it. I don't know whether there was something in Chile also. So in January, Group units, in accordance with our plan, have looked at a certain number; have looked at a specific number.

The year now, well we're not really targeting anything in Spain or Portugal, which is not to say that we don't take advantage of opportunities that might surface. If funding costs becomes more reasonable, well, we might think of just that. In other countries, if we look at the UK last year, I think it was (GBP25 million). This year we're not thinking about anything more than about a half of that.

In Consumer, it depends on the protection, securitization, different countries, each one of them looking at local markets usually. So we might be there talking about, say, a total of EUR6 billion/EUR7 billion in consumer financing securitization; a little bit from Chile; a little bit from Brazil. That is what I would say is on the book.

A - Unidentified Speaker

Antonio Ramirez, Britta Schmidt from Keefe, Autonomous. And Natalie Wilson from Henderson, would like to know about ALCO portfolios and sovereign issues. Again there, there's been a loss in the trading debt and an increase in AFSs. Could you elaborate on that? What is the impact? Is there an impact actually? And what do we expect to see in terms of future evolution? So where do we stand at this point in time?

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

Well, let's differentiate between trading and SCF. So we're not really talking about that, because we don't have anything in the Group. As to trading, the volumes depend on market making. We're primarily dealers in many countries. So the volumes there will depend on market-making issues. Actual available for sale, which is what we're really looking at -- we talk about credit interest risk, I think that we're at the same level as we were last year.

I think it's EUR80-something-billion for the Group in total. About EUR50 billion, I don't know, EUR53 billion/EUR55 billion, is public or sovereign debt in the countries where we have a presence. In Spain, it's basically the same as last year, EUR25 billion to EUR30 billion. This depends on expectations, what will be happening, a little bit less, a little bit more. We follow that. We do what we've done in Portugal, EUR1.6 billion/EUR1.7 billion; Brazil, again, EUR12 billion/EUR13 billion; Mexico about EUR3 billion; and Chile about EUR3 billion. We can't really talk about major changes in terms of the size of these portfolios.

I think that when we met on Investors Day we talked about mark-to-market which was (minus EUR1 billion or EUR2 billion). Because the rates have changed that's improved, about zero, maybe a little bit above zero. But that would be the only major change that I would want to make a reference to over the past few months.

A - Unidentified Speaker

Antonio Ramirez wants to know about evolution of assets at risk.

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

In this quarter we've seen them shrinking. But I believe that, yes, that's so in Continental Europe, because of the trends in general, in other areas, as reflected by exchange rates. And also, this is important for Europe. Poor numbers are going to have an impact, there's been an increase to the tune of EUR7 billion. So there seems to be an increase there of assets at risk. And we repeat what we said back on Investors Day.

A - Unidentified Speaker

Nigel Smith wants to know about amortization of intangibles.

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

We've said, basically, that this basically comes from platforms, which are no longer used. And, therefore, the time comes to amortize them. But that would basically be it, at least for the time being.

A - Unidentified Speaker

And I think that as to financial management, in general, we've answered all the questions, financial margins also I think have been dealt with very nicely. And there's Carlos Peixoto on capital evolution on the 28 bps, the 12 and so on. I think that we've already broken that down. If you need further information please don't hesitate to call us. But I think that that question was also handled.

Now if we look at business areas, look at Spain, Marcello Zanardo, talks about the outlook, what is the forecast? What are we looking at for Spain in terms of margin? In view of the evolution what do we expect for 2012?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well, Spain in 2012 probably is going to have similar results to those of 2011. At least in the upper portion of the slide, as it were, because while it is true that, in Spain, we see a recovery of spreads, it's true that we see a recovery of the financial margin. And that's going to grow. And has grown actually in 2011, not very much but it's grown and it will continue to grow in 2012. Nevertheless, the activity is not going to be as brisk, assets and liabilities, especially in assets -- no, low in assets.

Although in terms of funds and so on, well, it's not that important if you think about the rates structure in place now. And for the upcoming year. So I think that they'll offset each other. Provisions will continue to be high in 2012, because evolution of credit quality and of NPLs, as we said before, is not going to vary. It's going to perhaps grow a little bit in 2012. So, again, we'll be seeing that those provisions will not be less.

We know the generics are not as relevant as they were in the past. So 2012 -- in our budget for 2012, the results for Retail Banking in Spain are very, very similar to the results achieved in 2011. So we see that it's a little bit of both. Some things are going to be better. Others are not going to be that good; margins, spreads. But less activity; and provisions growing.

Costs fine, because retail costs in Spain are going to continue to decrease, grow negatively, minus 1%/minus 2%. But all of that, at the end of the day, is just going to give us very similar results to the ones that we made in 2011.

A - Unidentified Speaker

Frederic Teschner from Natixis; Alejandro Ruyra of Kepler, those questions I think have been answered both of them. Ronit Ghose from Citi wants to know about Consumer Finance, specifically in Germany 39% growth of loans. How much is organic growth? How much is acquisitions?

A - Alfredo Saenz {BIO 1422535 <GO>}

Remember here that we will be talking about the consolidation of SEB, which affects that growth. Without that SEB consolidation Germany would be going in line with the country and in line, also, with what we see in mature markets. So it's less than, I think, 5% in any case, less than 5%.

A - Unidentified Speaker

From the UK, Alvaro Serrano from Morgan Stanley and Andrea Filtri from Mediobanca want to know a little bit about -- well, it seems that they want to know about the interest margins which tend to be stabilizing, although we made a reference to a relative weakness on Investor Day. Should we expect further pressure in upcoming months as the hedges weaken? And, in any case, what is our interpretation of the franchise in 2012, specifically?

A - Alfredo Saenz {BIO 1422535 <GO>}

Well the UK, I think there's a very thorough definition there. I think it's very solid. What I mean to say is there isn't anything different from what we saw at Investor Day. In fact, yes, it's going to be flat in terms of coming in and activities, say, in the market that really isn't growing very much.

And the margins are not changing. In terms of assets, in terms of liabilities, there are no major changes. And, therefore, there are no surprises. The same can be said regarding costs and provisions, no surprises there. So it's going to be the same as before.

As to the loss of the hedge well, yes, that will be felt. This is what we call the margin compression. It's the depletion, if you will, of hedge, both current accounts. I think that that is going to have an adverse effect, a negative effect on the numbers. That is as far as traditional business goes, savings and mortgages; that's for the total business when we talk about the margin compression. Plus the regulatory impact, those new changing demands; this is going to perhaps affect us in the bottom part -- in the upper part, I'm sorry.

Then when we talk about the franchise, well, it's slow. Evolution is slow; it always is, isn't it in this kind of a business. We seem to be quickening in terms of corporate at a rate which is not huge. But the Bank is increasing and the Bank is growing. And the Bank is doing its utmost in this SME.

This, of course, will be further bolstered when the UK joins us; well, that's how we call the Royal Bank of Scotland's branches. And that will happen probably towards the end of 2012, unless there are delays. We are seeing some minor delays now. So it would be either end of 2012/beginning of 2013.

It's not going to affect the numbers for 2012; it will affect the numbers in 2013. So 2012 is going to be a year that we can best define as complex, a little bit delicate for the UK in that constant perimeter, because I repeat I don't think that those RBS -- the Royal Bank of Scotland branches are going to be immediately added onto the account in 2012.

A - Unidentified Speaker

And finally from Brazil we have a question, Fabio Mostacci, Ahorro Corporacion, what do we believe the evolution of that financial margin is due to, on ATM specifically. And what is the forecast for this year -- for 2012, what is the forecast, because we need to bear in mind that interest rates are going down?

A - Alfredo Saenz {BIO 1422535 <GO>}

I think that 2012 in Brazil is going to be a better year; it's going to be a year of recovery. In the upper portion of the accounts, activities, of course. And spreads, especially the final quarter has been good. What we see about this year, although it's true that January, of course, is an off month in Brazil, in the southern (cone).

But we're seeing good volumes; we're seeing good spreads. So our forecast -- remember for Brazil, for 2012, what we reported on Investor Day, we talked about growth; we're going to be achieving that. That's the pace we're at. We're looking forward to a good year in Brazil.

A - Unidentified Speaker

Well, thank you very much. I think that all of the questions that were posed have been responded to. And if you feel if that is not the case please do get in touch with us and we will be delighted to take your calls and questions. Thank you.