REPORT ON BANKING SUPERVISION IN SPAIN

2004

BANCO DE ESPAÑA

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ABBREVIATIONS

ABSVs	Asset-backed securitisation vehicles
ACs	Appraisal Companies
AIAF	Association of Securities Dealers
AIG	Accord Implementation Group; reports to the BCBS
AMA	Advanced Measurement Approach (for measuring operational risk)
ATA	Average total assets
ATM	Automated teller machine
BAC	Banking Advisory Committee
BCBS	Basel Committee on Banking Supervision
BE	Banco de España
BIS	Bank for International Settlements
BSC	Banking Supervision Committee of the ESBC
CBE	Circular of the Banco de España
CCR	Central Credit Register of the Banco de España
CEBS	Committee of European Banking Supervisors
CECA	Spanish confederation of savings banks
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CERSA	Spanish state-owned reinsurance company
CESR	Committee of European Securities Regulators
CGs	Consolidated groups of CIs, DIs, etc.
CIs	Credit Institutions (DIs, SCIs, and the ICO)
CNMV	National Securities Market Commission
COREP	CEBS COmmon REPorting Working Group
DGF	Deposit Guarantee Fund
DGS	Directorate General of Insurance
DGTPF	Directorate General of the Treasury and Financial Policy
DIs	Deposit Institutions
EAR	Equivalent annual rate
EC	European Commission
ECB	European Central Bank
ECOFIN	EU Council of Ministers of Economy and Finance
EEA	European Economic Area
EIF	European Investment Fund
EFAs	Earning financial assets
EMU	Economic and Monetary Union
ESBC	European System of Central Banks
EU	European Union
FCs	Financial conglomerates
FESCO	Forum of European Securities Commissions
FMC	Financial Markets Committee
GdC	Groupe de Contact
GDP	Gross Domestic Product
GTIAD	Working Group on the Interpretation and Application of the Banking Directives
IAIS	International Association of Insurance Supervisors
IASB	International Accounting Standards Board
IBFLs	Interest-bearing financial liabilities
IFAC	International Federation of Accountants
IFRS	International Financial Reporting Standards
IOSCO	International Organisation of Securities Commissions
IRB	Internal Ratings-Based method
LABE	Law on the Autonomy of the Banco de España (Law 13/1994)
LDI	Law of the discipline and intervention of credit institutions (Law 26/1988)
LMV	Law on the securities market (Law 24/1988)
MBSVs	Mortgage-based securitisation vehicles
MGCs	Mutual guarantee companies
MO	Ministerial Order
OECD	Organisation for Economic Co-operation and Development
OTC	Over-the-counter (trading on unregulated markets)
PBT	Profit before tax
RD	Royal Decree
RDL	Royal Decree Law
RGs	Regional (autonomous) governments
ROA	Return on assets (profit after tax as percentage of ATA)
ROE	Return on equity (profit after tax as percentage of own funds)
SCIs	Specialised credit institutions
SEPBLAC	Commission for the Prevention of Money Laundering and Monetary Offences

CONVENTIONS USED

€ m	Millions of euro
€ bn	Billions of euro
Q1, Q4	Calendar quarters
bp	Basis points
pp	Percentage points
...	Not available
–	Nil, non-existence of the event considered or insignificance of changes when expressed as rates of growth

CONTENTS

REPORT ENVISAGED IN LAW 44/2002 ON FINANCIAL SYSTEM REFORM MEASURES.
2004

1. Introduction

The Second Additional Provision of Law 44/2002 of 22 November 2002 on Financial System Reform Measures established certain measures to improve the efficiency, effectiveness and quality of supervisory procedures.

These measures include most notably the obligation of supervisory agencies, including the Banco de España, to prepare annually "a report on their supervisory function". This report shall include "a report by the respective internal control bodies on how closely the decisions taken by their governing bodies conform to the procedural rules applicable in each case".

The 2005 Audit Plan of the Banco de España, approved by the Deputy Governor on 17 December 2004 under the powers delegated to him and notified to the Executive Commission that same day, includes the drafting of the report envisaged in Law 44/2002 of 22 November 2002 on Financial System Reform Measures, so that it may be included in the Banco de España's annual report on its supervisory function.

2. Purpose, scope and methodology of the report

This report falls within the bounds of the legal mandate contained in the Second Additional Provision of Law 44/2002. As mentioned above, this Second Additional Provision defines the scope of the report by reference to three basic elements:

1. The supervisory function of the Banco de España.
2. The decisions taken by the governing bodies (in exercise of the supervisory function).
3. Conformity of the foregoing decisions to the "procedural rules applicable in each case".

The period addressed by the report is the same as that covered by the Report on Banking Supervision in which it has to be included, i.e. 2004 in this case.

The subject matter of the report is the decisions taken by the Banco de España's governing bodies within the spheres of competence of the Directorates-General of Banking Supervision and of Banking Regulation.

Regarding applicable legislation, account was taken of the supervisory powers contained in Law 13/1994 of 1 June 1994 on the Autonomy of the Banco de España and in the Internal Rules of the Banco de España.

Also, the Executive Commission established, via a Resolution of 14 February 2003, the procedural rules for proposals on matters within the competence of the Directorate-General of Banking Supervision; and, via a Resolution of 10 April 2003, the procedural rules for proposals on matters within the competence of the Directorate-General of Banking Regulation.

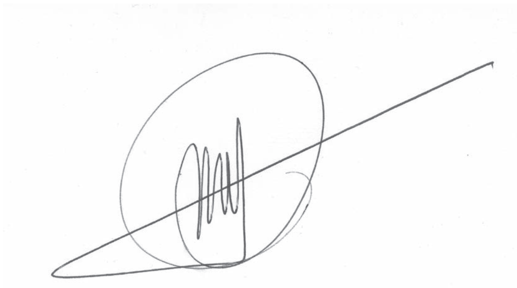
The examination was performed by stratified sampling in nine strata or types of decision taken by the Directorate-General of Banking Supervision and in eight strata or types of decision taken by the Directorate-General of Banking Regulation. Different sampling fractions (100%, 10%, 5% or 1%) were applied to these strata depending on the materiality, numerical volume and internal homogeneity of each stratum.

The work was performed in accordance with the Internal Audit Manual, which includes the International Standards for the Professional Practice of Internal Auditing, approved by the Institute of Internal Auditors (IIA), including those relating to the Code of Ethics.

3. Opinion

In our opinion, the decisions taken by the governing bodies of the Banco de España in 2004 in the exercise of its supervisory function were taken by bodies with sufficient own or delegated powers in accordance with the Banco de España's Internal Regulations and with the provisions laid down by its Executive Commission, and are in conformity, in all material respects, with the existing procedural rules applicable in each case.

Madrid, 25 May 2005
Director of the Internal Audit Department



Miguel Martín Fernández

THE GOVERNOR OF THE BANCO DE ESPAÑA
THE DEPUTY GOVERNOR OF THE BANCO DE ESPAÑA

1 STRUCTURE AND EVOLUTION OF THE INSTITUTIONS UNDER THE BANCO DE ESPAÑA'S SUPERVISION

1.1 Structure and composition of the banking system

The internal restructuring of banking groups continued during 2004, though this was not related to the now-completed major mergers in the past. Against this relatively stable background from an institutional standpoint, in contrast to the situation in other EU countries, the total number of credit institutions (CIs) operating in Spain declined by two, although six CIs disappeared in merger or acquisition processes involving institutions registered in Spain. Such stability also masks a slow but ongoing opening of branches by EU CIs, which are harnessing the advantages of the Community passport to move towards a model of European integration which seeks, above all, proximity to the customer drawing on brand differentiation. Adding to this stability among CIs was a fresh increase in the network of offices and ATMs and in staff, although the number of external agents fell and not, as in 2003, owing to statistical reasons. These factors generally made for a strengthening of the particularities of the Spanish banking system. Consolidated groups of CIs (CGs) likewise retained a degree of stability, though this was affected at the end of the year by the incorporation of a major European group into a national consolidated group.

1.1.1 TYPES OF CREDIT INSTITUTION

As at 31 December 2004, 348 CIs were registered with the Banco de España, two fewer than a year earlier, as a result of the 8 registrations and 10 de-registrations discussed in Section 2.3.4 (see Table 1.A.1). As in previous years, de-registration in most cases was due to absorption by parents as part of internal restructuring processes aimed at improving the operating efficiency of intermediation activities. Such de-registrations included that of Eurobank del Mediterráneo, which was placed under administration by the Banco de España in June 2003 and whose banking licence was withdrawn by the Council of Ministers in November 2004, and that of a subsidiary of a banking group that had been dormant for years and those of three institutions pending de-registration in late 2003.

Of the 8 new CIs, 5 are branches of EU CIs, an habitual occurrence in recent years. The other 3 were specialised credit institutions (SCIs), two of which are geared to specialising in consumer finance (one is the subsidiary of a Spanish bank).

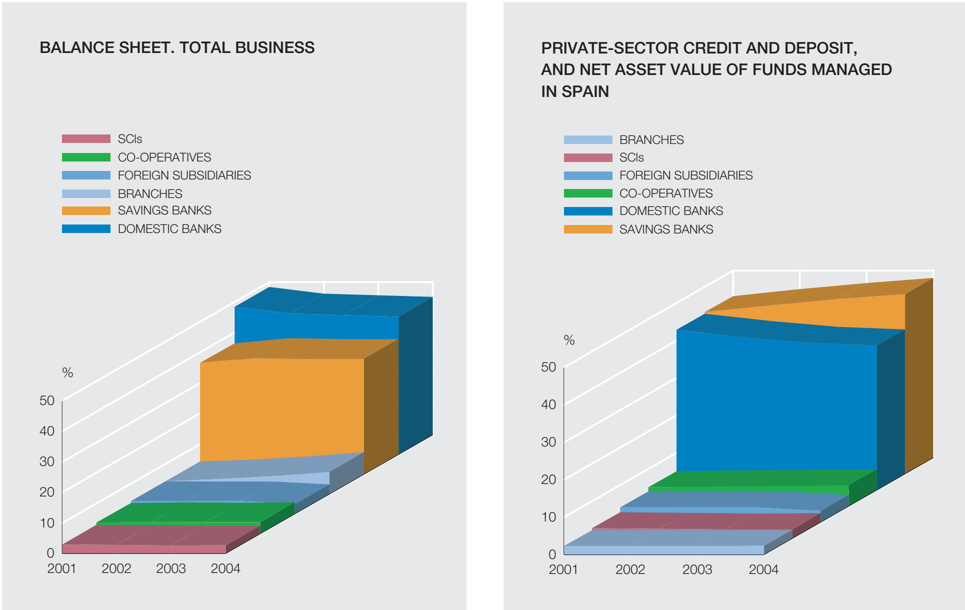
Developments at foreign banks were along the lines of previous years, meaning there was a fresh change in the respective numbers of branches and subsidiaries, in favour of the former. Of the 84 foreign CIs in Spain as at December 2004, 61 were branches (58 in 2003), almost entirely of EU countries, and 23 were set up as subsidiaries (25 in 2003).

As regards the shares of the various types of CI, measured in terms of the total balance sheet, Spanish banks slipped by 50 bp and the subsidiaries of foreign banks by almost 100 bp in 2004, both shares being taken up by the branches of foreign banks (see Chart 1.1 and Table 1.A.4 bis). As habitual in recent years, what has been pivotal to this redistributive process has been the supply of banking products via the Internet, which is the preferred channel of activity for some of the foreign subsidiaries. As a result, foreign branches saw their share in terms of the total balance sheet rise from 5.9% to 7.3%, making for a gain of 3 pp in the past four years. Conversely, the group of foreign subsidiaries resumed the declining path that had been broken in 2003 by Barclays' acquisition of Banco Zaragozano, a development due in part to the conversion of certain subsidiaries into branches.

The situation described in relation to market shares alters if activity with private customers (credit, deposits and managed funds) is considered to be a relevant variable. In this case

MARKET SHARE OF CIs REGISTERED IN SPAIN

CHART 1.1



banks yield their leading position to savings banks, with the gap between the two now standing at over 9pp and moving on a persistent path, when only four years earlier the respective shares were similar. Thus, in terms of activity with the private sector, the aforementioned losses in shares of the subsidiaries have been sustained, Spanish banks' losses have slackened and foreign branches have seen only a slight increase (5 bp). In sum, it is savings banks which have most increased their share (+135 bp), followed a sizable distance back by credit co-operatives. The growth of savings banks is based on their dynamism in mortgage financing, the star lending activity of CIs in the past eight years (see Chart 1.3), and on fund management. By contrast foreign branches, which have been so successful in capturing customers' funds, have performed much more moderately in the financing of customers and only marginally in fund management, hence their relative stagnation, by around 2.5% in terms of share, in overall activity with the private sector.

1.1.2 CIS' OPERATING RESOURCES

The major national banking groups' renewed interest in the domestic market, along with the possibilities of relating to customers through the new information technologies, essentially the Internet, have heightened banking competition in a market which is already highly competitive. Against this background, CIs opted for strategies to differentiate them from their rivals and for improvements in communications with customers and in services provided that would enable them to secure customer loyalty, maintaining or improving their sources of revenue.

Thus, anticipating customers' demands, CIs offer a wide and diversified range of innovative, complex products and financial services which require more and better human and material resources for their distribution, as proximity to the customer is an essential consideration and a differentiating one in terms of what happens in other countries. Yet to pursue these strategies CIs need an extensive office network, and they have one of the biggest in Europe in relative terms, albeit with specific particularities: what are involved are small, flexible offices, with a small staff (4.2 on average for savings banks, 5.8 for banks; see Table 1.a.2), extensive technical resources and the presence of advanced ATMs enabling the limited staff to be deployed and focused on advisory tasks and customised attention. It is not surprising that Spanish banks are viewed as among the best technologically equipped in Europe. Their offices, moreover, unlike in other countries, market a wide range of own and other products, as highlighted by the fact that approximately 95% of mutual funds and 80% of pension schemes are sold through them.

Further to this strategy, the number of offices, ATMs, point-of-sale terminals and employees continued to grow in 2004, mainly at savings banks, in keeping with the aforementioned increase in their share in private-sector business. Nonetheless, of most note besides the habitual growth posted at savings banks and also at co-operatives is the rise in the number of domestic banks' employees and offices, following continuous and marked job destruction largely associated with the major mergers of the past decade. Also significant is the strong increase in domestic banks' point-of-sale terminals, up almost 68,000 in a single year and denoting a clear commitment to deepen relations with the retail trade and retailers. Staff increases at CI's have been partly offset by the reduction in the number of agents, yet such increases are, conversely, even more striking if regard is had to the growing outsourcing of certain banking functions – ICT services, business resumption teams, mortgage loan processing, etc. – in which many institutions are leading the way and which are expected to become more prominent in the future.

The new offices are being set up in the latest urban development zones and in areas where the make-up of the population is changing, essentially as a result of immigration. But office network business activity is being notably reinforced in terms of the provision of Internet banking services. The use of this channel is becoming generalised and greater as initial reluctance is gradually overcome and numbers using the Internet rise, making it possible to relieve branches of much of their administrative burden. Of significant influence here has been the extension of the use of the Internet towards the provision of professional services to companies in all matters relating to their economic transactions.

In Spain there are almost 12 offices per 10,000 inhabitants aged 16 and over (see Table 1.1), more than double the related ratio in the EU but with less than half the employees (5 as opposed to 12), meaning that Spanish banks show one of the best efficiency ratios in the EU. Indeed, despite their network of branch offices being thick on the ground, Spanish banks have retained one of the lowest operating cost/revenue ratios in the EU, thanks to their high technological component. According to banking industry figures, only 1 out of 5 operations are transacted manually (3 out of 5 were in 2001), whereby staff numbers for administrative functions have declined by 40% and those involved in commercial tasks have increased by 50% since 2001.

The other major complement to bank offices, and occasionally the alternative to offices when their location is isolated from the offices, is automated teller machines (ATMs), whose network in Spain is by far the most extensive in Europe. But ATMs are tied to the use of debit or credit cards, so it is no surprise that they are the subject of fierce competition between institutions, all the more so given that they are a basic source of services commissions. Moreover, services commissions are, in turn, a fundamental component of commissions and of the gross margin, while the other main component of this latter item, the net interest income margin, has been progressively narrowing in a structural sense.

Credit and debit cards issued by CIs have thus continued to grow, and on average there are currently 2.2 cards per inhabitant aged over 16. That said, their potential for expansion remains high, since their rate of use is far below the European average. Mindful of this and of the possibilities offered by cards as a source of revenue, as an instrument of customer loyalty and for reinforcing services offered, CIs are incorporating novel benefits into cards, including most notably discounts on the purchase of certain goods (petrol, leisure articles and travel). The use

OPERTING RATIOS OF CREDIT INSTITUTIONS (a) TABLE 1.1

Total business. Year-end data

	2001	2002	2003	2004
Serving employees per 10,000 inhab. > 16 years old	72.5	71.5	71.4	71.7
Operational branches per 10,000 inhab. > 16 years old	11.6	11.5	11.6	11.8
ATMs per 10,000 inhab. > 16 years old	13.8	14.7	15.2	15.6
Point-of-sale terminals per 10,000 inhab. > 16 years old	265.4	274.8	287.5	309.3
No. of credit and debit cards per inhab. > 16 years old	1.9	1.9	2.1	2.2

a. The population figure used as the denominator in the calculation of these ratios is the Spanish population, while the numerator takes total business including business both in Spain and abroad. Nonetheless, given the marginal nature of the contribution of the latter, there is no problem of any significant mismatch in the ratio.

of cards will be boosted, moreover, by the technological developments (microchips) they will benefit from in the future. These will not only enhance their capacity but also strengthen their security.

1.1.3 CONSOLIDATED GROUPS OF CREDIT INSTITUTIONS

For the first time, this Report offers detailed information on the number of consolidated groups, along with the breakdown of investee institutions at the close of 2004 (see Table 1.A.3). The rows of information in the table are in two major blocks. The first adheres to the definition of consolidated groups envisaged in article 8 of Law 13/1992 of 1 June 1992 on own funds and supervision on a consolidated basis; and the second to a more restricted definition, considering only the consolidated groups of CIs that fully consolidate two or more Spanish CIs, including the parent or reporting institution. Further, information is given on the mixed groups supervised by the Banco de España and on those supervised by the Dirección General de Seguros (Directorate General of Insurance) that include one or more credit institutions. The final line provides information on the banking office network of groups of CIs abroad.

The total number of consolidated groups increased in 2003 as a result of the opening or acquisition of financial institutions, chiefly fund management and portfolio investment companies, by smaller-sized CIs. By contrast, the number of groups in 2004 was very stable, though not their composition, owing to the aforementioned acquisition of a large banking group abroad in what was the first major cross-border “consolidation” operation in the EU. Among the groups with a CI as a parent, over half belong to savings banks which, nonetheless, include one-quarter of consolidated Spanish CIs. Conversely, groups that have Spanish banks as their parent, of which there are only 13, include 40 Spanish CIs, in addition to the parent itself or reporting institution.

Consolidated groups encompassing two or more Spanish CIs account for little more than one-third of the total of those obliged to file consolidated statements, and they have evidenced greater stability in terms of their numbers in the past four years. This period of relative calm follows a previous one in which their numbers declined strongly, as a result of the wave of mergers in the second half of the nineties. This set, which includes the main groups of CIs, can be seen to bring together all CIs that are subsidiaries abroad (with banks as owners) and virtually all other consolidated non-resident financial institutions. Notable here is the increase in the number of operational offices abroad, which is also linked to the aforementioned acquisition and which masks a gradual process of office closures and the restructuring of foreign CIs incorporated into Spanish consolidated groups.

1.2 *Activity of credit institutions*

1.2.1 ACTIVITY OF INDIVIDUAL CREDIT INSTITUTIONS

Credit institutions' activity benefited in 2004 from a favourable economic environment, as indicated in section 1.3. That made for a strong rise in domestic demand (4.5%), which Spanish credit institutions harnessed to expand their lending activity, posting the highest growth rate of the past decade (see Chart 1.2). For yet another year this growth was boosted by the strong demand for credit, particularly mortgage credit (see Table 1.A.4), and financed, as well as by deposits, by issues of debt securities, over one-third of which related to the securitisation of cédulas hipotecarias (covered bonds) and mortgage loans (see section 1.2.3).

The total balance sheet of credit institutions as at December 2004 amounted to €1,717 billion, with annual growth of €213.7 billion (up 14.2%). As was the case in 2003, it was essentially retail activity which continued to contribute most to the growth of the Spanish banking sector balance sheet, despite the sound performance for the year of specialised banking activities in fund management, to which the favourable trend of the stock markets contributed.

Among assets, credit to the resident private sector grew by 18.2%, a lower rate than that posted by mortgage credit and far higher than that of consumer credit. The latter, despite the strong boost it received in 2004, which was accentuated by the greater use of credit cards and the take-off in e-business, grew by only 10%. This was due in part to its remaining on the balance sheet for a shorter time owing to its greater turnover. In sum, low real and nominal interest rates, together with the wealth effect arising from the price increases in real and financial assets, the population increase owing to immigration, the purchase of second homes by non-residents and capital-goods investment needs, all fuelled a very strong demand for credit, to which CIs responded nimbly.

The securities portfolio was also highly dynamic, recording growth of 11.2% and contributing almost 16% of total growth, namely €34.2 billion. There was most significant growth in the permanent investment portfolio, in both fixed income (up 13%) and in equity (27%), due in this latter case to certain investments in stakes in major corporations. This focus on equity was reinforced in the trading book with growth of 80% in equities, which attained the volume of those recorded in the available-for-sale portfolio.

As regards financing, debt securities were the most dynamic variable, increasing by 68% (36.8% in the case of mortgage securities, covered bonds in their entirety). That meant they financed more than one-quarter of the growth in this caption, with a relative weight of 8.5% in the balance sheet as at the end of 2004. This spectacular growth in the issuance of covered bonds, along with that of the securitisation of mortgage loans (up 37%)[1], against a background of rapid growth in Spanish CIs' balance sheets, placed Spain among the main issuers in the EU, in terms both of mortgage security issues and of securitised mortgage bonds. Spanish issues are being very well received on international markets, which took up more than two-thirds of the total issued in 2004. Further, the growth rate of debt-holders trended much more moderately, although those belonging to the resident private sector increased at a high rate of 12.8%, with time deposits featuring strongly, while the rate for non-residents fell by 19%. Completing the main sources of external financing, bank creditors increased by 11.4%. Finally, the growth in capital was 24%, almost two-thirds of which stemmed from a capital increase carried out in response to the acquisition of a major European banking group.

Lending was marked by the strong expansion in that to the private sector, with mortgage lending indisputably to the fore, posting year-on-year growth of 23.4%. Consequently, in the struc-

1. Unlike the securitisation of mortgage loans that are derecognised, with the subsequent saving in capital, in the case of the securitisation of covered bonds, these remain under the institution's liabilities until their redemption.

RATES OF CHANGE OF GDP AND OF CERTAIN CI BALANCE SHEET ITEMS (a) CHART 1.2

Total business

a. CIs existing at each date.

ture of lending extended (see Table 1.A.6) there were generalised declines in lending for productive activities, except in those sectors linked to property, whereby the share of the construction industry increased by 0.1 pp and that of the property development sector by 2.1 pp. If this latter rise is compared with the 0.8 pp increase in the share of credit set aside for housing by households, the increase in credit risk in respect of the segment most sensitive to market changes, namely property development, is highlighted. Despite the growth in consumer credit, the share of this variable fell by 0.3 pp, which is nevertheless relatively positive from the macroprudential standpoint, as it shows Spanish consumers are very little disposed to finance their current purchases with borrowed funds, such financing usually being exposed to higher default rates. Though full data are not yet available, there is every indication that the use of home equity as collateral for consumer loans is not significant in Spain.

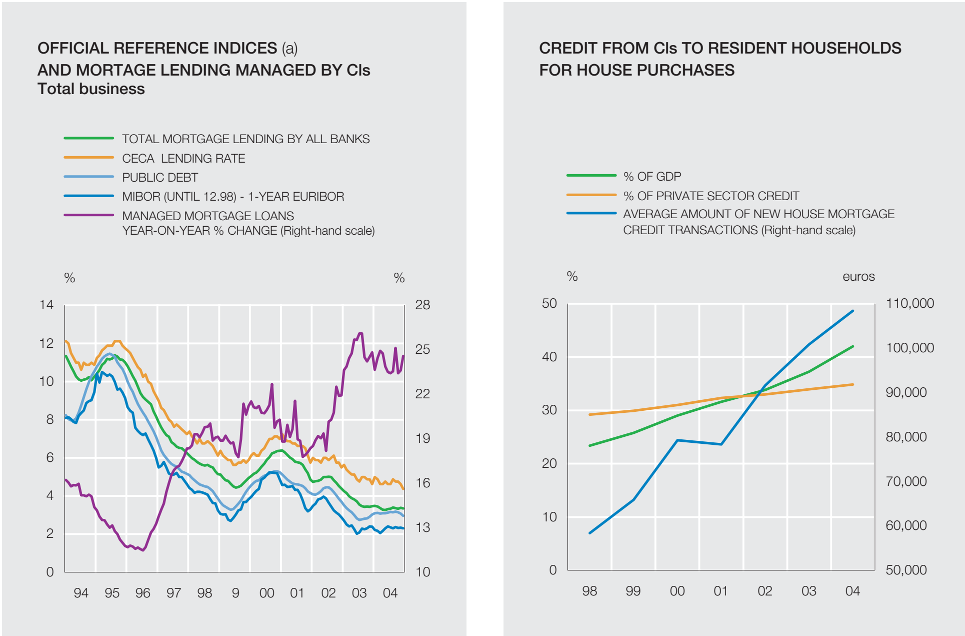
Mention should be made of the strong and constant increase in the average amount of new house mortgage credit operations, driven by the rise in house prices (see Chart 1.3) and the likely deterioration in the relationship between the amount of these loans and that of the related collateral. And this against the background of strong competition between CIs to increase or maintain their share in this activity which, though it is not one of the most profitable in the short run, does enable them to secure customer loyalty and engage in product cross-selling that offers high value added and is of long duration. Moreover, this activity is among those of least risk, in terms both of default risk – as the low default rate (see Table 1.A.5) testifies – and of interest risk, since the virtually complete preponderance of floating rate loans, mostly MIBOR-referenced, passes this risk on to customers.

Despite the strong expansion of lending and financial activity in general, the default rate has held on the declining path of recent years, with a decline in doubtful assets and guarantees of 3.7%. The ratio of doubtful to total exposures stood at an all-time low of 0.71%, compared with 0.87% in 2003 (see Table 1.A.5). Provisions, in line with the growth of activity, posted very significant growth, with the exception of the specific provision: the general provision grew by 15.6% and the statistical provision by 37.9%.

The *exposures reported to the Banco de España Central Credit Register (CCR)* totalled almost 26 million in December 2004, 10% up on 2003. That made for an amount of €2,024 billion, signifying a rise of 15%, and led to an increase in the average amount of the exposures re-

HOUSE MORTGAGE FINANCING

CHART 1.3



a. For an exact definition of these indices, see annex VIII of Banco de España Circular 8/1990 of 7 September 1990.

ported (see Table 1.A.7). Almost half were reported by savings banks, while 51% of the amount thereof corresponded to those reported by banks. Resident individuals made up the bulk here (91% of the total), although non-residents continue to increase at a very high rate (36.8%).

1.2.2 ACTIVITY OF CONSOLIDATED GROUPS OF CIS

The activity of the consolidated groups of credit institutions (CGs) mirrored what was indicated for individual CIs, with certain particularities derived from the activities of non-credit financial institutions and from their presence abroad which boosted the growth of CGs to 20.2%. Activity in Latin America posted most notable growth in business with individuals, against the backdrop of the far higher growth in these countries' economies than in previous years, with an estimated average increase in GDP for the region of 5.8% and a highly positive contribution to total growth. Nonetheless, it has lost ground to the EU as a result of the forceful impact brought about by the incorporation of a European group into a Spanish banking group (see Table 1.2).

As at December 2004 the consolidated balance sheet of CIs and their consolidated groups (CGs) amounted to €2,020.2 billion, up €408.1 billion on the same date the previous year (see Table 1.A.8). Of this growth, 77% was due to the strong increase in lending, more than half of which relates to the inclusion of the aforementioned European group, which is highly active in the mortgage segment. It is precisely the inclusion of this group that explains the significant gain in the relative weight of foreign business, measured in terms of the total balance sheet, compared with business in Spain, meaning the latter has lost 8.2 points in favour of the former. This acquisition was also reflected in the 20% growth of deposits, almost half of which stemmed from business abroad.

There was a significant narrowing of €38.3 billion (from –€69 billion to –€30.7 billion) in the gap between business in Spain and abroad, denoting a decline in net financing provided by groups located abroad to activity in Spain. The 16% growth in the net asset value of managed funds was also noteworthy, although this was once again largely (60%) due to the above-mentioned acquisition.

FOREIGN BUSINESS OF CONSOLIDATED GROUPS AND INDIVIDUAL INSTITUTIONS (a) TABLE 1.2

End-of-year data (€ m)

	2001	2002	2003	2004
Consolidated foreign balance sheet (assets)	**338,932**	**259,381**	**242,952**	**470,052**
Financial assets	250,813	189,074	174,950	357,499
EU	*54,154*	*47,135*	*49,303*	*213,515*
Latin America	*170,312*	*121,051*	*105,884*	*118,948*
Other	*26,346*	*20,889*	*19,762*	*25,037*
Financial liabilities	221,818	205,989	196,980	337,224
EU	*34,743*	*30,477*	*39,249*	*169,166*
Latin America	*155,829*	*110,227*	*96,437*	*107,226*
Other	*31,246*	*65,286*	*61,293*	*60,832*
MEMORANDUM ITEM				
Funds managed (net asset value)	63,850	49,799	57,494	85,809
EU	*5,968*	*6,941*	*9,175*	*24,107*
Latin America	*52,662*	*38,144*	*42,519*	*52,681*
Other	*5,220*	*4,714*	*5,800*	*9,021*

a. Institutions existing at each date.

The share of the two biggest Spanish banking groups in the total balance sheet of the CGs' total business stood at 44.9%, compared with 40.7% a year earlier. Thanks to the aforementioned acquisition of a foreign CI, the diminishing tendency of the previous years was thereby broken. Nonetheless, and despite the intensification of domestic activity initiated in 2003 which had enabled them to recoup a portion of the domestic activity they had lost, placing them at 31.5%, in 2004 they once again lost 2.1 pp (to 29.4%) of the share of business in Spain to the eight banking groups following them in the ranking by size: the groups from third to fifth place gained almost 1 pp, and those ranked sixth to tenth almost 1.7 pp. This widened the difference between the share of the two biggest and more internationalised groups in total business and business in Spain, which stood at 15.5 pp compared with 9 pp in 2003 (see Chart 1.4).

1.2.3 SECURITISATION ACTIVITY OF CIS

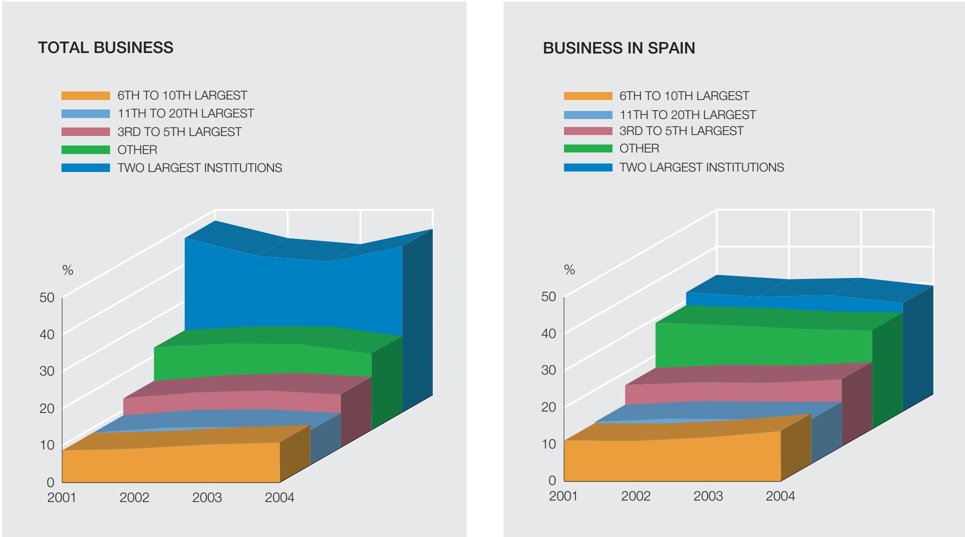
In 2004 the securitisation activity of CIs continued to increase at a most substantial rate, albeit at a lesser pace than in 2003. Issues grew by 45.8% (58.9% in 2003) to €52,271 billion via 51 operations, three of these on foreign markets (see Table 1.A.9). With these volumes, Spain remains in second or third place in Europe, according to the type of asset securitised. As a result of this forceful issuing activity in Spain, the total outstanding balance of Spanish funds' asset-backed bonds now amounts to €120,443 billion (see Table 1.A.10).

Financial institutions remained to the fore in terms of securitisation, since only 0.5% of the issued volume relates to *non-financial corporations,* among which there is one operation linked to the securitisation of an electric utility's receivables and another to the construction of wind parks in Galicia. As to *credit institutions,* savings banks, followed by banks, were the most active issuers, accounting for 47.7% and 43.2%, respectively (66.8% and 26.6% in 2003). The securitisation activity of banks[2] increased most significantly, which enabled them to reduce substantially the gap with savings banks, which had been the main actors in this field since

2. Specifically, SCH was responsible for three major securitisations (one with mortgage securities, another involving loans to SMEs, and a third loans to general government). Of note, too, was the first securitisation of covered bonds in which a bank participated significantly, IM Cédulas 1 GBP FTA, originated by Banco Popular.

CONCENTRATION OF CONSOLIDATED GROUPS OF CIs CHART 1.4

BALANCE SHEET TOTAL (a)



SOURCE: Banco de España.

a. CIs existing at each date.

2000, owing essentially to the securitisation of covered bonds[3]. As at December 2004, the outstanding balances reveal that 54% of asset-backed bonds on the market are from assets securitised by savings banks.

Mention should also be made of the surge in issuing activity by a small group of co-operatives which, following several operations this year (basically involving mortgage loans and covered bonds), raised the percentage accounted for by their bonds in total outstanding balances to 3% as at December 2004, a similar percentage to that of SCIs (3.8%).

The ongoing *deconcentration* of issues continued, as a result of which the five biggest institutions amassed 36% of the outstanding balance of asset-backed bonds, compared with 53% in 2001 (see right-hand panel of Chart 1.5). In addition, the proportion of securitisations originated by a numerous group of savings banks ("highly fragmented set") has stabilised at around 30% of the total. As indicated on previous occasions, these joint securitisations, with ten or more issuing institutions, are used mostly for securitisations of covered bonds (88%).

As regards the *type of securitised asset,* the Spanish market remained highly conservative, with three assets remaining prominent: covered bonds, mortgage loans (although the relative weight of MBSVs, which group solely highly collateralised loans[4], continues to decline) and, finally, albeit at some distance, loans to SMEs (see left-hand panel of Chart 1.5).

The strong growth of securitisations resides principally on the securitisations of covered bonds. With a 73% increase on 2003, bonds were injected into the market for a value of €18,685 million and now account for 35.6% of new issues, occupying second place behind mortgage loans[5]. Small and medium-sized savings banks are resorting massively to this mechanism, which enables them to place their covered bonds on the market at a lower cost than that of

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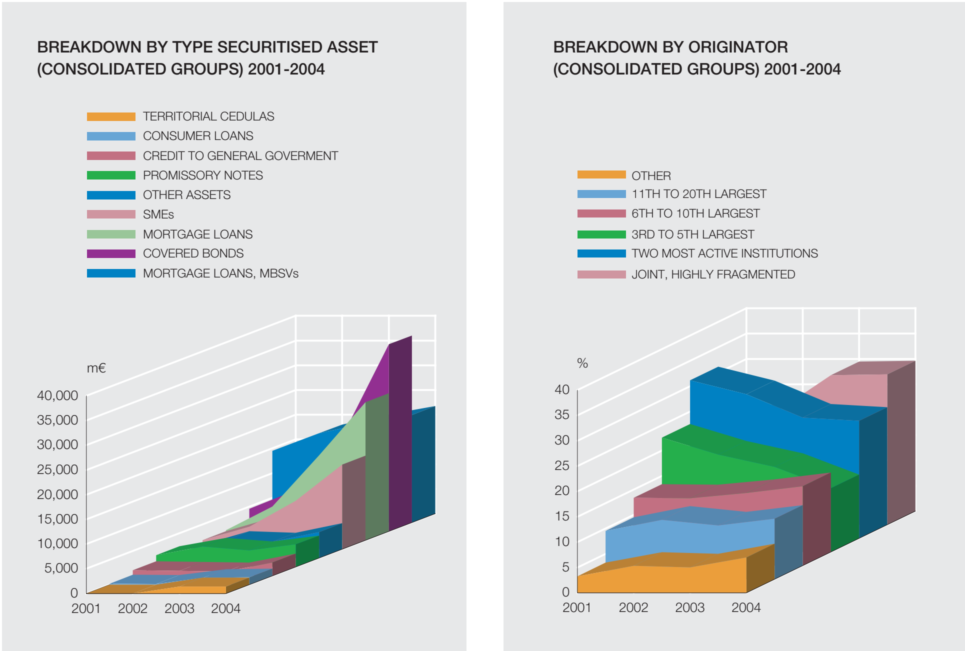
3. As at December 2004, 51% of the outstanding balance of securitisations originated by savings banks related to securitisations of covered bonds. **4.** Mortgage loans that meet the requirements established in Royal Decree 685/1982. **5.** If securitisations of covered bonds are excluded, the growth of CIs' new asset securitisations was 34%, more moderate than the overall rate of 45.8%.

OUSTANDING BALANCES. SECURITISATION ORIGINATED BY SPANISH FUNDS CHART 1.5



an ordinary issue of these mortgage securities. This is due to the fact that securitisation allows the highest possible credit rating (AAA) to be obtained for the series of bonds issued, thanks to the credit enhancement to the structure and to the fact that the source of the assets backing the bonds is geographically diversified, as the underlying portfolio is made up of securities from a numerous group of savings banks. The most patent advantages of this mechanism have prompted a very sizable increase in these transactions, which have risen fivefold in scarcely two years, and in the amount of each such transaction, culminating in 2004, for example, in a massive issue for a value of over €4 billion.

Slightly ahead of covered bonds were issues of securitised bonds backed by mortgage loans (MBSVs or asset-backed securitisation vehicles – ABSVs –, depending on the type of vehicle used), at 35.9% (€18,853 million), which increased more moderately than covered bonds last year. Mention should be made of the slight reduction in the amount of issues via MBSVs, which are more demanding in respect of the underlying assets, compared to issues via ABSVs, which reflects the securitisation of mortgage loans of amounts higher than 80% of the appraisal value of the property.

The significance of the *mortgage market* in Spain is evident from the aggregate figures of issues. Overall, 83% of the new issues of securitised bonds in Spain are backed in some way by mortgage loans: 47.3% are directly backed by mortgage loans, including those granted via the securitisation of loans to small and medium-sized enterprises (FTPYMES, by their Spanish abbreviation), and the remaining 35.6% are backed by covered bonds, securities which are in turn backed by institutions' portfolio of mortgage loans. Accordingly, much of the notable growth in the securitisations market seen since 2001 has been in response to credit institutions' borrowing requirements further to the high growth of their mortgage lending to the resident private sector.

Ranked third were issues of securities backed by loans to small and medium-sized enterprises (SMEs), totalling €8,764 million and with growth of 40% in 2004 (an outstanding balance of €17,113 million). Although they account for 16.7% of the new issues in Spain, only 5.3% relate to loans to SMEs without a mortgage guarantee. These securitisations, structured via an ABSV known as an FTPYME (see preceding paragraph), are backed by the Treasury in some of the bond series they issue and are hence a very attractive option in terms of the cost of financing for the originating institutions. That said, they may be curtailed in the future by the decision by the Directorate General of the Treasury to significantly reduce the allowance set aside to guarantee these operations (from the €1,800 million budgeted in 2004 to €600 million for 2005).

As regards *other assets,* there was renewed growth in securitisations of receivables for the financing of cars with three operations, of which one – involving the placing of €1 billion on the Spanish market – was particularly notable. Also included under this category was a securitisation of loans to property developers and an innovative securitisation of loans extended to the primary sector. While these operations accounted for only 5.1% of new issues, the tendency towards diversification with regard to the nature of securitised assets is notable.

Finally, turning to issues of short-term securities by securitisation vehicles *(promissory notes* through the so-called asset-backed commercial paper – ABCP – programmes), net issues turned positive again in 2004; however, owing to their high turnover, the related net amount remained relatively low. There was also a major securitisation involving loans to general government for a total of €1,850 million, the first such operation since 2000.

As to the *remuneration* of asset-backed bonds (see the bottom half of Table 1.A.9), the generalised declining trend of the spreads offered by these instruments on European markets firmed, with historical lows being posted for investment-grade bonds. The weighted average of the spreads offered by AAA-rated asset-backed bonds (and with no State guarantee) issued in Spain in 2004 fell to 16 bp, and it is forecast to continue declining in the coming months. The strong demand for these investment-grade bonds, especially those perceived as very safe (the case of mortgage-backed bonds) and which are predominant in Spain, was the main cause for this narrowing of margins. In addition, the decline could prompt the issuance of covered bonds by credit institutions.

The data on *holders of bonds* issued by Spanish securitisation vehicles (see the bottom half of Table 1.A.10) indicate that the percentage of bonds acquired by foreign investors (they already accounted for 62.2%) and by non-financial corporations and households (4.1% in 2004 but with growth of 283%) continued to increase, while the proportion of bonds acquired by financial institutions, chiefly banks and savings banks, declined (to 33.7%).

Finally, the above-mentioned trends are expected to continue in 2005, since there have been nine securitisations for an amount of over €14 billion in the first quarter, including most notably an operation involving covered bonds for an unprecedented (to date) amount of €5 billion.

1.3 Results of CIs

The results of credit institutions in 2004 came about against a background of continuing national economic growth and favourable global trends which extended to the Latin American countries, where the presence of Spanish banks is most prominent. The international expansion was reflected in the rises on the main securities markets, but the counterpoint was the increase in oil and other commodity prices, coupled with the tightening of the US monetary policy stance. Despite this expansionary context, growth in the euro area advanced modestly and annual average inflation stood at 2.1%, which was conducive to the ECB holding the interest rate on its main refinancing operations unchanged at 2%. Inflationary pressures due to the rise in oil prices eased thanks to the appreciation of the euro against the dollar (7.3%) during the year, but they had an adverse impact on the competitiveness of the European and Spanish economies on international markets.

The Spanish economy, which sustained higher growth than the euro area as a whole (3.1%)[6], also evidenced bigger stock market rises, a fresh decline in bank bad loans and a strong expansion in lending. That was all conducive to a considerable rise in the net operating income of Spanish CIs, but one which was tempered by the negative contribution of extraordinary income. The performance of CGs' net operating income was more moderate; yet, by contrast, these groups benefited from a much more favourable contribution of the items under this income and, particularly, from a strong reduction in losses attributable to group operations and a still-positive contribution of extraordinary income.

1.3.1 RESULTS OF INDIVIDUAL CIS

The growth of CIs' *profit before tax* was down from 19.5% in 2003 to 9.1%. Combined with the strong expansion in average total assets (ATA), this entailed a decline in terms of ATA to 0.83%. Of great weight here was the performance of the items under net operating income, owing to the charging to income – and not to reserves as in previous years – of the costs associated with early retirement processes (see Chart 1.6 and Table 1.A.11).

Net interest income grew mildly (4.9%) as a result of the increase in lending being countered by the decline in the total spread. In terms of ATA there was a decline of 17 bp to 1.99%. The growth in activity provided for an increase in the growth rates of both financial income and costs, with the growth in income from the equity portfolio (23.9%) proving particularly substantial, whereas interest income, by contrast, grew only slightly.

The decline in the *total spread* (see Chart 1.7) was affected by the expansion of credit and the composition thereof. The heightened competition prevailing, fuelled by growth strategies at numerous institutions, along with the increased weight of mortgage-backed assets (with lower returns) in the make-up of credit, entailed a bigger reduction in the return on earning financial assets (EFAs) than in the cost of interest-bearing financial liabilities (IBFLs). Indeed, the downward stickiness of the cost of IBFLs stems from the low level of return attained in many segments of the financing raised, which scarcely offers credit institutions scope to continue with significant cuts in the remuneration thereof if, on the other hand, they are struggling to raise the funds necessary to expand their lending activity. In the composition of liabilities, this process was reflected in the greater resort by institutions to financing via debt securities, on which greater costs are borne than on traditional deposits.

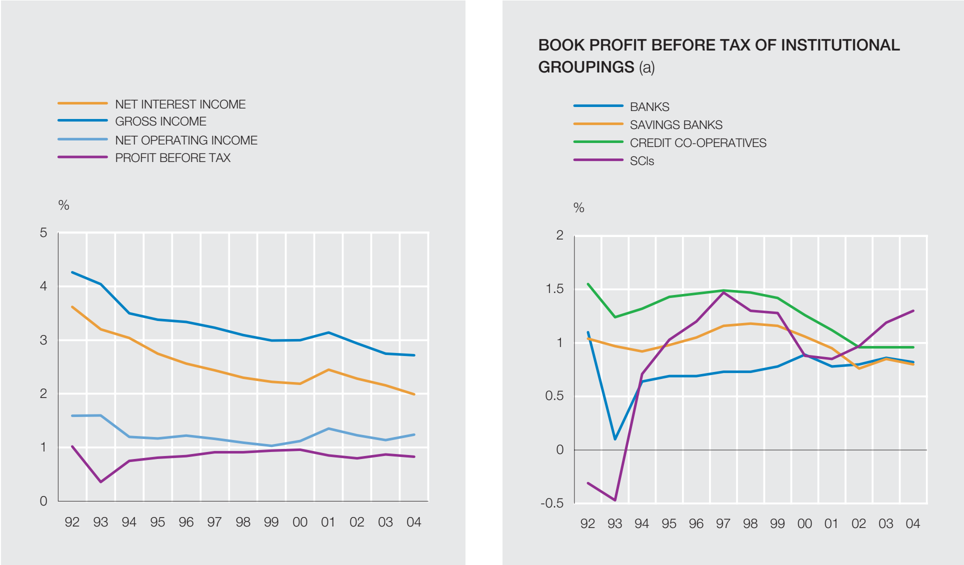
The residual term of credit institutions' investments increased to almost 79 months, up from 74 months in 2003. Since 2000, the average residual term of EFAs has increased by more than two years, owing to the greater weight of mortgage lending and the lengthening of the term of mortgage operations. However, the differences in the behaviour of the different groups of institutions were significant, since banks showed an average residual term of 61 months, while the related term at savings banks exceeded 102 months.

Chart 1.7 shows how the increase in the residual term of EFAs led to a lengthening of the term of Spanish public debt used as a reference in the breakdown of the total spread obtained by CIs and which, consequently, given the growing yield curve, increased the reference return. This made for an even sharper fall in the lending spread in relation to the decline in the return on EFAs. Conversely, this led to the apparent paradox whereby the liability spread widened owing to the increase in the reference used (public debt at the average term of EFAs), which reflected a greater harnessing of the change in terms carried out by CIs.

6. The INE-revised figure of 3.1% for GDP growth in 2004 does not coincide with that used in Chart 1.2 (2.7%), as this latter figure has not been updated owing to the absence, at the time of this Report going to press, of the complete revised series for all the years included in the chart.

MAIN PROFIT MARGINS OF CIs (a) CHART 1.6

Percentage of average total assets



a. The data in this chart refer to the institutions active at some time during each year.

The comparison between banks' and savings banks' spreads on their euro operations shows a convergence in respect of their total spreads (traditionally higher at savings banks), returns and, to a lesser extent, financial costs. But this convergence masks highly differing behaviour in the breakdown between the respective lending and liability spreads[7]. The greater residual term of EFAs at savings banks and the growing yield curve entailed a greater opportunity cost for their investments, leaving their lending spread at practically zero which, given the virtually complete convergence in the returns on EFAs, meant the opening of a gap in the lending spread in favour of banks. Conversely, in the financing of liabilities, savings banks' greater transformation of terms, along with their traditional and cheaper sources of financing, would justify their bigger liability spread.

Net interest income at SCIs was marked by sound growth in financial income and the containment of financial costs arising from a reduction in the cost of IBFLs of almost 0.5 pp. These developments entailed growth in the net interest margin, which enabled its weight in relation to ATA to hold at the same level as in 2003, despite the forceful acceleration in SCIs' activity (see Table 1.A.12).

Non-interest income was considerably buoyant (37.1%), owing essentially to income on financial transactions and, to a lesser extent, to the growth of commissions, especially commissions relating to the marketing of non-banking products (21.8%). In terms of ATA, the slight but constant lessening of the contribution of commissions to income continued, while that of income on financial transactions, on the contrary, increased by 14 bp, from a loss of €362 million in 2003 to a profit of €1.8 billion in 2004. This contribution was due, first, to the growth of results on the trading book and on the available-for-sale bond portfolio, and to smaller losses on futures transactions; and further, to the disappearance of the strongly adverse impact (€1.2 billion) that affected the results on exchange differences in 2003, as a result of the recording of the accelerated amortisation of goodwill in individual statements (see *Report on Banking Supervision in Spain, 2003).*

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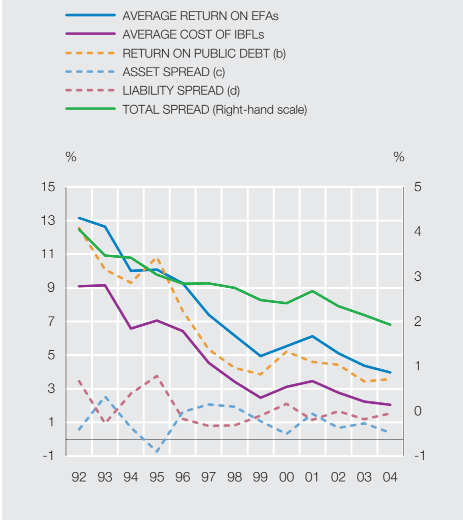
7. Calculated taking as a reference the yields on public debt at the average residual term of the EFAs of each grouping.

RETURNS, COSTS AND SPREADS

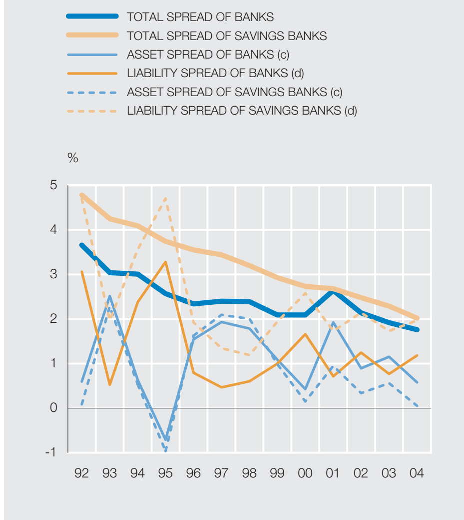
CHART 1.7

Total CIs (a)

COMPARISON OF RETURN ON EFAs AND AVERAGE COST OF IBFLs WITH PUBLIC DEBT. ACTIVITY IN EURO



COMPARISON OF TOTAL ASSET AND LIABILITY SPREADS BETWEEN BANKS AND SAVINGS BANKS (b). ACTIVITY IN EURO



a. The data en this chart refer to the institutions active at some time during each year.
b. EFA term-adjusted return, using linear interpolation.
c. Difference between average return on EFAs in euro and public debt.
d. Difference between return on public debt and average cost of IBFLs in euro.

The growth of non-interest income mitigated the decline in net interest income as a percentage of ATA, attaining only 4 bp in *gross income,* with growth in this latter heading of 11.9%, marking a significant acceleration on the two previous years.

The behaviour of the result on financial transactions was particularly positive at banks, where there was a 6 bp increase in gross income as a percentage of ATA. By contrast, at savings banks the result on financial transactions held stable, which entailed modest growth in gross income in this grouping (see Table 1.A.12) and a fall of 16 bp in terms of ATA.

The moderation in the growth of *operating expenses* and, in particular, of personnel expenses (3.6%) continued during 2004, despite the application of expansion strategies which were reflected in the quickening in activity, the growth of staff numbers and the opening of new offices. This trend in expenses provided for a very sizable improvement in the *efficiency ratio* (the percentage of gross income accounted for by operating expenses), which stood at 54.4%. This gain in efficiency was concentrated once again at banks, owing to the above-mentioned different behaviour of gross income.

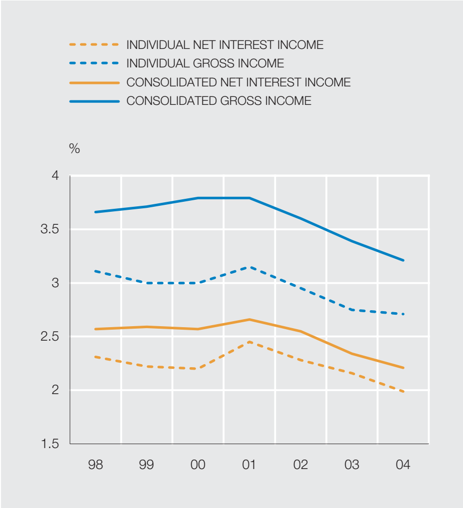
The more tempered growth of expenses boosted that of *net operating income,* which climbed by 10 bp to 1.24% in terms of ATA. This is the highest level seen since 1994, with the exception of 2001, when the extraordinary dividends from group companies prompted one-off increases in net interest, gross and net operating income.

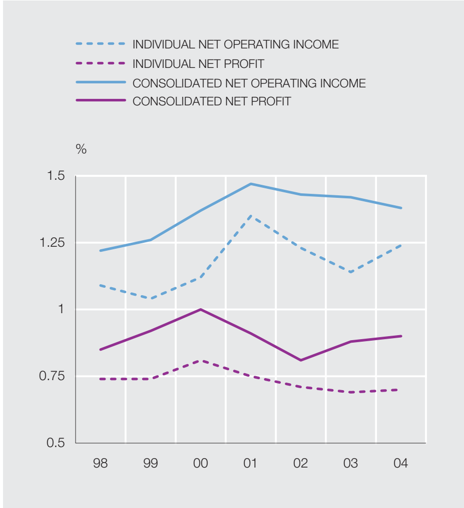
Under net operating income, *provisions and write-downs* (net) flattened as a result of the growth of the provisions for bad debts and the decline in provisioning for security price fluctuation. There were two opposing phenomena in the case of provisions for bad debts: first, the 17.2% decline in provisioning for the specific provision, as a result of the improvement in bad

COMPARISON OF INDIVIDUAL AND CONSOLIDATED MARGINS CHART 1.8

TOTAL CIs (a)

Percentage of average total assets





a. The data in this chart refer to the institutiions active at some time during 2004.

debts [a new all-time low was attained in the non-performing loan ratio (0.70%) in 2004]; and second, the increase in the statistical and general provisions. Statistical provisioning, in line with the mechanism incorporated into this provision, increased by 16%, despite the fact that a growing number of institutions had already attained their upper limit (143 institutions as at December 2004); accordingly, provisioning for this fund was interrupted by those institutions. General coverage provisioning was boosted mechanically upwards by the growth in activity.

Extraordinary income evidenced the strong negative impact arising from the charging to income of the expenses associated with employee early retirement schemes. This impact was particularly substantial at banks, where this item subtracted 6 bp from the result in terms of ATA, compared with its positive contribution of 19 bp in 2003. In CIs as a whole, the impact was a subtraction of 5 bp in 2004, against a positive contribution of 13 bp the previous year. Bearing this in mind, the 9.1% growth of profit before tax is all the more notable, entailing only a slight fall of 3 bp to 0.83% in terms of ATA, against a background of high growth in activity.

The strong decline in *corporate income tax,* in contrast to its spectacular growth in 2003, prompted an acceleration in net income to 0.7% in terms of ATA. The return on own funds (11.9%) rose, ending a three-year period of declines.

1.3.2 RESULTS OF CONSOLIDATED GROUPS OF CIS

The improved international economic and financial setting, in particular in countries where the presence of Spanish banks is significant, helped bolster the performance of CGs in terms of income, as highlighted by the considerable growth of the contribution of foreign business. Net income attributable to the grouping quickened to 18.9% and, for the second year running, the return on average own funds increased, rising to 14.1%, the highest figure (as in the case of CIs) of the past four years.

It should be noted that the balance sheet data used for the analysis of the consolidated income statement (ATA, EFAs and IBFLs) do not take into account the effect of the incorporation of a European banking group in December 2004, since this addition was not reflected in the income statement of the Spanish group and its incorporation into the balance sheet would have led to a distortion of the relative values of the income statement and of the profitability and cost ratios, thereby hampering interpretation.

The growth of the net income margin quickened to 5.8%, following two years of negative rates. The strong acceleration in activity – prompted, inter alia, by the lesser impact of the depreciation of the Latin American currencies – and the moderation in the decline of the total spread provided for the increase in this margin. Set against declines in the return on EFAs of more than 1 pp in 2002 and 2003, the fall in 2004 amounted to 0.4 pp, although this was still more than the decline in the cost of IBFLs (0.2 pp). The pick-up in financial income was underpinned both by interest income resuming positive growth rates and by the sizable growth in income from the equity portfolio. Nonetheless, the growth of the net interest margin is less than that shown by ATA (12.1%), meaning that the relative declining trend of this margin since 2002 continued (see Table 1.A.13 and Chart 1.8).

The positive spread, in terms of the net interest margin as a percentage of ATA, of CGs compared with CIs is concentrated in the banks grouping (2.16%, against 1.75%) and widened in 2004 owing, among other factors, to banks' greater presence abroad. That allowed them to benefit from the improved international economic setting (see Tables 1.A.14 and 1.A.12).

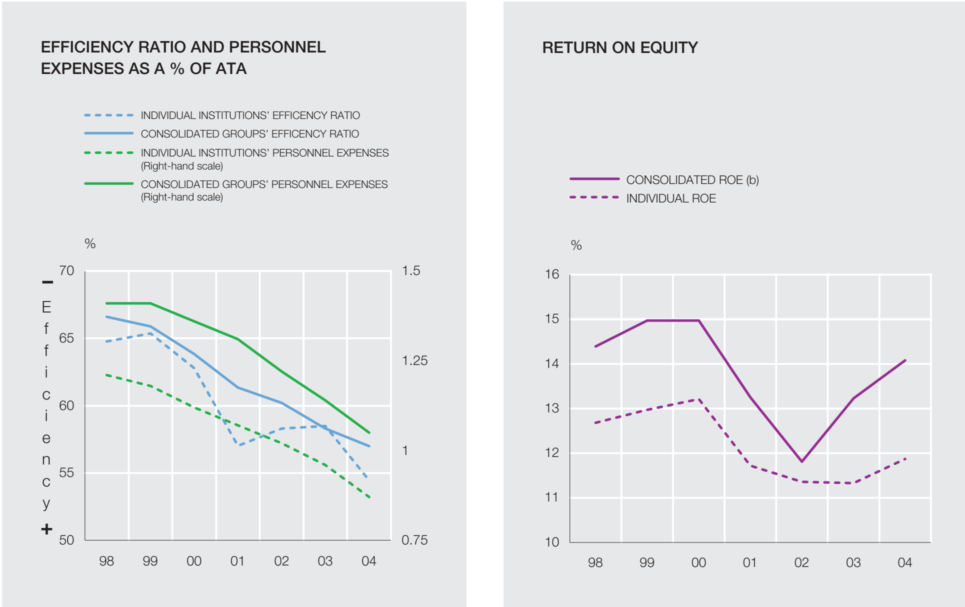
The growth of *non-interest income* held at a very similar growth rate to that in 2003 (6.3%), which in terms of ATA meant a decline of 5 bp. Such stability masks the differing behaviour of commissions and the result on financial transactions. Net commissions at CGs increased by 9.1%, slightly below the growth at CIs, maintaining the slight but constant decline in terms of ATA already apparent at CIs. The results on financial transactions fell, in contrast to the spectacular increase at CIs referred to previously. Notable among commissions is the turnaround in those associated with collection and payment services and the surge in those relating to the marketing of non-banking products (26.8%). The decline in the result on financial transactions was due to the strong increase in losses on *other futures transactions* not arising from Spanish CIs. Consequently, the gross margin as a proportion of ATA, like the net interest margin, continued on the declining trend seen since 2002 and posted a fall of 18 bp, with the positive spread CGs showed over individual CIs narrowing (see Chart 1.8).

Operating expenses continued on a declining path, falling by 16 bp in terms of ATA, which softened the decline in the net operating margin as a proportion of ATA to only 4 bp, compared with its 10 bp increase at CIs. Once again, the moderation in the growth of personnel expenses at CGs in 2004 was notable (see Chart 1.9), their declared aim to be to continue improving their *efficiency ratio*, without in the process ceasing to further improve the overall management of their activities, especially those engaged in abroad. This is why it is not surprising that the biggest declines (improvements) in the efficiency ratio are in activities abroad, where, moreover, there are greater possibilities of improving operating efficiency. The weight of other operating expenses in ATA also fell, albeit less markedly so.

The negative contribution of *net provisioning and write-downs* to income in terms of ATA was virtually unchanged as a result of the spectacular increase in provisions to other specific funds, due both to the increase in provisioning and to the decline in recoveries of these funds. Provisions for bad debts and country risk declined moderately in terms of ATA as a result of the improvement in economic conditions and the subsequent decline in loan defaults. As at CIs, specific provisioning at CGs fell substantially, while general and statistical provisioning moved in the opposite direction. The charge to income of costs arising from early retirement processes during the year also entailed a sizable drop in *net extraordinary income* (–72%), which strongly reduced the associated contribution to income.

COMPARASION OF CONSOLIDATED AND INDIVIDUAL EFFICIENCY RATIOS, PERSONNEL EXPENSES AND ROE — CHART 1.9

Total CIs (a)



a. The data in this chart refer to the institutions active at some time during each year.
b. Consolidated ROE calculated as net income attributed to the group divided by own funds of the group (excluding minority interest).

Conversely, the positive contribution of *income on group transactions* increased owing to the sharp reduction in the amortisation of goodwill, which was half that the previous year and the lowest for the past four years. Contributing to this was the fact that there was a major drive in 2003 to write down these items.

Despite the slight decline in the net operating margin in terms of ATA, the reduction in the negative contribution to income of the set of items below the net operating margin allowed *profit before tax* to hold up (1.13% of ATA). Finally, the reduction in corporate income tax meant an increase in *net income* in terms of ATA to 0.90%. The improvement was even greater in net *income attributed to the group,* thereby boosting the return on equity by 90 bp to 14.1%, widening the gap with the related return obtained by individual CIs (see Chart 1.9).

Of note in the small grouping of Specialised Credit Institutions (SCIs) is the sizable difference in the consolidated as opposed to the individual net interest margin in terms of ATA (95 bp). This difference spread to the gross margin and, albeit in a milder fashion, to the other margins in the income statement, resulting in net income in terms of ATA that was 20 bp higher. Likewise, the consolidated margins were notably lower, as a higher number of SCIs are consolidated in consolidated groups whose heads are other CIs. Therefore, those SCIs not included in these groups specialise in business segments in which they operate with wider margins than SCIs as a whole, as is the case in the financing of cars or habitual consumer products.

1.4 Solvency of CIs

1.4.1 SOLVENCY OF CONSOLIDATED GROUPS

The solvency of consolidated groups and individual institutions not belonging to any group (CGs) in 2004 was characterised by an acceleration in both equity and capital requirements. This acceleration was in response, first, to the marked buoyancy of lending in Spain and abroad; and further, to the acquisition of a European bank by a Spanish group. It is this acquisition, financed via a capital increase, which has led, in view of the size of the institution incorporated into the consolidated groups, to the acceleration on what was already high growth the previous year. In addition to the impact in absolute terms of this acquisition on equity and capital requirements, its asymmetry should be highlighted since the effect was less for equity owing to the deduction, in tier 1 capital, of the new goodwill arising on the operation.

In this setting capital requirements increased by 23.5%, while equity did so by 15.2%. In both cases these were the highest rates since 2000[8], which led the solvency ratio to fall, after three years of stability, to 10.3% (see Table 1.A.15 and Chart 1.10). This ratio level is 2.3 pp above the minimum required level of capital (8%), and entails a surplus amounting to €29.5 billion. The tier 1 ratio was affected by the increase in goodwill, which is why it fell back by 50 bp to 7.9%. This level meant that the highest-quality capital from the solvency standpoint (capital, reserves and assimilated items, and preference shares) covered virtually all capital requirements. Contributing to the continuation of this favourable situation was the resilience of banking results and their application to reserves, the capital increases undertaken, and the increase in preference shares. The core solvency ratio, which is even more restrictive as it removes preference shares from the calculation of tier 1 capital, fell by 40 bp to 6.5%.

When calculated according to the 1988 Basel Capital Accord and to current European solvency regulations, the respective solvency ratios likewise showed a parallel decline, and they thus continue to stand at levels 1.4 pp and 1.1 pp, respectively, above the ratio calculated under Spanish regulations, highlighting once more the stricter nature of the regulations applied in Spain.

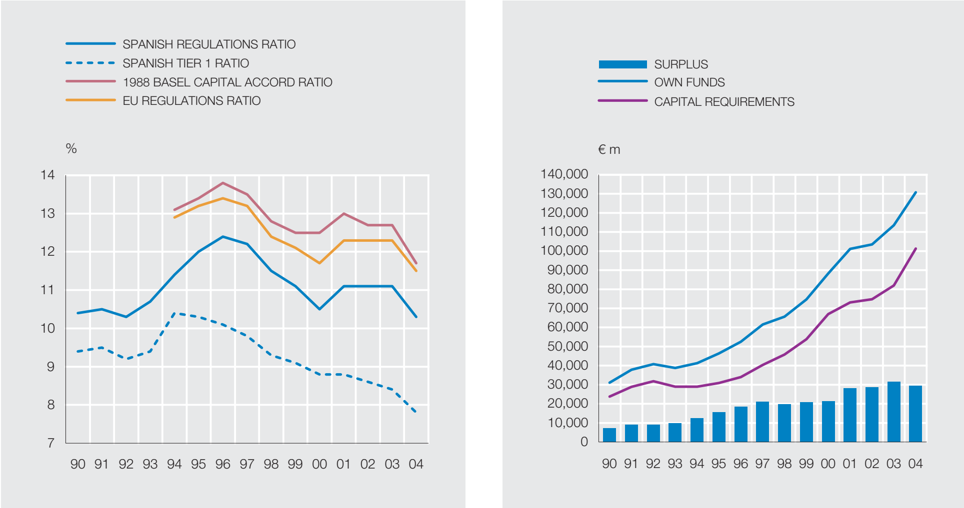
The breakdown of the solvency ratio by brackets (see Table 1.A.16) shows a significant increase in the number of CGs (up from 13 to 23) whose solvency ratio is in the 8%-9% bracket. This increase was even more significant in terms of the assets in the system accounted for by these institutions: almost 20%, compared with 3.5% at the end of 2003. The counterpart to this change in the number of institutions was in the 11%-12% bracket, which ceased to include 9 institutions, while in relation to the weight of assets, the losses in this same bracket (–10 pp) were reinforced by those in the 9%-10% bracket (–3.4%). Only one CG had an own funds deficit at the end of 2004 and, as in 2003, this was a very small institution.

The growth in the components of tier 1 capital (21.2%) was weighed down by the strong growth in deductions made in connection with the new goodwill stemming from the incorporation of new institutions into CGs, and the lessening during the year of the accelerated amortisation of this goodwill which took place in 2003. The growth of tier 1 capital was thus 15.1%. Component by component, the increase in capital, reserves and assimilated items was notable (24.5%), as a result of the application to reserves of the sound results for the year and of the capital increases linked to the acquisition of institutions (see Table 1.A.15). In particular, the favourable performance of business abroad, as discussed in the section on the results of CGs, allowed for substantial growth in net reserves at consolidated companies (33.1%). Preference shares resumed a positive growth rate (8.7%) after two years of declines thanks to 21 new issues being made during the year for an average amount of €313m (see Table 2.10).

Tier 2 capital grew at a lesser rate than tier 1 capital owing to the lower growth of subordinated debt (excluding debt without a specific maturity date), which accounted for 87.2% of overall tier 2 capital. Despite the number of subordinated debt issues being the same as in 2003 and despite their average amount increasing, the rise during the year in the amount amortised and the losses in respect of eligibility, as a result of the residual term of the issues

8. That year the acquisition of institutions in Latin America had boosted both components of the solvency ratio upwards, while the ratio itself underwent a reduction linked also to the impact of goodwill.

OWN FUNDS AND SOLVENCY OF CONSOLIDATED GROUP OF CIs CHART 1.10



being less than five years, meant that their growth in 2004 fell to 11.3%, compared with the 38% growth in gross amounts issued. Conversely, subordinated debt without a specific maturity grew notably (47.9%), driving other tier 2 capital upwards (see Table 1.A.15), although, owing to its scant weight, this was scarcely instrumental in quickening the growth rate of overall tier 2 capital by 1.2 pp.

Other deductions in capital diminished in absolute terms as a result of the disinvestment by CGs from some of their stakes in non-consolidated financial institutions and, also, of the sizable growth in own funds that act as a basis for the limit (10%) on which the surpluses of those holdings that are deducted from overall own funds are calculated.

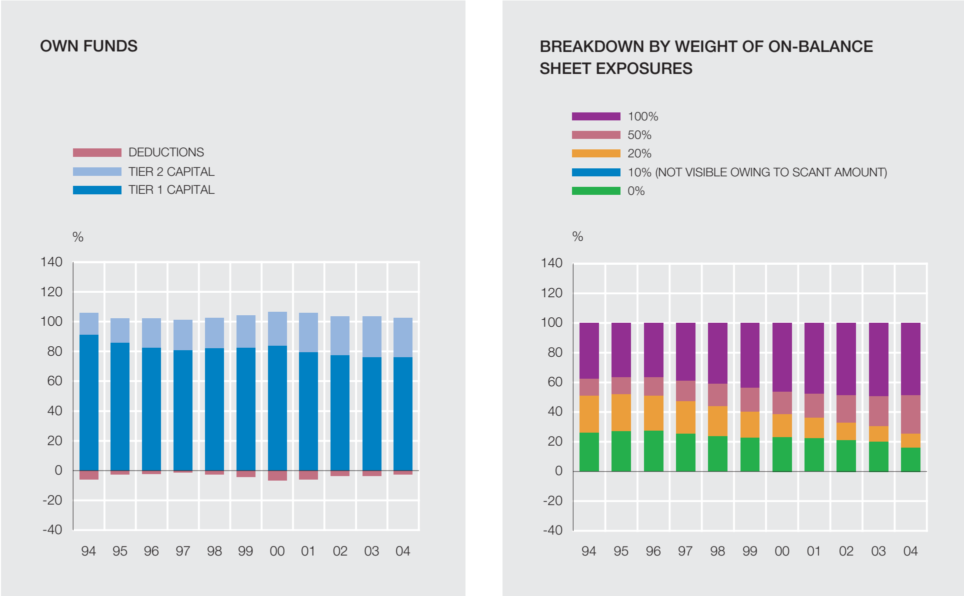
The quality of the composition of own funds has increased in view of the decline in the weight of tier 2 capital to 26.7% (see Chart 1.11). Moreover, the quality of tier 1 capital was enhanced by the fall in the relative weight of preference shares, which stood at 17.6% of total tier 1 capital.

The strong growth of capital requirements (23.5%) was due to the increase in requirements for covering credit risk exposures, where more than 96% of total requirements are concentrated. The boost to credit growth prompted by the course of the Spanish economy, the favourable performance of Latin American markets and the inclusion in consolidation of the exposures of the institutions acquired in 2004 provided for the spectacular growth of the adjusted balances subject to credit risk. Growth was particularly high in mortgage loan exposures (48.6%), where the contribution of exposures from the acquisition of the European bank was most sizable. In respect of on-balance-sheet exposures, the growth of adjusted balances was 21.6%. In contingent liabilities and commitments the growth of adjusted balances was somewhat more modest (10.7%). In both cases the average weight of exposures increased notably, prompting a 1.9 pp rise in the average weight of credit risk, which stands at 64.8%.

The increase in the average weight of on-balance-sheet exposures (2 pp, to 63.3%) was due to the 6 pp rise in the average weight of fixed-income portfolio exposures (24.2%), as a result of the shift in risk from the 0% weight – government bonds – to the 100% weight (see Table 1.A.17). Conversely, there were declines in the average weight of the other on-balance-sheet exposures, and the performance of the portfolio of mortgage lending to other private sectors

PERCENTAGE BREAKDOWN OF OWN FUNDS AND ON-BALANCE SHEET CREDIT EXPOSURE

CHART 1.11



was most notable. In this activity, whose weight in adjusted balances grew by 7 pp, there was a 2.3 pp decline in the average weight, as a result of the increase in the weight of the 50% weighting (mortgage loans on finished housing with outstanding exposure less than 80% of the appraised value of such housing).

Banco de España Circular CBE 3/2003, which came into force at the end of 2003, envisaged the possibility of institutions applying internal models to calculate their capital requirements for covering market, exchange and gold and/or commodities risk. In the returns for own funds relating to December 2004, one CG had calculated part of its capital requirements using internal models. These internal models covered approximately 90% of the price risks of the overall trading book of the CG, and a portion of the exchange risk relating to trading book transactions.

In terms of CGs as a whole, the requirements calculated using internal models accounted for 9.1% of the total requirements covering trading book price risk. The fall in requirements for trading book risks (–4.9%), which had been growing sustainedly since the entry into force of CBE 5/93, was largely due to the decline in requirements for price risk (–9.3%) brought about by the use of internal models. This decline was centred on specific price risk – fixed-income and equity price risk alike – and on general equity price risk.

The concentration of exposures in 2004 remained a great distance away from its related limits. As regards major exposure with a single client belonging to the group itself (whose weight is limited in the regulations to 20% of the CG's own funds), its weight for CGs as a whole was 4.5% of own funds. In the case of major exposure with non-group clients, this weight stood at 15.3%, still far off the 25% ceiling permitted under regulations. These likewise establish a limit for overall reportable large exposures (8 times the CG's own funds). In this case, the institutions had most substantial leeway, since the overall large exposures subject to a limit scarcely amounted to 64% of the own funds of those CGs with at least one reportable large exposure. The 2 pp decline on the 2003 situation was due to the moderate rise in the amount of the overall large exposures subject to a limit, set against the aforementioned significant growth in own funds. Notwithstanding this ample leeway regarding compliance with the limits to large exposures, three CGs exceeded the limits on the concentration of exposures (one of which, in turn, overstepped the limit for overall large exposures), while another two CGs were very close to failing to comply with the limits on the concentration of exposures. Finally, one CG[9] exceeded the 70% ceiling of own funds established for investment in tangible fixed assets.

1.4.2 SOLVENCY OF INDIVIDUAL INSTITUTIONS

The degree of compliance with the minimum capital requirements applicable to Spanish banking subsidiaries belonging to a CG, and to institutions belonging to horizontally consolidated groups, remained very high. Own funds practically doubled net requirements, showing a surplus of €6.3 billion, an increase of 8.6%. As in CGs, the growth of net capital requirements was high (9.1%), despite the decline in the applicable percentage derived from parents' higher ownership interest in their subsidiaries, which stood at 61.3%. Likewise, own funds at the individual level were very buoyant, and grew by 8.9%.

1.4.3 SOLVENCY OF MIXED GROUPS

As regards the minimum solvency requirements established for non-consolidated mixed groups of financial institutions under the supervision of the Banco de España, the role of CGs remained predominant. That said, the strong increase in the weight of insurance companies was notable, especially among effective own funds (where they account for almost 10%). This growth in the weight of insurance companies in mixed groups is largely due to the incorporation of a significant group of insurers, as the result of the acquisition by a Spanish group of a European bank. Deductions due to the existence of holdings and cross-risks also increased most notably (175%). Despite the 120% growth in the effective own funds of insurance companies, and as for CGs, the growth of effective own funds in mixed groups was less than that of capital requirements (see Table 1.A.18), entailing a decline in the surplus to €17.5 billion (–€1.1 billion compared with the surplus of the CGs included in mixed groups).

1.5 The structure and evolution of other institutions supervised by the Banco de España

1.5.1 APPRAISAL INSTITUTIONS

At end-2004 there were 61 appraisal institutions (AIs) registered at the Banco de España and, moreover, three deposit institutions maintained appraisal services with their activity restricted to their own mortgage lending operations. Last year the number of institutions fell by 9% as a result of only one new registration and seven entities deregistering. All of these were relatively insignificant, and overall they accounted for less than 0.75% of the sector, meaning that the trend of recent years involving the reduction in active institutions picked up once more after having been broken only in 2003. This reduction was no doubt related to the stricter requirements in respect of the technical and formal quality of appraisals introduced in late 2003[10].

The strongly expansionary trend of appraisal activity in recent years held up in 2004, running closely in parallel with the real estate and mortgage markets at its source and which support it. The number of appraisals performed thus grew by 15.5%, and the total amount of the properties appraised by 29%, from which it can be deduced that the average amount rose by around 13.5%, outpacing the growth in 2003 by 1.4 pp (see Table 1.A.19).

The mortgage financing of housing and real estate was once again the essential object of appraisals, accounting for more than 94% of the number and 88% of the total appraised amount. Hence the main source of demand for appraisals is from financial institutions, where banks and savings banks continue to figure prominently, with an overall approximate weight of 80% of appraisals and 75% of the overall appraised value, although payment of the service normally corresponds to the end-user, namely the potential client applying for mortgage financing.

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9. The same institution that failed to comply with the solvency ratio. **10.** Ministerial Order ECO 805/2003 of 27 March 2003 on rules for the valuation of real estate and specific entitlements for certain financial purposes, and Banco de España Circular CBE 5/2003 of 19 December 2003, amending CBE 3/1998 on information to be reported by licensed appraisal companies and services. See Report on Banking Supervision in Spain, 2003, p. 40.

The main segment of activity in respect of the type of property appraised was, as is habitual, that of individual houses, although growth moderated on previous years and was below that of total activity, in terms of both the number and value of houses appraised and, most especially, the surface area concerned.

As a result of the new information available, some relevant breakdowns of the appraisals made can, for the first time, be had, including most notably:

- The distinction in terms of housing between individual flats located in buildings on one hand, and town-house and detached single-family dwellings on the other, with the latter accounting for 28% of dwellings and 35% of their value, showing clearly differentiated average values.

- The distinction in the case of the residential buildings of two sub-groups: those intended for use as the habitual principal dwelling, and those that are secondary or temporary dwellings, highlighting the fact that fewer than 10% of the residential buildings appraised have been classified as secondary dwellings.

However, these figures should be viewed with due caution as they have only recently been addressed by the reporting institutions.

1.5.2 MUTUAL GUARANTEE AND REGUARANTEE COMPANIES

The specific regulations on mutual guarantee companies (MGCs) observe their mutual-society nature and, therefore, the fact that they are open-end entities depending on the entry of new members and the withdrawal of older ones. They are financial institutions to which the legal regime of credit institutions (CIs) is applicable as regards discipline and supervision, which is why the Banco de España has been responsible for their prudential supervision since 1988[11].

There were no changes in the set of 22 entities grouping, as at year-end, some 75,000 participating members (SMEs), whose number increased by 8.4% last year (see Table 1.A.20). MGCs have become an effective instrument used by the public sector to promote, through the providing of guarantees, the strengthening and consolidation of the financial position of SMEs, so that the latter may gain access to bank loans under better conditions and enjoy improved relations with suppliers and general government.

Given the origins of MGCs, their operating scope is confined to the region or to the sector of activity promoting them. Accordingly, the sizes and types of MGCs are very diverse and segmented, with certain restrictions in respect of competition and the capacity to extend their business base. Where the sector is in fact uniform is in its resort to the partial and cost-free refinancing of the guarantees granted in investment financing operations, provided that they are included under modernisation, innovation and productivity-enhancing programmes. The reguarantee is normally made by the public-sector company CERSA[12], which shares the risk in European programmes with the EIF or, where appropriate, with one of the regional (autonomous) governments, and it is cost-free for the MGCs and their participating members.

Guarantees for almost €1.5 billion were executed in 2004, which contributed to the outstanding risk guaranteed by MGCs exceeding €3.3 billion, with an increase of 17%, mid-way be-

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11. The particular rules for the preparation, documentation and presentation of the financial statements of MGCs are to be found in the Ministerial Order dated 12 February 1998. **12.** CERSA guarantees up to 75% of the amount of each operation, as established under the framework agreement with each MGC, transferring 50% of the risk to the EIF in the case of specific European programmes or to a regional (autonomous) government, with the guarantee retained by the MGC not permitted to be less than 25%.

tween the growth of non-reguaranteed risk exposure (18%) and that of exposure reguaranteed or transferred to third parties (15%). This was the result of higher growth in technical guarantee operations compared with financial guarantees, or guarantees for investment. SMEs in the services sector of the economy remained the most dynamic (21% growth year-on-year) and those that received most guarantees, in strong contrast to industrial SMEs which, accounting for less than one-third of risk exposure, were those that least grew (8.7%). The relative level of net reguarantee default worsened slightly, standing at 3.9% of risk exposure, with a 40 bp increase for the year.

Guarantee commissions held at 1% of total risk exposure, which represents 1.7% of non-reguaranteed risks. This income enables them to cover their costs without generating profits.

1.5.3 CURRENCY EXCHANGE AND TRANSFER BUREAUX

The number of licensed proprietors authorised only to purchase foreign currency banknotes and/or traveller's cheques for euro (COMP group) has been slowly declining since 2000. From December 2000 to December 2004 the number of licensed proprietors fell from 2,928 to 2,539, the inception of the euro proving the main cause for the decline. However, the number of proprietors authorised to operate with a wider scope held stable or even grew: those allowed also to sell foreign currency (the CV group) rose from 14 to 15, and those that can moreover process transfers (CVT group) increased in number from 27 to 43 over the same period (see Table 1.A.21).

The bulk of purchases from clients (over 85%) and of sales to other licensed proprietors and CIs (over 90%) are carried out by proprietors from the COMP group. In keeping with the diminishing course of this business, the volume of purchases from clients dipped from €1,239 million to €1,212 million in the year to September 2004, and sales to other proprietors and CIs, the only ones that members of the COMP group can make, and which are intended to seek counterparts to purchase operations, declined from €1,208 million to €1,184 million over the same period. The currency most used in foreign exchange purchases was sterling.

Given the brighter future outlook associated with the increase in the immigrant population, the processing of transfers abroad increased between the above-mentioned dates from €2,022 million to €2,439 million. While the transfers processed by licensed proprietors that can only operate with migrants' remittances and expenditure relating to stays abroad were in US dollars or euro, in practically equal portions, transfers processed by the five licensed proprietors authorised to engage in all types of transfers scarcely used the US dollar.

The main countries of destination of the transfers made were Ecuador and Colombia and, some distance behind these, Morocco and Romania. This situation is in contrast to the relative proportion of immigrants from these countries, according to INE (National Statistical Office) statistics and Social Security registration figures[13]. Besides the existence of alternative channels for routing migrants' remittances (e.g. through CIs and postal orders), it is clear that geographical proximity makes for readier trips to countries of origin and, thereby, greater possibilities for personal money transfers.

CIs are showing an increasing interest in the immigrant population and are using fund transfers as the initial stepping stone for building up a closer and more attractive banking relationship from a commercial standpoint, setting their sights on immigrants attaining more favourable

13. The INE migration survey for 2003 indicated that, for every 10 non-EU immigrants, 2 were European, 2 Moroccan and 6 Latin American. The Social Security registration figures showed that, as at end-2004, the biggest immigrant group was that of Moroccans (173,000), followed by Ecuadorians (147,000), Colombians (78,000) and Romanians (61,000).

economic conditions, which will lead them to demand more banking services. In this segment CIs are proceeding to specialise their services, to hire staff of various nationalities who are familiar with the customs and, where appropriate, the language of the main immigrant groups and, finally, to reduce the cost of transfers, increasing the speed at which funds are available at their end-destination.

Finally, the strong increase (21.7%) in the number of agents to almost 6,000 and in the establishments – some 7,500 in number (12.4%) mainly call shops – where this activity has been undertaken was in response to the growth in the volume of transfers issued in the year to September 2004 (20.6%).

APPENDIX

NUMBER OF CIs IN SPAIN TABLE 1.A.1

Year-end data (number)

	2001	2002	2003	2004
CREDIT INSTITUTIONS	**369**	**361**	**350**	**348**
Deposit institutions	**285**	**278**	**272**	**269**
Banks	146	144	139	137
Domestic	63	61	56	53
Foreign	83	83	83	84
Of which: Foreign subsidiaries	*27*	*24*	*25*	*23*
Savings banks	47	47	47	47
Co-operatives	92	87	86	85
Specialised credit institutions	**84**	**83**	**78**	**79**
MEMORANDUM ITEMS:				
Mergers and acquisitions (a)	**8**	**7**	**6**	**6**
Between banks	4	5 (11)	5 (11)	5
Between savings banks	1	0	0	0
Between co-operatives	3 (8)	2 (5)	1	1

a. In brackets is the number of institutions concerned if the mergers/acquisitions include operations in which more than two CIs are involved, i.e. if the number of CIs concerned is not equal to twice the number of operations.

SERVING EMPLOYEES, OPERATIONAL BRANCHES, ATMs AND AGENTS OF CIs TABLE 1.A.2

Year-end data (unit and %)

	NUMBER OF ACTIVE INSTITU– TIONS	SERVING EMPLOYEES				THOUSANDS OF HOURS WORKED	OPERATIONAL OFFICES		ATMS	NUMBER OF CARDS (000S)	POINT-OF -SALE TERMINALS	AGENTS	BRANCH EMPLOYEES PER OPERATIONAL OFFICE (5/7)
		TOTAL	OF WHICH: PART-TIME	AT CENTRAL SERVICES	AT BRANCHES		TOTAL	OWNED OR UNDER FINANCIAL LEASE					
	1	2	3	4	5	6	7	8	9	10	11	12	13
TOTAL CIs													
2001	364	245,068	1,757	58,229	186,728	412,933	39,102	21,546	46,623	62,611	896,974	9,548	4.8
2002	356	243,409	1,776	55,896	187,513	408,149	39,105	21,800	50,164	64,471	935,902	9,481	4.8
2003	344	244,863	2,081	56,555	186,907	398,933	39,827	22,061	52,037	71,114	985,719	5,709	4.7
2004	344	247,180	2,275	57,035	188,680	399,269	40,681	22,498	53,624	76,402	1,066,426	4,836	4.6
Banks													
2001	145	118,833	481	30,158	88,564	202,148	14,818	6,685	17,590	23,175	353,638	8,688	6.0
2002	143	114,040	495	27,298	86,742	193,688	14,128	6,431	18,486	24,171	379,160	8,597	6.1
2003	136	111,794	671	27,292	83,478	188,419	14,115	6,252	18,901	24,823	399,262	5,215	5.9
2004	136	110,106	582	27,231	81,836	184,206	14,199	6,155	19,051	26,573	464,632	4,444	5.8
Domestic													
2001	62	102,858	323	22,046	80,812	174,964	13,452	6,272	16,461	20,835	345,802	7,996	6.0
2002	60	98,284	315	19,405	78,879	166,764	12,788	6,022	17,332	21,667	370,944	7,908	6.2
2003	55	94,727	489	18,980	74,794	159,352	12,478	5,637	17,196	21,363	383,670	4,632	6.0
2004	52	95,135	383	19,060	75,036	159,492	12,848	5,720	17,658	22,847	451,399	4,226	5.8
Foreign subsidiaries													
2001	27	12,169	57	5,272	6,897	20,801	1,227	399	1,114	2,332	7,836	638	5.6
2002	24	11,899	69	4,905	6,994	20,377	1,201	398	1,139	2,480	8,216	622	5.8
2003	24	13,484	78	5,323	8,090	23,103	1,524	604	1,688	3,296	15,592	542	5.3
2004	23	10,978	74	4,763	6,215	18,253	1,229	424	1,376	3,390	13,233	183	5.1
Foreign branches													
2001	56	3,806	101	2,840	855	6,383	139	14	15	9	0	54	6.2
2002	59	3,857	111	2,988	869	6,546	139	11	15	24	0	67	6.3
2003	57	3,583	104	2,989	594	5,964	113	11	17	164	0	41	5.3
2004	61	3,993	125	3,408	585	6,460	122	11	17	335	0	35	4.8
Savings banks													
2001	47	105,593	608	21,078	84,515	175,069	19,845	12,845	25,625	29,399	481,001	606	4.3
2002	47	107,745	616	21,433	86,312	178,448	20,349	13,169	27,975	29,766	494,271	624	4.2
2003	47	110,243	669	21,686	88,407	175,209	20,894	13,507	29,169	32,731	519,034	369	4.2
2004	47	113,408	846	22,120	91,097	177,550	21,529	14,031	30,355	34,210	533,374	260	4.2
Co-operatives													
2001	88	15,580	185	3,796	11,784	27,066	4,092	1,963	3,408	2,737	62,335	141	2.9
2002	84	16,414	189	3,809	12,605	27,220	4,276	2,155	3,703	3,536	62,471	125	2.9
2003	83	17,067	216	3,823	13,240	26,536	4,460	2,260	3,967	3,605	67,423	90	3.0
2004	83	17,650	256	3,953	13,697	27,845	4,563	2,270	4,218	3,609	68,420	81	3.0
SCIs													
2001	84	5,062	483	3,197	1,865	8,650	347	53	–	7,300	–	113	5.4
2002	82	5,210	476	3,356	1,854	8,792	352	45	–	6,997	–	135	5.3
2003	78	5,759	525	3,754	1,782	8,770	358	42	–	9,954	–	35	5.0
2004	78	6,016	591	3,731	2,050	9,668	390	42	–	12,010	–	51	5.3

NUMBER AND COMPOSITION OF CONSOLIDATED GROUPS OF CIs

TABLE 1.A.3

Year-end data (units)

	CONSOLIDATED GROUPS EXISTING AT YEAR-END				BREAKDOWN OF INVESTEES TO 2004													
					FULLY CONSOLIDATED						PROPOR-TIONALLY CONSOLLIDATED (a)		OTHER INVESTEES (b)					
					CREDIT INSTITUTIONS		INVESTMENT COMPANIES		OTHER				INSURANCE COMPANIES		OTHER FINANCIAL		NON-FINANCIAL	
	2001	2002	2003	2004	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD	SPAIN	ABROAD
Consolidated groups (c)	**89**	**89**	**100**	**99**	**99**	**115**	**20**	**18**	**654**	**336**	**155**	**10**	**32**	**31**	**5,078**	**3,245**	**2,102**	**261**
Parent credit institution	79	78	87	86	81	115	18	18	623	335	154	10	31	31	4,933	3,181	1,991	249
Spanish bank	16	14	13	13	40	109	6	18	233	275	14	4	8	29	1,147	1,599	383	194
Savings banks	40	41	46	46	20	6	7	0	284	58	133	6	20	2	3,188	1,266	1,504	39
Co-operatives	9	10	14	14	0	0	1	0	36	1	4	0	2	0	444	271	73	0
Foreign Cis	14	13	14	13	21	0	4	0	70	1	3	0	1	0	154	45	31	16
Other consolidated groups	10	11	13	13	18	0	2	0	31	1	1	0	1	0	145	64	111	12
Spanish parent	4	5	6	6	8	0	1	0	24	0	0	0	1	0	92	46	67	2
Foreign parent	6	6	7	7	10	0	1	0	7	1	1	0	0	0	53	18	44	10
Consolidated groups including two or more Spanish CIs (d)	**33**	**30**	**30**	**29**	**83**	**115**	**12**	**18**	**377**	**312**	**92**	**10**	**15**	**31**	**2,163**	**2,103**	**1,155**	**241**
Parent credit institution	29	25	25	25	74	115	11	18	371	312	92	10	15	31	2,105	2,090	1,136	236
Spanish bank	8	7	6	6	40	109	6	18	193	273	12	4	7	29	872	1,523	335	194
Savings banks	15	14	14	14	20	6	4	0	137	38	79	6	7	2	1,179	546	783	34
Co-operatives	1	1																
Foreign Cis	5	3	5	5	14	0	1	0	41	1	1	0	1	0	54	21	18	8
Other consolidated groups	4	5	5	4	9	0	1	0	6	0	0	0	0	0	58	13	19	5
Spanish parent		1	1	1	3	0	0	0	4	0	0	0	0	0	17	0	8	0
Foreign parent	4	4	4	3	6	0	1	0	2	0	0	0	0	0	41	13	11	5
Mixed groups	**34**	**34**	**38**	**36**														
Supervised by BE	34	33	35	33														
Supervised by DGS including CIs		1	3	3														
MEMORANDUM ITEM																		
Number of CGs' bank offices abroad	**7,842**	**7,597**	**7,198**	**7,472**														

a. The number matches that of those reported and, therefore, it may be higher than that of the institutions owing to the fact that one and the same institution may be reported by more than one consolidated group.
b. Other institutions not consolidated either fully or proportionally, including jointly controlled entities and associates.
c. A consolidated group is considered as such provided it includes, in addition to the parent or, failing this, the reporting institution, another or other fully or proportionally consolidated financial institutions.
d. Consolidated groups that include two or more Spanish credit institutions, including the parent or the reporting institution.

BREAKDOWN OF ACTIVITY OF CIs (a) TABLE 1.A.4

Total Business. Year-end data (€ m)

	2001	2002	2003	2004	MEMORANDUM ITEM: 2004 STRUCTURE %	STRUCTURE CHANGE IN PP	ANNUAL % Δ
ASSETS:							
Cash and central banks	**20,760**	**16,227**	**21,603**	**20,603**	**1.2**	**–0.2**	**–4.6**
Financial intermediaries	**218,296**	**225,847**	**238,580**	**261,398**	**15.2**	**–0.6**	**9.6**
Loans and credit	**694,734**	**765,864**	**867,671**	**1,016,583**	**59.2**	**1.5**	**17.2**
Of which:							
Government bonds	32,408	32,074	34,628	36,439	2.1	–0.2	5.2
Resident private sector	612,574	689,080	789,371	933,070	54.3	1.8	18.2
Of which: Secured	305,638	363,903	442,130	544,810	31.7	2.3	23.2
Of which: Mortgage guarantee	*296,974*	*354,294*	*430,892*	*531,669*	*31.0*	*2.3*	*23.4*
Non-residents	42,792	36,099	35,530	39,129	2.3	–0.1	10.1
Securities portfolio	**257,992**	**260,365**	**304,490**	**338,654**	**19.7**	**–0.5**	**11.2**
Bond trading book	19,164	24,293	26,722	29,773	1.7	0.0	11.4
Equity trading book	3,725	3,393	6,541	11,742	0.7	0.2	79.5
Available-for-sale bond portfolio	130,006	120,304	158,586	159,033	9.3	–1.3	0.3
Available-for-sale equity portfolio	10,245	11,002	10,195	11,955	0.7	0.0	17.3
Permanent bond portfolio	28,029	31,501	31,152	35,248	2.1	0.0	13.1
Permanent equity portfolio	66,823	69,872	71,294	90,902	5.3	0.6	27.5
Fixed assets	**18,888**	**18,275**	**17,764**	**17,807**	**1.0**	**–0.1**	**0.2**
Other assets	**53,372**	**57,083**	**53,043**	**61,863**	**3.6**	**0.1**	**16.6**
BALANCE SHEET TOTAL	**1,264,040**	**1,343,661**	**1,503,152**	**1,716,907**	**100.0**	**0.0**	**14.2**
LIABILITIES AND EQUITY:							
Credit institutions and Banco de España	**291,432**	**304,338**	**357,559**	**398,385**	**23.2**	**–0.6**	**11.4**
Creditors	**704,539**	**751,583**	**810,811**	**879,586**	**51.2**	**–2.7**	**8.5**
Of which:							
Resident private sector	563,657	607,681	654,813	738,831	43.0	–0.5	12.8
Current accounts	*144,890*	*157,506*	*172,711*	*191,105*	*11.1*	*–0.4*	*10.7*
Saving accounts	*120,149*	*128,069*	*145,082*	*157,944*	*9.2*	*–0.5*	*8.9*
Time deposits	*208,809*	*228,444*	*247,065*	*293,546*	*17.1*	*0.7*	*18.8*
Repos	*89,762*	*93,448*	*89,618*	*95,616*	*5.6*	*–0.4*	*6.7*
Non-residents	107,580	104,545	121,230	98,195	5.7	–2.3	–19.0
Debt securities	**40,649**	**50,821**	**87,169**	**146,725**	**8.5**	**2.7**	**68.3**
Of which: mortgage securities	14,328	25,064	42,327	57,897	3.4	0.6	36.8
Subordinated debt	**44,678**	**45,868**	**48,741**	**56,280**	**3.3**	**0.0**	**15.5**
Provisions	**42,062**	**46,474**	**51,858**	**57,004**	**3.3**	**–0.1**	**9.9**
Capital and reserves	**71,267**	**76,496**	**80,045**	**99,721**	**5.8**	**0.5**	**24.6**
Other liabilities	**69,414**	**68,081**	**66,969**	**79,206**	**4.6**	**0.2**	**18.3**
MEMORANDUM ITEM:							
Variable-rate credit	**425,390**	**490,856**	**568,318**	**688,823**	**40.1**	**2.3**	**21.2**
Transferred assets	**24,028**	**38,058**	**54,483**	**77,741**	**4.5**	**0.9**	**42.7**
Of which: securitised (b)	21,844	36,537	53,396	76,171	4.4	0.9	42.7
Of which: mortgage-backed (Law 2/81) (b)	*15,139*	*22,719*	*36,976*	*50,823*	*3.0*	*0.5*	*37.4*

a. Institutions existing at each date.

b. In certain securitisations, these assets return to the institution's balance sheet in the form of mortgage-backed bonds (issued by the vehicle company that acquired the original loans) and are included in the accounts along with the corresponding bond portfolio.

BREAKDOWN OF ACTIVITY BY INSTITUTIONAL GROUPS OF CIs (a)

TABLE 1.A.4 bis

Total Business. December 2004 (%)

	DEPOSIT INSTITUTIONS										
		BANKS									
				FOREIGN							
						BRANCHES					
	TOTAL	TOTAL	DOMESTIC	TOTAL	SUBSIDIARIES	TOTAL	EU	NON-EU	SAVINGS BANKS	CO-OPERATIVES	SCIs
ASSETS:											
Cash and central banks	**99.8**	**50.2**	**42.7**	**7.5**	**2.9**	**4.6**	**4.1**	**0.4**	**45.6**	**4.0**	**0.2**
Financial intermediaries	**99.6**	**72.8**	**52.6**	**20.3**	**5.6**	**14.7**	**14.3**	**0.4**	**24.1**	**2.6**	**0.4**
Loans and credit	**95.7**	**46.2**	**40.1**	**6.1**	**3.4**	**2.7**	**2.5**	**0.2**	**44.6**	**4.9**	**4.3**
Of which:											
Government bonds	92.6	56.6	49.4	7.2	6.7	0.5	0.5	0.0	34.5	1.5	7.4
Resident private sector	95.9	44.7	38.8	5.9	3.2	2.7	2.5	0.2	46.0	5.2	4.1
Of which: secured	98.9	39.2	35.3	3.9	2.9	1.0	0.9	0.0	53.8	5.9	1.1
Of which: mortgage guarantee	*98.9*	*38.4*	*34.9*	*3.5*	*2.6*	*0.9*	*0.9*	*0.0*	*54.5*	*6.0*	*1.1*
Non-residents	96.3	72.6	63.8	8.9	4.3	4.5	4.0	0.6	23.2	0.5	3.7
Securities portfolio	**100.0**	**69.8**	**52.1**	**17.6**	**1.3**	**16.4**	**16.3**	**0.1**	**28.6**	**1.6**	
Bond trading book	100.0	85.5	84.6	0.9	0.7	0.2	0.2	0.0	14.4	0.1	
Equity trading book	100.0	97.1	53.8	43.3	0.1	43.2	43.2	0.0	2.7	0.3	
Avalaible-for-sale bond portfolio	100.0	72.3	40.2	32.1	2.0	30.1	29.9	0.2	25.4	2.3	
Avalaible-for-sale equity portfolio	100.0	44.5	39.1	5.3	0.8	4.6	4.6	0.0	49.9	5.6	
Permanent bond portfolio	100.0	32.5	31.1	1.5	0.9	0.6	0.6	0.0	65.5	1.9	
Permanent equity portfolio	100.0	74.5	72.1	2.4	0.5	1.9	1.9	0.0	25.2	0.3	
Fixed assets	**99.0**	**40.6**	**35.6**	**5.0**	**2.6**	**2.4**	**2.4**	**0.0**	**51.5**	**7.0**	**1.0**
Other assets	**98.1**	**69.6**	**62.8**	**6.8**	**1.8**	**5.0**	**4.9**	**0.0**	**27.3**	**1.2**	**1.9**
BALANCE SHEET TOTAL	**97.3**	**55.7**	**45.2**	**10.5**	**3.2**	**7.3**	**7.1**	**0.2**	**37.8**	**3.8**	**2.7**
LIABILITIES AND EQUITY:											
Credit institutions and Banco de España	**91.4**	**74.8**	**43.1**	**31.7**	**5.7**	**25.9**	**25.5**	**0.4**	**15.8**	**0.8**	**8.6**
Creditors	**99.6**	**42.7**	**38.2**	**4.5**	**2.7**	**1.8**	**1.7**	**0.1**	**50.9**	**5.9**	**0.4**
Of which:											
Resident private sector	100.0	38.9	34.4	4.5	2.8	1.8	1.7	0.0	54.3	6.8	0.0
Current accounts	100.0	51.3	42.1	9.2	4.4	4.7	4.6	0.1	43.9	4.8	
Saving accounts	100.0	31.0	29.2	1.8	0.8	1.0	1.0	0.0	59.1	9.9	
Time deposits	100.0	29.1	27.4	1.7	1.2	0.4	0.4	0.0	62.6	8.3	0.0
Repos	100.0	57.2	48.8	8.5	7.3	1.1	1.1	0.0	41.9	0.8	
Non-residents	96.5	66.4	60.8	5.6	3.1	2.5	2.4	0.2	29.1	1.0	3.5
Debt securities	**99.5**	**68.0**	**66.9**	**1.1**	**1.1**	**0.0**	**0.0**	**0.0**	**31.0**	**0.5**	**0.5**
Of which: mortgage securities	100.0	65.3	65.3	0.0	0.0	0.0	0.0	0.0	34.7	0.0	0.0
Subordinated debt	**99.3**	**61.0**	**59.4**	**1.7**	**1.7**	**0.0**	**0.0**	**0.0**	**37.9**	**0.3**	**0.7**
Provisions	**97.7**	**67.0**	**63.7**	**3.3**	**2.1**	**1.3**	**1.1**	**0.1**	**27.5**	**3.2**	**2.3**
Capital and reserves	**97.3**	**60.2**	**55.7**	**4.5**	**3.2**	**1.3**	**0.5**	**0.8**	**32.0**	**5.1**	**2.7**
Other liabilities	**96.4**	**63.5**	**55.6**	**7.9**	**2.1**	**5.8**	**5.6**	**0.2**	**30.8**	**2.0**	**3.6**
MEMORANDUM ITEM:											
Varible-rate credit	**100.0**	**42.7**	**36.4**	**6.4**	**3.5**	**2.8**	**2.6**	**0.2**	**51.4**	**5.9**	**0.0**
Transferred assets	**93.6**	**53.7**	**44.8**	**9.0**	**6.7**	**2.3**	**2.2**	**0.0**	**32.7**	**7.1**	**6.4**
Of which: securitised (b)	94.1	54.5	45.6	8.9	6.7	2.3	2.3	0.0	33.2	6.4	5.9
Of which: mortgage-backed (Law 2/81) (b)	*93.1*	*40.2*	*30.3*	*9.8*	*9.8*	*0.0*	*0.0*	*0.0*	*43.8*	*9.1*	*6.9*

a. Institutions existing at each date.

b. In certain securitisations, these assets return to the institution's balance sheet in the form of mortgage-backed bonds (issued by the vehicle company that acquired the original loans) and are included in the accounts along with the corresponding bond portfolio.

CREDIT INSTITUTIONS (a)**: DOUBTFUL EXPOSURES AND THEIR CEOVERAGE** (b) TABLE 1.A.5

Total Business. Year-end data (€ m and %)

	2001	2002	2003	2004
Doubtful assets and guarantees	7,077	8,210	7,937	7,645
Of which: Past-due				
Mortgage	*491*	*655*	*653*	*672*
Non-mortgage	*2,698*	*3,421*	*3,269*	*2,975*
Provisions	13,540	16,162	19,379	23,218
Specific	*3,813*	*4,513*	*4,496*	*4,471*
General	*6,494*	*6,983*	*7,978*	*9,222*
Statistical	*3,233*	*4,666*	*6,905*	*9,525*
Total exposures (c)	741,190	810,619	915,560	1,082,743
Write-offs	22,262	21,466	21,649	22,046
Of which: Write-offs during the year	*1,585*	*1,783*	*2,043*	*1,657*
RATIOS (%):				
Doubtful / total exposures	0.95	1.01	0.87	0.71
Doubtful exposures to ORS / lending to ORS (other resident sectors)	0.99	0.97	0.85	0.71
Provisions / Doubtful exposures	191.33	196.87	244.16	303.68

a. Institutions existing at each date.
b. Except covered country-risk exposures when the coverage exceeds that for the credit risk.
c. All assets and guarantees, excluding those not requiring provisions: exposure to general government, trading book and covered country-risk exposures.

STRUCTURE OF LENDING TO RESIDENT PRIVATE SECTOR (a) TABLE 1.A.6

Business in Spain. Year-end data (%)

	2001	2002	2003	2004
Lending to business	**52.5**	**52.1**	**51.0**	**50.8**
Goods	22.4	22.3	20.7	19.6
Agriculture, fishing and extractive industries	*2.7*	*2.8*	*2.5*	*2.3*
Manufacturing	*10.2*	*9.1*	*8.2*	*7.3*
Energy and electricity	*2.1*	*2.2*	*1.8*	*1.7*
Construction	*7.4*	*8.2*	*8.2*	*8.3*
Services	30.0	29.9	30.3	31.2
Commerce, repair and hotels and restaurants	*8.5*	*8.1*	*7.7*	*7.2*
Transport and communications	*3.5*	*3.6*	*3.2*	*3.1*
Real estate development	*6.8*	*7.9*	*9.8*	*11.9*
Financial intermediation	*2.1*	*1.8*	*1.6*	*1.9*
Other services	*9.3*	*8.4*	*8.1*	*7.1*
Lending to households	**45.6**	**46.0**	**46.7**	**47.0**
Housing (purchase and refurbishing)	33.3	33.8	34.7	35.5
Consumer credit	5.3	5.1	4.4	4.1
Other purposes	6.9	7.1	7.7	7.4
Other	**2.0**	**1.9**	**2.3**	**2.2**

a. Institutions existing at each date.

KEY DATA OF THE BE CENTRAL CREDIT REGISTER

TABLE 1.A.7

Year-end data

	2001	2002	2003	2004
Reporting institutions (number)	400	397	353	354
Exposures admitted (number)	20,265,305	21,538,342	23,360,635	25,699,044
Of which:				
Banks	*8,114,700*	*8,384,623*	*8,990,775*	*9,871,632*
Savings banks	*9,402,126*	*10,211,426*	*11,017,236*	*12,147,532*
Co-operatives	*1,448,149*	*1,525,728*	*1,697,842*	*1,887,683*
Amount (€ m)	1,354,570	1,522,023	1,761,103	2,024,205
Of which:				
Banks	*673,076*	*771,657*	*900,420*	*1,028,130*
Savings banks	*530,501*	*618,785*	*714,325*	*829,539*
Co-operatives	*62,002*	*70,619*	*84,437*	*99,643*
Different borrowers (number)	12,066,861	12,816,049	13,713,433	14,683,686
Of which:				
Resident Spanish individuals	*11,142,630*	*11,801,966*	*12,567,991*	*13,359,688*
Resident foreign individuals	*187,850*	*248,518*	*336,648*	*460,586*
Resident legal entities	*725,310*	*755,308*	*799,045*	*852,597*
Non-resident individuals	*5,297*	*5,975*	*5,305*	*6,626*
Non-resident legal entities	*5,774*	*4,282*	*4,444*	*4,189*
Incorrectly identified borrowers (number)	9,697	8,441	7,648	1,362
Suspended exposures (€ m)	435	463	339	231
Borrowers additions (number)	5,211,644	5,428,575	5,730,563	6,170,406
Borrowers deletions (number)	4,264,817	4,398,190	4,429,941	4,672,844
Access and rectification rights exercised (number)	19,932	21,811	24,877	25,068
REPORTS ISSUED:				
Automatically	185,632,065	197,186,241	210,876,798	228,069,991
Requested by reporting institutions	1,647,409	2,156,369	2,946,685	4,156,253
For debtors	45,015	55,296	64,289	66,746
Data Protection Agency	132	53	12	5
Courts	443	317	425	109
Other central credit registers	9	37	29	12

ACTIVITY OF CIs (a) **AND OF THEIR CONSOLIDATED GROUPS** TABLE 1.A.8

Year-end data (€ m and %)

	2001	2002	2003	2004	MEMORANDUM ITEM: 2004			
					BUSINESS IN SPAIN		BUSINESS ABROAD	
					2003	2004	2003	2004
ASSETS:								
Cash and central banks	34,801	27,746	32,518	33,887	66.5	61.0	33.5	39.0
Financial intermediaries	179,623	181,800	180,634	198,302	84.2	81.3	15.8	18.7
Loans and credit	805,626	848,381	947,963	1,249,063	88.9	79.4	11.1	20.6
Securities portfolio	301,180	281,304	324,952	384,194	81.0	72.1	19.0	27.9
Government bonds	185,260	165,159	180,979	166,502	78.0	69.0	22.0	31.0
Corporate bonds	60,109	62,816	84,746	143,123	81.1	68.2	18.9	31.8
Equities	55,811	53,328	59,227	74,570	89.8	86.6	10.2	13.4
Fixed assets	37,625	39,940	39,315	44,539	65.6	61.6	34.4	38.4
Other assets	100,392	89,767	86,684	110,230	74.0	65.4	26.0	34.6
Of which: Consolidated goodwill	*19,375*	*18,577*	*15,664*	*26,373*	*43.0*	*22.4*	*57.0*	*77.6*
BALANCE SHEET TOTAL	**1,459,247**	**1,468,937**	**1,612,067**	**2,020,215**	**84.9**	**76.7**	**15.1**	**23.3**
LIABILITIES AND EQUITY:								
Financial intermediaries	269,338	275,753	325,811	386,296	89.0	82.2	11.0	17.8
Deposits	810,860	816,843	853,755	1,066,878	82.9	74.1	17.1	25.9
Debt securities	107,184	110,793	157,220	226,550	56.4	65.6	43.6	34.4
Subordinated debt	30,526	31,446	33,995	46,564	53.3	51.9	46.7	48.1
Provisions	56,571	52,842	53,780	59,827	78.6	77.7	21.4	22.3
Capital and reserves	102,963	107,789	112,148	138,590	80.3	84.9	19.7	15.1
Of which: Minority interest	*22,132*	*20,589*	*20,643*	*24,088*	*39.7*	*62.4*	*60.3*	*37.6*
Other liabilities	81,543	73,199	75,158	95,299	84.0	77.5	16.0	22.5
Mismatches between business areas (€ m)							**–69,050**	**–30,693**
Net asset value of managed funds	**269,018**	**257,762**	**304,972**	**369,008**	**81.1**	**76.7**	**18.9**	**23.3**
MEMORANDUM ITEM: NUMBER OF BANKS INCLUDED IN GROUPS:								
Abroad	192	182	162	166				
Subsidiaries	*138*	*128*	*113*	*115*				
Branches	*54*	*54*	*49*	*51*				
Rest of European Union	71	66	63	68				
Subsidiaries	*36*	*31*	*29*	*31*				
Branches	*35*	*35*	*34*	*37*				
Latin America	58	52	38	37				
Subsidiaries	*55*	*49*	*37*	*36*				
Branches	*3*	*3*	*1*	*1*				
Other	63	64	61	61				
Subsidiaries	*47*	*48*	*47*	*48*				
Branches	*16*	*16*	*14*	*13*				

a. Institutions existing at each date.

SECURITIES ISSUED BY SPANISH SECURITISATION VEHICLES

TABLE 1.A.9

Year-end data (€ m and %)

	2001	2002	2003	2004	MEMORANDUM ITEMS: 2004 STRUCTURE %	STRUCTURE CHANGE IN PP	ANNUAL % CHANGE
BREAKDOWN BY TYPE OF SECURITISED ASSET							
TOTAL SECURITISATION BY SPANISH VEHICLES	**12,188**	**22,564**	**36,157**	**52,510**	**100.0**	**–**	**45.2**
Assets of CIs	**12,188**	**22,564**	**35,857**	**52,271**	**99.5**	**0.4**	**45.8**
MBSVs (Royal Decree 685/1982)	5,113	5,776	5,030	4,890	9.3	–4.6	–2.8
ABSVs	7,075	16,788	30,827	47,381	90.2	5.0	53.7
Covered bonds	*4,548*	*3,800*	*10,800*	*18,685*	*35.6*	*5.7*	*73.0*
Mortgage loans	*1,356*	*5,199*	*11,828*	*13,963*	*26.6*	*–6.1*	*18.1*
SMEs	*550*	*3,110*	*6,253*	*8,764*	*16.7*	*–0.6*	*40.2*
Promissory notes (ABCP) (a)	*391*	*1,708*	*–734*	*1,196*	*2.3*	*4.3*	*–*
Territorial cedulas	*0*	*0*	*1,400*	*0*	*0.0*	*–3.9*	*–100.0*
Consumer loans	*231*	*0*	*1,280*	*235*	*0.4*	*–3.1*	*–81.6*
Credit to general government	*0*	*0*	*0*	*1,850*	*3.5*	*3.5*	*–*
Other assets	*0*	*2,971*	*0*	*2,689*	*5.1*	*5.1*	*–*
MEMORANDUM ITEMS:							
Total mortgage-backet assets (b)	6,548	12,680	20,848	24,826	47.3	–10.4	19.1
Assets removed from the CI balance sheet due to securitisation	7,640	18,764	23,657	33,587	64.0	–1.5	42.0
Bonds issued on foreign stock markets	0	2,053	150	965	1.8	1.4	543.2
BREAKDOWN BY TYPE OF ORIGINATOR							
TOTAL SECURITISATION BY SPANISH VEHICLES	**12,188**	**22,564**	**36,157**	**52,510**	**100.0**	**–**	**45.2**
Banks	2,737	9,966	9,629	22,676	43.2	16.6	135.5
Savings banks	8,996	10,712	24,146	25,071	47.7	–16.7	7.6
Co-operatives	0	90	849	2,715	5.2	2.8	219.9
SCIs	455	1,886	1,404	1,810	3.4	–0.4	28.9
Unclassified financial institutions	0	0	678	0	0.0	–1.9	–100.0
Non-financial corporations	0	0	300	239	0.5	–0.4	–20.4
BREAKDOWN BY RATING AND YIELD							
TOTAL BONDS CONSIDERED (c)	**11,379**	**17,301**	**33,926**	**48,507**	**92.4**	**–1.5**	**43.0**
Floating-rate bonds	6,831	13,790	21,876	29,786	56.7	–3.8	36.2
AAA	6,418	12,639	20,253	27,934	53.2	–2.8	38.0
Fixed-rate bonds	4,548	3,510	12,050	18,721	35.7	2.3	55.4
Floating-rate bonds, Three-month spreads, in bp (d)							
AAA	*21*	*22*	*24*	*16*			
AA	*35*	*43*	*47*	*34*			
A	*52*	*46*	*63*	*49*			
BBB - BB	*94*	*122*	*156*	*119*			
Fixed-rate AAA bonds. Yield, in pp (e)	4.9	5.3	4.1	4.3			

SOURCES: CNMV, AIAF and Banco de España.

a. For this category in particular, the data provided are the change in the outstanding balance of securitisation in the year, which is equal to net promissory note issuance. Since the securitised assets are very short-term, a large amount of promissory notes is issued and redeemed under ABCP programmes during the year. This also explains why there may be negative net inssuance of the securities of these vehicles.
b. Sum of the amount of the MBSV category, mortgage loans (ABSVs) and the mortgage-backed part of the category SMEs (ABSVs).
c. Bonds issued on foreign markets, the SME-category securitisation tranches backed by the Spanish Treasury and, finally, the net value of promissory notes issued by ABSVs, are excluded. These amounts for 2004 were €965 m, €1.814 m, and €1.224 m, respectively.
d. Average weighted by the amount of each tranche.
e. Average interest rate set on the orgination date of cédula securitisations.

INFORMATION ON OUTSTANDING BALANCES OF SPANISH SECURITISATION VEHICLE LIABILITIES

TABLE 1.A.10

Year-end data (€ m and %)

	2001	2002	2003	2004	MEMORANDUM ITEMS: 2004		
					STRUCTURE		Δ ANNUAL %
					%	CHANGE PP	
OUTSTANDING BALANCES (NOMINAL VALUE) OF ISSUED BONDS BY TYPE OF SECURITISED ASSETS							
TOTAL SECURITISASTIONS BY SPANISH VEHICLES	**27,448**	**46,552**	**76,628**	**120,443**	**100.0**	**–**	**57.2**
Assets of CIs	**27,448**	**46,552**	**76,328**	**119,904**	**99.6**	**–0.1**	**57.1**
MBSVs (Royal Decree 685/1982)	14,463	18,026	20,050	21,737	18.0	–8.1	8.4
ABSVs	12,984	28,525	56,278	98,167	81.5	8.1	74.4
Covered bonds	*4,548*	*8,348*	*19,148*	*37,833*	*31.4*	*6.4*	*97.6*
Mortgage loans	*2,021*	*6,812*	*17,146*	*27,920*	*23.2*	*0.8*	*62.8*
SMEs	*1,810*	*4,552*	*9,759*	*17,113*	*14.2*	*1.5*	*75.4*
Promissory notes (ABCP)	*2,374*	*4,082*	*3,349*	*4,543*	*3.8*	*–0.6*	*35.7*
Territorial cedulas	*0*	*0*	*1,400*	*1,400*	*1.2*	*–0.7*	*0.0*
Consumer loans	*188*	*131*	*1,324*	*1,459*	*1.2*	*–0.5*	*10.2*
Credit to general government	*1,110*	*994*	*868*	*2,665*	*2.2*	*1.1*	*207.0*
Other assets	*933*	*3,607*	*3,283*	*5,235*	*4.3*	*0.1*	*59.4*
MEMORANDUM ITEMS:							
Total mortgage-backed assets (a)	16,742	26,721	42,659	60,575	50.3	–5.4	42.0
Off-balance sheet due to securitisation	22,900	38,204	55,780	80,671	67.0	–5.8	44.6
Bonds issued on foreign stock markets	0	2,000	2,055	2,611	2.2	–0.5	27.1
BREAKDOWN BY TYPE OF ORIGINATOR							
TOTAL SECURITISATION BY SPANISH VEHICLES	**27,448**	**46,552**	**76,628**	**120,443**	**100.0**	**–**	**57.2**
Banks	12,268	20,551	27,730	46,192	38.4	2.3	67.1
Savings banks	13,029	22,481	43,853	64,665	53.7	–2.4	50.4
Co-operatives	64	144	940	3,564	3.0	1.7	279.3
SCIs	1,228	2,797	3,531	4,532	3.8	–0.8	28.4
Unclassified financial institutions	922	722	1,214	951	0.8	–0.8	–21.7
Non-financial corporations	0	0	300	539	0.4	0.1	80.0
OTHER INFORMATION ON SECURITISATION VEHICLES							
HOLDERS OF ASSET-BACKET BONDS ISSUED BY SPANISH VEHICLES (b):							
TOTAL	**27,754**	**50,111**	**77,586**	**122,537**	**100.0**	**–**	**57.9**
Held by:							
Non-financial corporations and households	416	1,217	1,308	5,021	4.1	2.4	283.9
Financial institutions	16,144	21,660	31,123	41,353	33.7	–6.4	32.9
Banks and savings banks	*13,805*	*17,465*	*23,048*	*30,115*	*24.6*	*–5.1*	*30.7*
Money market funds	*701*	*1,571*	*2,500*	*3,558*	*2.9*	*–0.3*	*42.3*
Non-monetary CIUs	*723*	*1,474*	*3,307*	*5,299*	*4.3*	*0.1*	*60.2*
Insurance companies	*915*	*1,150*	*2,267*	*2,381*	*1.9*	*–1.0*	*5.0*
Rest of the world	11,194	24,233	45,157	76,164	62.2	4.0	68.7
OTHER LIABILITIES: CREDIT EXTENDED TO SPANISH SECURITISATION VEHICLES:							
TOTAL	**3,363**	**3,380**	**3,668**	**3,000**	**100.0**	**–**	**–18.2**
Of which: By CIs	3,363	3,380	3,668	3,000	100.0	0.0	–18.2

SOURCES: CNMV, AIAF and Banco de España.

a. Sum of the amounts of the MBSV category, mortgage loans (ABSVs) and the mortgage-backet part of the category SMEs (ABSVs).
b. Unlike the outstanding balances broken down by the type of securitised asset and issuer, the figures in this section are market prices, since they are drawn from another statistical source. Nearly all asset-backet bonds not belonging to cédula securitisations pay a floating rate coupon and are therfore listed at 100% of their nominal value. The divergences then arise in fixed-coupon asset-backed bonds.

BREAKDOWN OF THE INDIVIDUAL INCOME STATEMENT FOR CIs (a)

TABLE 1.A.11

Data for each year (€m and %)

	2001			2002			2003			2004		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
Financial income	**66,466**	**5.61**	**18.7**	**59,817**	**4.68**	**–10.0**	**57,256**	**4.07**	**–4.3**	**59,584**	**3.73**	**4.1**
Interest income	59,233	5.00	13.6	54,225	4.25	–8.5	52,004	3.70	–4.1	53,079	3.32	2.1
Income from equity portfolio	7,233	0.61	88.3	5,592	0.44	–22.7	5,252	0.37	–6.1	6,505	0.41	23.9
Financial cost	**–37,431**	**–3.16**	**14.5**	**–30,706**	**–2.40**	**–18.0**	**–26,932**	**–1.91**	**–12.3**	**–27,762**	**–1.74**	**3.1**
NET INTEREST INCOME	**29,035**	**2.45**	**24.6**	**29,111**	**2.28**	**0.3**	**30,324**	**2.16**	**4.2**	**31,823**	**1.99**	**4.9**
Of which: investment of own funds	*4,476*	*0.38*	*16.0*	*4,291*	*0.34*	*–4.1*	*4,200*	*0.30*	*–2.1*	*4,522*	*0.28*	*7.7*
Non-interest income	**8,312**	**0.70**	**–3.1**	**8,582**	**0.67**	**3.3**	**8,396**	**0.60**	**–2.2**	**11,515**	**0.72**	**37.1**
Commissions (net)	7,614	0.64	3.2	8,095	0.63	6.3	8,758	0.62	8.2	9,748	0.61	11.3
Of which:												
Collection and payment service	*4,159*	*0.35*	*10.3*	*4,614*	*0.36*	*10.9*	*4,896*	*0.35*	*6.1*	*5,296*	*0.33*	*8.2*
Securities service	*1,179*	*0.10*	*–1.8*	*1,098*	*0.09*	*–6.9*	*1,073*	*0.08*	*–2.3*	*1,088*	*0.07*	*1.5*
Marketing of non-banking products	*1,952*	*0.16*	*–5.6*	*2,084*	*0.16*	*6.8*	*2,316*	*0.16*	*11.1*	*2,822*	*0.18*	*21.8*
Contingent liabilities	*731*	*0.06*	*12.1*	*797*	*0.06*	*9.0*	*874*	*0.06*	*9.7*	*938*	*0.06*	*7.4*
Exchange of foreign currency and banknotes	*136*	*0.01*	*–1.6*	*75*	*0.01*	*–45.3*	*61*	*0.00*	*–18.9*	*58*	*0.00*	*–4.8*
Other commissions	*1,011*	*0.09*	*8.9*	*1,159*	*0.09*	*14.7*	*1,388*	*0.10*	*19.7*	*1,696*	*0.11*	*22.2*
Result on financial transactions	698	0.06	–41.9	487	0.04	–30.3	–362	–0.03	–	1,767	0.11	–
Trading book	*–273*	*–0.02*	*–9.2*	*–490*	*–0.04*	*80.0*	*948*	*0.07*	*–*	*1,143*	*0.07*	*20.6*
Available-for-sale bond portfolio	*238*	*0.02*	*–*	*457*	*0.04*	*91.9*	*465*	*0.03*	*1.9*	*504*	*0.03*	*8.3*
Exchange differences	*281*	*0.02*	*–64.1*	*149*	*0.01*	*–46.9*	*–1,217*	*–0.09*	*–*	*495*	*0.03*	*–*
Other futures transactions	*327*	*0.03*	*–63.8*	*470*	*0.04*	*43.7*	*–725*	*–0.05*	*–*	*–586*	*–0.04*	*–19.1*
Other	*125*	*0.01*	*–*	*–98*	*–0.01*		*167*	*0.01*	*–*	*211*	*0.01*	*26.5*
GROSS INCOME	**37,347**	**3.15**	**17.2**	**37,693**	**2.95**	**0.9**	**38,720**	**2.75**	**2.7**	**43,338**	**2.71**	**11.9**
Operating expenses	**–21,296**	**–1.80**	**6.4**	**–21,976**	**–1.72**	**3.2**	**–22,648**	**–1.61**	**3.1**	**–23,593**	**–1.48**	**4.2**
Personnel	–12,648	–1.07	6.0	–13,011	–1.02	2.9	–13,439	–0.96	3.3	–13,924	–0.87	3.6
General and levies	–6,601	–0.56	6.7	–6,846	–0.54	3.7	–7,114	–0.51	3.9	–7,582	–0.47	6.6
Depreciation and amortisation	–2,047	–0.17	8.1	–2,119	–0.17	3.5	–2,095	–0.15	–1.1	–2,086	–0.13	–0.4
NET OPERATING INCOME	**16,051**	**1.35**	**35.3**	**15,717**	**1.23**	**–2.1**	**16,072**	**1.14**	**2.3**	**19,745**	**1.24**	**22.9**
Provisions and write-downs (net)	**–7,264**	**–0.61**	**92.2**	**–7,212**	**–0.56**	**–0.7**	**–5,872**	**–0.42**	**–18.6**	**–5,971**	**–0.37**	**1.7**
Bad debts	–3,616	–0.30	50.6	–3,910	–0.31	8.1	–4,780	–0.34	22.3	–5,062	–0.32	5.9
Of which:												
Specific coverage	*–1,438*	*–0.12*	*35.2*	*–2,395*	*–0.19*	*66.5*	*–1,897*	*–0.13*	*–20.8*	*–1,571*	*–0.10*	*–17.2*
General coverage	*–595*	*–0.05*	*–39.7*	*–516*	*–0.04*	*–13.3*	*–1,039*	*–0.07*	*101.3*	*–1,267*	*–0.08*	*22.0*
Statistical coverage	*–1,978*	*–0.17*	*85.6*	*–1,410*	*–0.11*	*–28.7*	*–2,257*	*–0.16*	*60.1*	*–2,620*	*–0.16*	*16.1*
Country risk	146	0.01	22.9	–78	–0.01	–	–3	0.00	–95.8	–80	0.00	326.4
Security price fluctuation fund	–3,319	–0.28	539.2	–3,398	–0.27	2.4	–410	–0.03	–87.9	–58	0.00	–85.9
Fund for general banking risk	–11	0.00	–92.8	98	0.01	–	–16	0.00	–	–169	–0.01	953.1
Other specific funds	–464	–0.04	–43.7	76	0.01	–	–663	–0.05	–	–602	–0.04	–9.2
Extraordinary income (net)	**1,263**	**0.11**	**–38.5**	**1,554**	**0.12**	**23.0**	**1,808**	**0.13**	**16.4**	**–761**	**–0.05**	**–**
Sundry income (net)	**72**	**0.01**	**83.20**	**84**	**0.0**	**17.6**	**134**	**0.01**	**59.3**	**224**	**0.01**	**67.5**
PROFIT BEFORE TAX	**10,151**	**0.86**	**–0.5**	**10,177**	**0.80**	**0.3**	**12,161**	**0.86**	**19.5**	**13,262**	**0.83**	**9.1**
Corporate income tax	**–1,159**	**–0.10**	**–16.6**	**–934**	**–0.07**	**–19.5**	**–2,384**	**–0.17**	**155.3**	**–2,052**	**–0.13**	**–13.9**
Other taxes	**–134**	**–0.01**	**–47.6**	**–121**	**–0.01**	**–9.6**	**–38**	**0.00**	**–68.7**	**–33**	**0.00**	**–12.9**
NET INCOME	**8,858**	**0.75**	**3.5**	**9,122**	**0.71**	**3.0**	**9,739**	**0.69**	**6.8**	**11,177**	**0.70**	**14.8**
MEMORANDUM ITEM:												
Average total assets	1,185,625	100	11.8	1,276,968	100	7.7	1,406,735	100	10.2	1,596,671	100	13.5
Average own funds (b)	75,551	6.4	16.6	80,285	6.3	6.3	85,976	6.1	7.1	94,148	5.9	9.5
Efficiency ratio		57.0			58.3			58.5			54.4	
Return on average equity		11.7			11.4			11.3			11.9	

a. The data in this table refer to institutions active at some time during 2004.

b. Capital (net of treasury stock and minority interests), reserves (net of prior year losses), fund for general banking risk and net income for the year and previous years less interim dividend.

The 2004 figures are provisional, based on the data available as at 30 March 2005.

MAIN MARGINS OF THE INDIVIDUAL INCOME STATEMENT FOR CIs TABLE 1.A.12

Breakdown by grouping. Data for each year (€ m and %) (a)

	2001			2002			2003			2004		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
NET INTEREST MARGIN:												
Banks	15,444	2.26	36.7	14,684	2.06	–4.9	14,967	1.91	1.9	15,559	1.75	4.0
Savings banks	11,317	2.63	12.8	11,928	2.46	5.4	12,692	2.36	6.4	13,377	2.21	5.4
Co-operatives	1,437	3.42	14.8	1,543	3.24	7.4	1,597	3.02	3.5	1,604	2.68	0.5
SCIs	837	2.81	16.8	956	2.97	14.1	1,069	3.09	11.9	1,282	3.09	19.9
GROSS MARGIN:												
Banks	20,639	3.02	21.2	19,995	2.81	–3.1	19,463	2.49	–2.7	22,713	2.55	16.7
Savings banks	14,161	3.29	12.2	14,915	3.07	5.3	16,160	3.01	8.3	17,242	2.85	6.7
Co-operatives	1,691	4.02	14.0	1,810	3.80	7.0	1,953	3.69	7.9	2,024	3.39	3.6
SCIs	855	2.88	15.6	972	3.02	13.7	1,145	3.31	17.7	1,358	3.27	18.7
NET OPERATING INCOME:												
Banks	9,593	1.40	49.1	9,003	1.26	–6.2	8,421	1.08	–6.5	11,360	1.28	34.9
Savings banks	5,370	1.25	18.9	5,518	1.14	2.8	6,279	1.17	13.8	6,894	1.14	9.8
Co-operatives	686	1.63	16.1	703	1.47	2.5	757	1.43	7.8	757	1.27	–0.1
SCIs	403	1.35	25.6	494	1.54	22.5	615	1.78	24.5	734	1.77	19.3
PROFIT BEFORE TAX:												
Banks	5,341	0.78	–3.1	5,690	0.80	6.5	6,681	0.85	17.4	7,327	0.82	9.7
Savings banks	4,078	0.95	1.8	3,698	0.76	–9.3	4,555	0.85	23.2	4,818	0.80	5.8
Co-operatives	469	1.12	1.5	459	0.96	–2.3	510	0.96	11.2	575	0.96	12.8
SCIs	262	0.88	15.4	330	1.03	25.7	414	1.20	25.7	541	1.30	30.6
NET INCOME:												
Banks	4,774	0.70	1.3	4,818	0.68	0.9	5,271	0.67	9.4	6,166	0.69	17.0
Savings banks	3,497	0.81	6.1	3,677	0.76	5.1	3,767	0.70	2.4	4,153	0.69	10.2
Co-operatives	405	0.96	2.7	409	0.86	1.0	439	0.83	7.5	500	0.84	13.9
SCIs	182	0.61	17.3	218	0.68	20.2	262	0.76	20.0	358	0.86	36.8

a. The data in this table refer to institutions active at some time during 2004.
The 2004 figures are provisional, based on the data available as at 30 March 2005.

BREAKDOWN OF THE CONSOLIDATED INCOME STATEMENT FOR CIs (a)

Data for each year (€ m and %)

	2001			2002			2003			2004		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
Financial income	**89,571**	**6.38**	**10.0**	**78,639**	**5.45**	**–12.2**	**67,762**	**4.46**	**–13.8**	**70,752**	**4.16**	**4.4**
Interest income	87,518	6.24	9.8	76,726	5.31	–12.3	65,593	4.32	–14.5	67,657	3.97	3.1
Income from equity portfolio	2,053	0.15	15.5	1,913	0.13	–6.8	2,169	0.14	13.4	3,094	0.18	42.7
Financial cost	**–52,289**	**–3.73**	**3.7**	**–41,796**	**–2.89**	**–20.1**	**–32,191**	**–2.12**	**–23.0**	**–33,131**	**–1.95**	**2.9**
NET INTEREST INCOME	**37,282**	**2.66**	**20.2**	**36,843**	**2.55**	**–1.2**	**35,571**	**2.34**	**–3.5**	**37,621**	**2.21**	**5.8**
Of which: Investment of own income	*5,822*	*0.41*	*9.0*	*5,077*	*0.35*	*–12.8*	*4,604*	*0.30*	*–9.3*	*4,788*	*0.28*	*4.0*
Non-interest income	**15,936**	**1.14**	**9.4**	**15,082**	**1.04**	**–5.4**	**15,994**	**1.05**	**6.0**	**17,007**	**1.00**	**6.3**
Commissions (net)	14,108	1.01	11.2	13,625	0.94	–3.4	13,653	0.90	0.2	14,897	0.88	9.1
Of which:												
Collection and payment service	*6,937*	*0.49*	*25.3*	*7,188*	*0.50*	*3.6*	*7,165*	*0.47*	*–0.3*	*7,629*	*0.45*	*6.5*
Securities service	*3,879*	*0.28*	*–1.5*	*3,365*	*0.23*	*–13.3*	*3,196*	*0.21*	*–5.0*	*3,288*	*0.19*	*2.9*
Marketing of non-banking products	*3,125*	*0.22*	*5.3*	*2,902*	*0.20*	*–7.1*	*3,095*	*0.20*	*6.7*	*3,926*	*0.23*	*26.8*
Contingent liabilities	*815*	*0.06*	*12.5*	*861*	*0.06*	*5.7*	*939*	*0.06*	*9.0*	*1,015*	*0.06*	*8.1*
Exchange of foreign currency and banknotes	*232*	*0.02*	*23.1*	*131*	*0.01*	*–43.6*	*106*	*0.01*	*–18.6*	*106*	*0.01*	*0.0*
Other commissions	*1,998*	*0.14*	*13.7*	*1,997*	*0.14*	*0.0*	*2,096*	*0.14*	*5.0*	*2,495*	*0.15*	*19.0*
Result on financial transactions	1,828	0.13	–3.4	1,457	0.10	–20.3	2,341	0.15	60.6	2,110	0.12	–9.9
Trading book	*–137*	*–0.01*	*–85.2*	*–639*	*–0.04*	*364.7*	*1,247*	*0.08*	*–*	*1,408*	*0.08*	*12.9*
Avalaible-for-sale bond portfolio	*235*	*0.02*	*–67.4*	*379*	*0.03*	*61.5*	*517*	*0.03*	*36.4*	*708*	*0.04*	*36.9*
Exchange differences	*390*	*0.03*	*–54.5*	*1,084*	*0.08*	*178.0*	*646*	*0.04*	*–40.4*	*863*	*0.05*	*33.7*
Other futures transactions	*1,201*	*0.09*	*–13.7*	*705*	*0.05*	*–41.4*	*–283*	*–0.02*	*–*	*–1,121*	*–0.07*	*295.7*
Other	*139*	*0.01*	*–*	*–72*	*0.00*	*–*	*214*	*0.01*	*–*	*250*	*0.01*	*17.2*
GROSS INCOME	**53,218**	**3.79**	**16.7**	**51,925**	**3.60**	**–2.4**	**51,565**	**3.39**	**–0.7**	**54,628**	**3.21**	**5.9**
Operating expenses	**–32,645**	**–2.33**	**12.2**	**–31,260**	**–2.16**	**–4.2**	**–30,058**	**–1.98**	**–3.8**	**–31,135**	**–1.83**	**3.6**
Personnel	–18,439	–1.31	12.3	–17,667	–1.22	–4.2	–17,274	–1.14	–2.2	–17,804	–1.05	3.1
General and levies	–10,988	–0.78	13.1	–10,496	–0.73	–4.5	–9,891	–0.65	–5.8	–10,483	–0.62	6.0
Depreciation and amortisation	–3,219	–0.23	8.5	–3,097	–0.21	–3.8	–2,893	–0.19	–6.6	–2,848	–0.17	–1.6
NET OPERATING INCOME	**20,573**	**1.47**	**24.8**	**20,666**	**1.43**	**0.5**	**21,507**	**1.42**	**4.1**	**23,493**	**1.38**	**9.2**
Provisions and write-downs (net)	**–9,758**	**–0.70**	**93.5**	**–7,574**	**–0.52**	**–22.4**	**–6,451**	**–0.42**	**–14.8**	**–7,313**	**–0.43**	**13.4**
Bad debts	–6,060	–0.43	55.5	–6,056	–0.42	–0.1	–5,862	–0.39	–3.2	–6,088	–0.36	3.9
Of which:												
Specific coverage	*–3,537*	*–0.25*	*104.0*	*–4,125*	*–0.29*	*16.6*	*–2,476*	*–0.16*	*–40.0*	*–2,051*	*–0.12*	*–17.2*
General coverage	*–594*	*–0.04*	*–44.2*	*–612*	*–0.04*	*3.0*	*–1,136*	*–0.07*	*85.7*	*–1,286*	*–0.08*	*13.1*
Statistical coverage	*–1,932*	*–0.14*	*72.7*	*–1,329*	*–0.09*	*–31.2*	*–2,246*	*–0.15*	*69.0*	*–2,758*	*–0.16*	*22.8*
Country risk	92	0.01	–37.2	–156	–0.01	–	–348	–0.02	122.9	–42	0.00	–87.9
Security price fluctuation fund	–116	–0.01	2.5	–461	–0.03	296.4	–30	0.00	–93.5	102	0.01	–
Fund for general banking risks	–13	0.00	–91.8	98	0.01	–	69	0.00	–29.3	–170	–0.01	–
Other specific funds	–3,660	–0.26	257.0	–999	–0.07	–72.7	–280	–0.02	–72.0	–1,115	–0.07	298.1
Income on group transactions (net)	**1,665**	**0.12**	**–44.9**	**289**	**0.02**	**–82.6**	**280**	**0.02**	**–3.2**	**2,167**	**0.13**	**674.3**
Gains on group transactions	6,742	0.48	6.1	6,074	0.42	–9.9	5,693	0.37	–6.3	6,155	0.36	8.1
Losses on group transactions	–5,077	–0.36	52.4	–5,785	–0.40	13.9	–5,414	–0.36	–6.4	–3,988	–0.23	–26.3
Of which: amortisation of goodwill	*–3,005*	*–0.21*	*70.1*	*–2,645*	*–0.18*	*–12.0*	*–3,440*	*–0.23*	*30.0*	*–1,726*	*–0.10*	*–49.8*
Extraordinary income (net)	**3,189**	**0.23**	**394.2**	**399**	**0.03**	**–87.5**	**1,645**	**0.11**	**312.2**	**461**	**0.03**	**–72.0**
Sundry income (net)	**249**	**0.02**	**–9.2**	**304**	**0.02**	**21.8**	**391**	**0.03**	**28.9**	**467**	**0.03**	**19.2**
PROFIT BEFORE TAX	**15,920**	**1.13**	**3.4**	**14,093**	**0.98**	**–11.5**	**17,376**	**1.14**	**23.3**	**19,280**	**1.13**	**11.0**
Corporate income tax	**–2,411**	**–0.17**	**–4.1**	**–1,437**	**–0.10**	**–40.4**	**–3,062**	**–0.20**	**113.1**	**–2,968**	**–0.17**	**–3.1**
Other taxes	**–754**	**–0.05**	**–16.0**	**–909**	**–0.06**	**20.7**	**–946**	**–0.06**	**4.1**	**–1,051**	**–0.06**	**11.0**

BREAKDOWN OF THE CONSOLIDATED INCOME STATEMENT FOR CIs (a) (continued) TABLE 1.A.13

Data for each year (€ m and %)

	2001			2002			2003			2004		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
NET INCOME	**12,755**	**0.91**	**6.5**	**11,747**	**0.81**	**–7.9**	**13,367**	**0.88**	**13.8**	**15,261**	**0.90**	**14.2**
Of which:												
Group	10,779	0.77	6.7	9,938	0.69	–7.8	11,554	0.76	16.3	13,744	0.81	18.9
Minority interests	1,976	0.14	5.3	1,809	0.13	–8.5	1,813	0.12	0.2	1,517	0.09	–16.3
MEMORANDUM ITEMS:												
AVERAGE TOTAL ASSETS (ATA)	1,402,952	100.0	16.5	1,443,953	100.0	2.9	1,519,152	100.0	5.2	1,702,553	100.0	12.1
AVERAGE OWN FUNDS OF THE GROUP (b)	81,342	5.8	20.5	84,113	5.8	3.4	87,301	5.7	3.8	97,580	5.7	11.8
Efficiency ratio		61.3			60.2			58.3			57.0	
Return on average equity of the group (b)		13.3			11.8			13.2			14.1	

a. The data in this table refer to institutions active at some time during 2004.

b. Income and average own funds exclude minority interest. Therefore average own funds of the group are: capital (net of treasury stock and minority interest), reserves at the controlling company and at consolidated companies (net of prior year losses and losses at consolidated companies), net income attributed to the group and the fund for general banking risks.

The 2004 figures are provisional, based on the data available as at 30 March 2005.

MAIN MARGINS OF THE CONSOLIDATED INCOME STATEMENT FOR CIs TABLE 1.A.14

Breakdown by grouping. Data for each year (€ m and %) (a)

	2001			2002			2003			2004		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
NET INTEREST MARGIN:												
Banks	23,779	2.65	24.4	22,254	2.53	–6.4	20,270	2.25	–8.9	21,677	2.16	6.9
Savings banks	11,645	2.58	13.2	12,563	2.50	7.9	13,167	2.38	4.8	13,757	2.20	4.5
Co-operatives	1,440	3.39	14.7	1,542	3.22	7.1	1,597	3.02	3.5	1,605	2.68	0.5
SCIs	419	3.54	17.3	484	3.84	15.4	537	4.13	11.1	582	4.04	8.3
GROSS MARGIN:												
Banks	36,043	4.02	18.9	33,621	3.82	–6.7	31,922	3.55	–5.1	33,780	3.37	5.8
Savings banks	15,062	3.34	12.3	16,000	3.18	6.2	17,125	3.09	7.0	18,199	2.91	6.3
Co-operatives	1,698	4.00	13.9	1,813	3.79	6.8	1,961	3.70	8.1	2,035	3.40	3.8
SCIs	414	3.50	16.2	491	3.90	18.6	557	4.28	13.5	614	4.26	10.2
NET OPERATING INCOME:												
Banks	14,039	1.56	27.4	13,778	1.56	–1.9	13,918	1.55	1.0	15,316	1.53	10.0
Savings banks	5,685	1.26	19.8	5,975	1.19	5.1	6,555	1.18	9.7	7,107	1.14	8.4
Co-operatives	672	1.58	14.8	671	1.40	–0.2	756	1.43	12.7	758	1.26	0.2
SCIs	176	1.49	26.9	241	1.91	36.7	278	2.14	15.4	313	2.18	12.5
PROFIT BEFORE TAX:												
Banks	10,044	1.12	3.1	8,971	1.02	–10.7	10,733	1.19	19.6	11,727	1.17	9.3
Savings banks	5,287	1.17	3.9	4,493	0.89	–15.0	5,939	1.07	32.2	6,717	1.07	13.1
Co-operatives	475	1.12	1.9	463	0.97	–2.5	523	0.99	13.0	602	1.01	15.1
SCIs	115	0.97	12.2	165	1.31	43.9	180	1.39	9.1	234	1.62	29.5
NET INCOME:												
Banks	7,837	0.87	5.1	6,857	0.78	–12.5	7,955	0.88	16.0	9,049	0.90	13.8
Savings banks	4,434	0.98	9.2	4,367	0.87	–1.5	4,843	0.87	10.9	5,534	0.88	14.3
Co-operatives	408	0.96	2.9	411	0.86	0.7	451	0.85	9.7	525	0.88	16.5
SCIs	76	0.65	19.6	111	0.88	45.8	118	0.91	6.2	152	1.06	28.9

a. The data in this table refer to institutions active at some time during 2004.

SOLVENCY RATIO OF CONSOLIDATED GROUPS OF CIs

TABLE 1.A.15

Year-end data (€ m and %)

	2001			2002			2003			2004		
	AMOUNT	COMPO-SITION %	% ANNUAL Δ	AMOUNT	COMPO-SITION %	% ANNUAL Δ	AMOUNT	COMPO-SITION %	% ANNUAL Δ	AMOUNT	COMPO-SITION %	% ANNUAL Δ
Own funds	**101,141**	**100.0**	**14.6**	**103,461**	**100.0**	**2.3**	**113,496**	**100.0**	**9.7**	**130,782**	**100.0**	**15.2**
Tier 1 capital	80,045	79.1	9.0	80,127	77.4	0.1	86,346	76.1	7.8	99,411	76.0	15.1
Capital stock, reserves and similar items	*75,977*	*75.1*	*5.8*	*76,998*	*74.4*	*1.3*	*80,725*	*71.1*	*4.8*	*100,516*	*76.9*	*24.5*
Preference shares	*17,355*	*17.2*	*9.4*	*16,231*	*15.7*	*–6.5*	*16,091*	*14.2*	*–0.9*	*17,496*	*13.4*	*8.7*
Other tier 1 capital (a)	*40,799*	*40.3*	*9.3*	*37,937*	*36.7*	*–7.0*	*37,376*	*32.9*	*–1.5*	*42,765*	*32.7*	*14.4*
Consolidation goodwill	*–19,375*	*–19.2*	*–2.3*	*–18,577*	*–18.0*	*–4.1*	*–15,664*	*–13.8*	*–15.7*	*–26,373*	*–20.2*	*68.4*
Tier 2 capital	27,104	26.8	30.8	27,265	26.4	0.6	31,095	27.4	14.1	34,973	26.7	12.5
Subordinated debt	*23,335*	*23.1*	*34.6*	*24,469*	*23.7*	*4.9*	*27,388*	*24.1*	*11.9*	*30,486*	*23.3*	*11.3*
Other tier 2 capital (b)	*3,768*	*3.7*	*11.2*	*2,796*	*2.7*	*–25.8*	*3,708*	*3.3*	*32.6*	*4,487*	*3.4*	*21.0*
Deductions (c)	–6,007	–5.9	2.0	–3,931	–3.8	–34.6	–3,945	–3.5	0.4	–3,602	–2.8	–8.7
Requirements	**73,116**	**100.0**	**9.1**	**74,749**	**100.0**	**2.2**	**81,994**	**100.0**	**9.7**	**101,276**	**100.0**	**23.5**
Standard methods	72,334	98.9	9.4	73,998	99.0	2.3	81,390	99.3	10.0	100,668	99.4	23.7
Credit risk	*68,838*	*94.1*	*9.1*	*70,901*	*94.9*	*3.0*	*78,071*	*95.2*	*10.1*	*97,369*	*96.1*	*24.7*
Market risk	*2,052*	*2.8*	*22.1*	*2,248*	*3.0*	*9.6*	*2,758*	*3.4*	*22.7*	*2,429*	*2.4*	*–11.9*
Foreign exchange and gold risks	*1,444*	*2.0*	*6.4*	*849*	*1.1*	*–41.2*	*561*	*0.7*	*–33.9*	*870*	*0.9*	*55.1*
Commodity risk	–	–	–	–	–	–	*0*	*0.0*	–	*0*	*0.0*	*–3.8*
Internal models	–	–	–	–	–	–	0	0.0	–	206	0.2	–
Additional and deduction for netting arrangements	782	1.1	–13.1	751	1.0	–4.0	604	0.7	–19.5	401	0.4	–33.7
Average weight of credit risk (%)	60.1			61.8			62.9			64.8		
Of which: on-balance-sheet exposure (%)	*58.3*			*60.1*			*61.4*			*63.3*		
Solvency ratio (%)	**11.1**			**11.1**			**11.1**			**10.3**		
Tier 1 (%)	8.8			8.6			8.4			7.9		
Core capital ratio (%) (d)	*6.9*			*6.8*			*6.9*			*6.5*		
MEMORANDUM ITEM: SOLVENCY RATIO												
1988 Basel Capital Accord (%)	13.0			12.7			12.7			11.7		
Of which: tier 1 (%)	*9.1*			*8.8*			*8.6*			*8.0*		
EU rules (%)	12.3			12.3			12.3			11.5		
Of which: tier 1 (%)	*8.8*			*8.6*			*8.5*			*7.9*		

a. Amount net of specific deductions from tier 1 capital, except for consolidation goodwill.
b. Amount net of deductions and specific eligibility limits for tier 2 capital.
c. Deductions made from total own funds
d. The numerator of this ratio is tier 1 capital excluding preference shares.
The 2004 figures are provisional, based on the data available as at 30 March 2005.

DISTRIBUTION OF CONSOLIDATED GROUPS AND THEIR ASSETS ACCORDING TO SOLVENCY (a) TABLE 1.A.16

Year-end data (€ m and %)

	2001		2002		2003		2004	
	No. CGS	% OF ASSETS	No. CGS	% OF ASSETS	No. CGS	% OF ASSETS	No. CGS	% OF ASSETS
OVERALL SOLVENCY RATIO:								
< 8%	3	0.1	0	0.0	1	0.0	1	0.0
> = 8% and < 9%	21	3.4	12	2.3	13	3.5	22	19.7
> = 9% and < 10%	24	8.7	37	27.6	34	12.2	34	8.8
> = 10% and < 11%	39	54.8	29	33.5	29	36.1	30	33.2
> = 11% and < 12%	20	7.1	22	8.7	34	27.0	26	17.8
> 12%	117	21.2	118	22.5	105	14.7	103	12.4
Institutions not subject (a)	51	4.7	53	5.4	52	6.6	56	8.2
TIER I SOLVENCY RATIO:								
< 5%	0	0.0	0	0.0	1	0.0	0	0.0
> = 5% and < 6%	2	0.3	2	0.2	1	0.5	2	2.4
> = 6% and < 8%	29	53.4	24	50.7	27	54.1	31	54.3
> = 8% and < 10%	48	20.4	57	31.9	64	28.7	66	25.5
> = 10% and < 11%	17	8.9	16	2.1	18	1.7	17	2.5
> 11%	128	12.3	119	9.7	105	8.4	100	7.1
Institutions not subject (a)	51	4.7	53	5.4	52	6.6	56	8.2
MEMORANDUM ITEM:								
Number of reporting CGs	224		218		216		216	

a. The CIs not subject to the solvency ratio in Spain are branches of Community institutions and branches of institutions of third countries with equivalent regulations.
The 2004 figures are provisional, based on the data available as at 30 March 2005.

DISTRIBUTION OF CAPITAL REQUIREMENTS BY ON-BALANCE-SHEET EXPOSURES IN CONSOLIDATED GROUPS OF CIs AS AT DECEMBER 2004 (%) AND YEAR-ON-YEAR CHANGES (pp) THEREIN

TABLE 1.A.17

	0%		10%		20%		50%		100%		AVERAGE WEIGHT		WEIGHT IN TOTAL ACTIVITY (a)	
	%	PP Δ	%	PP Δ	%	PP Δ	%	PP Δ	%	PP Δ	%	PP Δ	%	PP Δ
DISTRIBUTION OF EXPOSURES BY WEIGHT														
CIs	47.7	1.0	0.0	0.0	51.2	–0.7	0.0	0.0	1.1	–0.3	11.3	–0.5	9.5	–1.2
Credit to general government	20.7	2.8	0.0	0.0	74.1	–2.2	0.0	0.0	5.2	–0.6	20.0	–1.0	2.8	–0.5
Fixed-income portfolio	63.8	–8.0	0.8	0.3	7.8	0.8	9.9	2.2	17.6	4.7	24.2	6.0	10.2	–3.9
Mortgage credit to other private sectors	0.2	–0.1	0.0	0.0	0.1	–0.0	63.9	4.8	35.9	–4.7	67.8	–2.3	38.6	7.0
Other credit to other private sectors	6.4	0.6	0.0	0.0	4.4	1.5	0.3	–0.3	89.0	–1.8	90.0	–1.7	29.0	–0.6
Other assets	25.1	0.3	0.0	–0.0	5.1	–0.3	1.1	–0.1	68.7	0.1	70.3	0.0	9.9	–0.9
Total assets	16.0	–4.1	0.1	0.0	9.5	–1.0	25.9	5.8	48.5	–0.8	63.3	2.0	100.0	–
DISTRIBUTION OF WEIGHTING BY TYPE OF EXPOSURE														
CIs	28.3	3.5	0.0	0.0	51.1	–1.7	0.0	0.0	0.2	–0.1				
Credit to general government	3.6	0.7	0.0	0.0	21.7	–2.2	0.0	0.0	0.3	–0.1				
Fixed-income portfolio	40.6	–9.5	99.4	0.8	8.4	–1.0	3.9	–1.5	3.7	0.0				
Mortgage credit to other private sectors	0.4	0.0	0.0	0.0	0.2	–0.1	95.4	2.2	28.6	2.5				
Other credit to other private sectors	11.6	3.1	0.0	0.0	13.2	5.2	0.3	–0.5	53.1	–1.4				
Other assets	15.6	2.2	0.6	–0.8	5.3	–0.2	0.4	–0.2	14.1	–1.0				
Total assets	100.0	–	100.0	–	100.0	–	100.0	–	100.0	–				

a. Weight of the balance of each category in the total adjusted balances, where the adjusted balance is the balance-sheet amount less the balances of the trading book, the specific funds and the assets deducted from own funds.
The 2004 figures are provisional, based on the data available as at 30 March 2005.

SOLVENCY MARGIN OF NON-CONSOLIDATED MIXED GROUPS OF FINANCIAL INSTITUTIONS SUBJECT TO SUPERVISION BY THE BANCO DE ESPAÑA

TABLE 1.A.18

Year-end data (€ m and %)

	2001			2002			2003			2004		
	AMOUNT	COMPOSITION %	% ANNUAL Δ	AMOUNT	COMPOSITION %	% ANNUAL Δ	AMOUNT	COMPOSITION %	% ANNUAL Δ	AMOUNT	COMPOSITION %	% ANNUAL Δ
Effective own funds	**76,113**	**100.0**	**10.9**	**75,144**	**100.0**	**–1.3**	**84,091**	**100.0**	**11.9**	**96,587**	**100.00**	**14.9**
Credit institutions or groups	74,737	98.2	10.6	73,714	98.1	–1.4	83,128	98.9	12.8	94,837	98.20	14.1
Insurance undertakings or groups	3,744	4.9	0.3	3,857	5.1	3.0	4,248	5.1	10.1	9,354	9.70	120.2
Deductions	–1,899	–2.5	–9.6	–2,115	–2.8	11.4	–2,596	–3.1	22.7	–7,151	–7.40	175.4
Capital requirements	**56,900**	**100.0**	**5.3**	**56,056**	**100.0**	**–1.5**	**62,421**	**100.0**	**11.4**	**79,108**	**100.00**	**26.7**
Credit institutions or groups	55,349	97.3	5.1	54,506	97.2	–1.5	60,898	97.6	11.7	76,231	96.40	25.2
Insurance undertakings or groups	1,845	3.2	12.9	1,879	3.4	1.9	1,908	3.1	1.6	3,574	4.50	87.3
Deductions	–91	–0.2	–16.8	–82	–0.1	–9.6	–90	–0.1	9.2	–406	–0.50	352.5
Surplus or deficit of mixed groups	**19,214**	**–**	**31.4**	**19,089**	**–**	**–0.7**	**21,670**	**–**	**13.5**	**17,479**	**–**	**–19.3**
Surplus or deficit of CGs	**19,387**	**–**	**30.2**	**19,208**	**–**	**–0.9**	**22,229**	**–**	**15.7**	**18,606**	**–**	**–16.3**

The 2004 figures are provisional, based on the data available as at 30 March 2005.

APPRAISAL COMPANIES AND SERVICES: TABLE 1.A.19

Key data for each year (a)

	2001	2002	2003	2004	% ANNUAL Δ
Operational appraisal companies (number)	71	65	65	61	–9.2
CI appraisal services (number)	3	3	3	3	–
Number of appraisers	**7,503**	**8,070**	**8,627**	**9,389**	**5.8**
Of which: associate appraisers	*560*	*501*	*554*	*523*	*–7.9*
Number of appraisals performed (thousands)	**1,001**	**1,203**	**1,411**	**1,630**	**15.5**
Of which:					
Complete buildings for residential use (b)	34	40	43	42	–6.5
Of which: primary residence (b)	…	…	…	*39*	
Dwellings (c)	785	953	1,151	1,289	12.0
Of which: part of larger building (c)	…	…	…	*931*	
Commercial premises	60	64	69	76	10.1
Commissioned by banks	352	406	487	548	12.5
Commissioned by savings banks	469	562	682	770	12.9
For provision of mortgage guarantee	920	1,111	1,321	1,538	16.4
Amount of appraisals performed (€ m)	**276,036**	**344,716**	**445,973**	**574,817**	**28.9**
Of which:					
Complete buildings for residential use (b)	74,318	86,109	100,348	129,879	29.4
Of which: primary residence (b)	…	…	…	*115,136*	
Dwellings (c)	100,974	141,306	198,111	249,384	25.9
Of which: part of larger building	…	…	…	*161,790*	
Commercial premises	12,200	15,242	17,042	21,112	23.9
Commissioned by banks	81,207	104,084	133,457	166,885	25.0
Commissioned by savings banks	124,533	153,222	209,662	264,313	26.1
For provision of mortgage guarantee	233,118	292,561	388,509	505,676	30.2
Floor area in thousands of m^2					
Complete buildings for residential use (b)	79,114	76,622	84,308	93,710	11.2
Of which: primary residence (b)	…	…	…	*84,180*	
Dwellings (c)	105,838	121,471	151,992	156,700	3.1
Of which: part of larger building (c)	…	…	…	*89,440*	
Appraisal companies					
Total assets (€ m)	100.9	133.3	172.1	205.5	14.4
Of which: profit (€ m)	*15.0*	*31.3*	*30.7*	*43.6*	*36.0*
ROE (%)	35.9	68.9	49.3	66.8	–

a. Data refer to the institutions existing as at end-December each year.
b. Includes those for residential use that are finished or under construction, taking their expected value upon completion. From 2004, information is available that enables buildings used as a primary residence to be distinguished from those used as a secondary residence, these categories including those buildings that because of their characteristics and location are most likely to be used as a habitual or temporary residence, respectively.
c. This refers to dwellings as individual elements of buildings, including single-family buildings, from 2004, information is available that enables dwellings that form part, or are elements, of a building to be distinguished from those known as single-family buildings.
The 2004 figures are provisional, based on the data available as at 30 March 2005.

MUTUAL GUARANTEE COMPANIES TABLE 1.A.20

Key year-end data, unless otherwise indicated (a)

	2001	2002	2003	2004	% ANUAL Δ
Operational entities (number)	21	21	22	22	–
Patron and participating members (number)	61,341	64,491	69,742	75,514	8.3
Of which: participating members	*60,648*	*63,793*	*69,010*	*74,783*	*8.4*
BALANCE (€ m):					
Balance sheet total	362	404	447	509	13.8
Outstanding exposure on guarantees	2,231	2,493	2,852	3,330	16.8
Non-reguaranteed exposure	*1,206*	*1,375*	*1,606*	*1,896*	*18.0*
Reguaranteed exposure (assigned)	*1,025*	*1,118*	*1,246*	*1,434*	*15.1*
Of which: by sector					
Primary	*60*	*67*	*77*	*91*	*18.0*
Industrial	*730*	*798*	*858*	*933*	*8.7*
Construction	*356*	*397*	*453*	*537*	*18.6*
Tertiary	*1,064*	*1,206*	*1,441*	*1,746*	*21.2*
Doubtful assets and guarantees (b)	101	124	134	176	31.0
Of which: non-reguaranteed	*53*	*63*	*66*	*86*	*34.8*
Own funds	136	145	163	178	9.6
Net fund for technical provisions	130	150	176	202	14.5
Fund for bad debts	27	29	29	35	18.7
GUARANTEE TRANSACTIONS AMOUNT IN THE YEAR (€ m):					
Requested	1,208	1,406	1,772	2,306	30.2
Provided	959	1,066	1,342	1,744	29.9
Formalised	950	1,027	1,256	1,495	19.1
RATIOS (%):					pp
Weight of members participating in capital	55.5	57.2	55.8	58.4	4.7
Doubtful assets and guarantees/exposure	3.6	3.8	3.5	3.9	0.4
Guarantee commissions as % of total exposure	1.0	1.0	1.0	1.0	0.0
Guarantee commissions as % of total exposure, net of reguarantees	1.9	1.8	1.7	1.7	0.0

a. The register includes one company that is inactive and in the process of being liquidated.
b. Doubtful assets and guarantees are presented net of commissions received not included in profit and loss, of capital disbursed by the holder and of monetary contributions received specifically for covering exposures.

CURRENCY EXCHANGE BUREAUX AND MONEY TRANSFER AGENCIES

TABLE 1.A.21

Key year-end data, except or transactions relating to each year

	DECEMBER			SEPTEMBER	
	2001	2002	2003	2003	2004
Licensed proprietors (number)	**2,907**	**2,723**	**2,673**	**2,691**	**2,599**
Currency purchasing	2,861	2,670	2,618	2,636	2,541
Currency buying and selling (B/S)	14	15	15	15	15
B/S and transfers by immigrants or for living expenses	28	33	35	35	38
B/S and transfers of all types	4	5	5	5	5
Currency transactions (€ m)					
Purchases from customers	4,609	1,843	1,566	1,239	1,212
Sales to customers	0	215	90	69	57
Purchases from other currency exchange bureaus of from Cis	147	147	42	32	30
Sales to other currency exchange bureaux or to Cis	4,752	1,792	1,528	1,208	1,184
Transfers dispatched		2,296	2,821	2,022	2,439
Transfers received		241	224	173	163
Balance sheet and profit and loss account (€ m)					
Capital y reserves		55	65	64	65
Income from main activity		132	151	72	73
Other information					
Number of branches		186	191	177	181
Number of salaried amployees		1,295	1,377	1,347	1,418
Number of agents		4,025	4,968	4,779	5,817
Of which: individuals		*1,935*	*2,826*	*2,644*	*3,402*
Number of premises on which agents conduct business		5,783	6,754	6,658	7,486

NOTE: The “Balance sheet and profit and loss account” and “other information” data in the last two columns relate to 30 September of the respective year.
The September 2004 figures are based on the data available as at 8 April 2005.

2 Banking supervision in 2004

In 2004 the Spanish banking system continued to enjoy the high levels of solvency, profitability and efficiency that have characterised it in recent years, as shown by the detailed analysis included in Chapter 1 of this Report. The aggregate solvency ratio of the system in December 2004 was 10.3% (11.7% if harmonised with BCBS rules, which are the benchmark and basis for international comparison) and so, despite having decreased, it still comfortably exceeds the minimum 8% requirement. The non-performing loan ratio (individual balance sheets) decreased to 0.71%, with a provision coverage of 303%, evidencing the satisfactory quality of assets. Profitability remained high, aided by an improvement in the consolidated efficiency ratio to 57%, and this allowed ROE to rise to 14.1%.

Spain's banking system thus shows a reasonably good economic and financial situation, a risk profile characterised by its preference for commercial banking, which is less exposed to the hazards of more volatile businesses, and the sustained strengthening of its risk management capacity.

2004 saw the continuation of the process of internationalisation led by the major Spanish banking groups for the past decade. In the mid-1990s the preferred destination of investment was Latin America, capitalising on the advantages deriving from its cultural proximity, but once the Spanish institutions had established a firm presence in this geographical area, they directed their interest to Europe, a more mature market but one to which they can continue contributing their strategic, technological, organisational and management capabilities, given their solvency and stability levels as well as their experience of managing past mergers and acquisitions. In particular, 2004 saw one of the historically most important acquisitions in the European market, put into effect by a Spanish credit institution, and it seems possible, in view of the new initiatives already taken in the first few months of 2005, that the internationalisation of Spanish banking will continue in the coming years.

Against this general backdrop of the Spanish financial system, in 2004 there was no event that required the Banco de España to adopt any precautionary measure of an extraordinary nature provided for in Spanish legislation (intervention, replacement of directors, approval of restructuring plans, etc.).

Indeed, the intervention of Eurobank del Mediterráneo, SA in July 2003 was the last case to date requiring the adoption of any of the aforementioned measures, namely the intervention of the institution. At that time the institution had €209 million of customer deposits, which were able to be refunded in full from the institution's net assets following the creditors' agreement approved on 22 December 2004, including the payment of interest of 2.5% agreed therein. The failure of Eurobank, which was handled using the instruments envisaged in current legislation (in this case, intervention of the institution by the Banco de España, subsequent application for suspension of payments and prompt action by the Deposit Guarantee Fund), was finally concluded without financial loss for the depositors and without appreciably affecting the stability of the banking system.

The Banco de España carries out the supervision of credit institutions in accordance with the legal mandate contained in Article 7(6) of the LABE, which provides that it shall "supervise, in accordance with existing regulations, the solvency, activities and compliance with specific regulations of credit institutions", with the main aim of safeguarding the stability of the financial system. Prudential regulation governing the taking up and pursuit of banking activities forms the basis of the process of continuous supervision of credit institutions. its immediate purpose being to obtain up-to-date knowledge of the solvency, profitability and risk profile of all Spanish credit institutions and of their consolidated groups, which is then verified through frequent on-site inspections and serves as the basis for adopting any supervisory measures that may be necessary. The supervisory framework follows the so-called SABER (risk-based approach to banking supervision) approach.

The Spanish banking system is now facing the challenge of major regulatory changes that will very likely affect management practices: the new IAS-based accounts and Basel II. Under European Union regulations, 2005 will be the first year in which the consolidated financial statements of listed companies in the European Union will have to be prepared in accordance with international accounting standards. In order to promote the uniformity of criteria in financial reporting, the Banco de España has decided that all groups of credit institutions, whether listed or not, and all individual credit institutions must prepare their financial statements according to the same valuation and presentation criteria. For this purpose, it approved the new Circular no. 4/2004 of 22 December 2004. Furthermore, in July 2004 the text was published of the revised framework of International Convergence of Capital Measurement and Capital Standards (Basel II), which calls for a long adaptation period which the institutions have already commenced.

We are thus in a period of major regulatory changes that have some linkages: their complexity, their aim to measure and represent economic reality more fairly, their greater risk sensitivity, their greater consistency with risk management practices and their aim to improve transparency.

Mention should also be made of the entry into force on 1 September 2004 of the reform of Spanish insolvency law, another major change in the Spanish legal system, which will affect credit risk management by institutions and particularly the recovery of past-due debts.

In September 2004 the Banco de España had the honour of organising in Madrid, together with the BCBS, the *XIII International Conference of Banking Supervisors (ICBS).* The conference programme faithfully reflected the importance of the aforementioned reforms and the efforts needed from all parties concerned to properly manage such changes.

In the field of co-operation between supervisory authorities, in 2004 the Banco de España entered into two important agreements: the *Memorandum of Understanding between the Banco de España and the Directorate-General of Insurance and Pension Funds, Ministry of Economy, within the scope of their respective supervisory functions,* of 12 March 2004; and the *Memorandum of Understanding between the Banco de España and the National Securities Market Commission, within the scope of their respective supervisory functions,* of 9 June 2004. They address matters such as the reasons for an agreement on cooperation, the principles on which they are based, the scope of the authorities' respective responsibilities and functions, the regime for information exchange, and arrangements for technical co-operation and for co-ordination in the event of supervisory overlaps. The content of the protocols is based on respect for the powers legally conferred on each authority and on the development of formulas for more effectively carrying out their respective functions.

Finally this chapter of the Report looks at the supervision activities carried out by the Banco de España in 2004, which are described briefly below.

Section 2.1 includes statistical data on the recommendation and requirement letters sent by the Banco de España to the institutions subject to supervision in 2004, along with a short analysis of their content. Section 2.2 informs of the disciplinary proceedings conducted in that year and of the penalties imposed. Section 2.3 addresses the monitoring of certain aspects of credit institutions outside prudential supervision. Section 2.4 discusses the role of corporate governance in credit institutions in the face of the regulatory changes under way. Finally, Section 2.5 offers some comments on the exercise of consolidated supervision.

2.1 Recommendation and requirement letters sent to supervised institutions in 2004

Under Article 23 of the LABE, the Executive Commission of the Banco de España has, among other powers, that of "Formulating necessary recommendations and requirements for credit institutions and, with regard to the latter, their board of directors and management, agreeing to initiate sanctioning proceedings and intervention measures, replacing directors, or taking any other precautionary measures set out in legal regulations and entrusted to the Banco de España". Consequently, the sending of recommendation and requirement letters is a legally established procedure, and a privileged means, which enables the Banco de España to approach the supervised institutions directly in order to require or recommend modifications in different aspects of their activities.

In 2004 a total of 110 requirement and recommendation letters containing 486 recommendations on different matters were sent to the supervised institutions. It should be kept in mind that some of these letters were addressed to certain institutions in their capacity as the heads of consolidable groups and, therefore, the recommendations in question may not have been directed specifically to the recipient institution or any other particular institution in the group, but rather to the group as a whole. The letters were addressed to the following institutions, which are classified below by type:

- 35 banks.
- 16 savings banks.
- 1 branch of an EU credit institution.
- 1 branch of a non-EU credit institution.
- 27 credit co-operatives.
- 7 specialised credit institutions.
- 4 mutual guarantee companies.
- 13 currency-exchange bureaux.
- 6 appraisal companies.

The 486 recommendations and requirements are grouped below by subject matter.

A total of *185* recommendations and requirements, which as is usual and natural form the main group, relate to *matters concerned with credit risk.*

- On 43 occasions exposures recorded as standard were required to be transferred to the doubtful category, and on 39 occasions additional provisioning was required.

– On a total of 45 occasions institutions were recommended to effect special monitoring of certain borrowers due to the weaknesses observed, although no provisioning was required.

– 44 letters called the attention of institutions to the need to improve their systems for the granting, control and monitoring of credit risk and, finally, on 14 occasions it was considered necessary to warn institutions of the advisability of some deep thought about their policy on the financing of property development in the construction phase, which is the part with the highest risk profile.

30 recommendations were concerned with institutions' *capital market activities,* either for their own account or for the account of third parties, most notably in depository and custodian functions.

– On 25 occasions institutions were advised of weaknesses in their management and control procedures for treasury and market operations, such as, for example, limitations in their contingency plans or in risk measurement systems.

– The custodianship of third-party securities gave rise to 5 requirements or recommendations letters calling for improvement.

On *43* occasions institutions were sent recommendations or requirements relating to solvency levels and to compliance with solvency regulations. Specifically:

– 32 letters required adjustments to the returns submitted or called attention to the need to improve the level of solvency or the reporting thereon.

– On 11 occasions recommendations were made on compliance with limits on concentration, tangible fixed assets or significant ownership interests. Specifically, 2 letters reminded institutions of the need to return to compliance with the limits on the concentration of exposures to the institution's own economic group.

On *27* occasions the requirements or recommendations dealt with the obligation to report information to the Central Credit Register or with exposures to directors or senior executives and related persons. *26* letters called for improvements in compliance with rules on *information and transparency vis-à-vis customers.*

Accounting matters relating to the recognition of income and expenses (17) or to the setting up of specific provisions for various purposes (25) led to *42* recommendations.

There were *63* recommendations on *general aspects* of institutions' internal control and of their accounting, administrative and IT processes. This group includes recommendations on the need to improve internal auditing.

As regards structural issues, attention was called on *11* occasions to divergence from average *income statement* margins and operating costs; *15* letters urged improvement in the management of *overall exposures* on the balance sheet (interest and liquidity) and, finally, *3* letters emphasised the need to bring the *branch network expansion* into line with the actual possibilities of the institution..

19 recommendations to appraisal companies or currency-exchange bureaux related to compliance with their *specific authorisation requirements.*

The table finishes with 22 recommendations of a *diverse nature.*

2.2 Exercise of the sanctioning power during 2004

The exercise of the supervisory activity attributed to the Banco de España by Spanish law includes, along with the functions entailed in the regulation and supervision of credit institutions, the so-called exercise of sanctioning power over them. This power, which viewed from the standpoint of its purpose completes the control and inspection of the institutions subject to supervision, represents, in the final instance, the application to the financial sector of the sanctioning power conferred on public authorities.

The essential purpose of exercising this power is none other than to correct, by disciplinary means, any conduct infringing organisational and disciplinary rules that may have been committed by supervised institutions and their directors and managers. The punishment of this conduct and the imposition of sanctions for failure to comply with the specific provisions of these sectoral regulations has its raison d'être in the protection and effective administrative stewardship of the banking and credit sector which, given its size and special importance in Spain's economy, necessarily has to operate to the highest standards.

The sanctioning power of the Banco de España and other organisations as provided for in Spanish sectoral regulations is not limited only to that exercised over credit institutions (banks, savings banks and credit co-operatives), SCIs and their directors and managers, but extends to other types of supervised institutions and their directors and managers, such as mutual guarantee companies, appraisal companies, currency-exchange bureaux, any individual or company that, without having obtained the necessary authorisation and without being officially registered, engages in activities restricted by law to credit institutions or adopts a name whose use is restricted to credit institutions on Spanish territory, and any individual or company other than a credit institution that, without having obtained the necessary authorisation and without being registered in the relevant Banco de España registers, carries on out or offers to carry out with the public, on a professional basis, foreign currency exchange transactions.

From this standpoint, it should be mentioned here that pursuant to Article 18 of the Law of Discipline and Intervention of Credit Institutions (LDI), the Banco de España is responsible for the conduct of sanctioning procedures brought against credit institutions. According to the provisions of this article, the Banco de España is responsible for imposing sanctions for serious and minor infringements, while the Ministry of Economy and Finance is responsible for imposing sanctions for very serious infringements, following a proposal from the Banco de España, except in the case of withdrawal of authorisation to operate as a credit institution. The latter sanction may only be imposed by the government, following a proposal from the Banco de España. In addition, pursuant to Article 21 of the LDI, sanctions imposed on CIs and on persons holding directorships or management posts therein, which arise from the same infringement, shall be imposed by a single resolution in a single procedure.

From the explanatory standpoint, this chapter presents, first, a brief summary of the number of proceedings initiated and resolved in 2004, and then analyses in greater depth the most significant infringements, distinguishing between those defined as very serious, serious and minor.

Proceedings initiated in 2004

As regards sanctioning proceedings conducted in 2004, 13 proceedings were initiated against legal entities or individuals and 20 against directors or managers of those institutions, in addition to the actions taken to withdraw authorisation that are described below. In particular, perusal of the different types of institutions subject to supervision shows that disciplinary proceedings were opened against an appraisal company, four currency-exchange bureaux and two unauthorised currency-exchange bureaux (one legal entity and one individual), one entity carrying on activities restricted to credit institutions and one entity using a name restricted to credit institutions. Finally, four proceedings were initiated and conducted for non-compliance with the ECB minimum reserve ratio.

The above figures illustrate that, following the trend of the previous year, the correction by disciplinary means exercised by the Banco de España continues to be increasingly extended to entities other than credit institutions, such as, for example, appraisal companies or currency-exchange bureaux, which were more recently included in a specific supervision regime and whose operating procedures have not in all cases fully conformed to sectoral regulations.

Proceedings resolved in 2004

In 2004 the Banco de España resolved or completed (making the appropriate resolution proposal) a total of 22 sanctioning proceedings against supervised institutions and a total of 60 proceedings against their directors or executives, in addition to the proceedings to withdraw authorisation described below.

If the supervised institutions sanctioned are grouped by type, it can be seen that two proceedings were against banks (although one of them is linked to previous proceedings, since evidence was found of a direct connection between the events reported in two proceedings opened separately), four against appraisal companies and nine against currency-exchange and/or cross-border money-transfer bureaux. The other sanctions were imposed on legal entities or individuals carrying out activities restricted to others or were for non-compliance with the minimum reserve ratio.

As for the type of infringements found to have been committed in the proceedings conducted and resolved in this period, which normally bears a direct relation to the complexity involved in processing and conducting them, the competent authorities have imposed sanctions, on one hand, on supervised institutions for the commission of 16 very serious infringements, 73 serious ones and 14 minor ones and, on the other hand, on directors and executives of the same for the commission of 61 very serious infringements and 199 serious ones. Also imposed were four sanctions due to non-compliance with the ECB minimum reserve ratio, one sanction for engaging in activities restricted to credit institutions, one sanction for the use of names restricted to credit institutions and, finally, one sanction for engaging in currency-exchange activities without authorisation.

Proceedings to withdraw authorisation to carry on the professional activity of foreign currency exchange in establishments open to the public

Further, in view of their intimate relationship with sanctioning proceedings, to which they bear an evident similarity, mention should be made of the 183 proceedings initiated in 2004 to withdraw authorisation to carry on the professional activity of foreign currency exchange in establishments open to the public, owing to inactivity of the defendants. Of those proceedings, 63 were resolved in 2004 (53 against legal entities and 10 against individuals), it being decided to withdraw authorisation in 61 of them, and not to do so in 2 cases.

This market supervision and regulation activity, which commenced in 2004, was undertaken in response to the need to remove from official registers and statistics a good number of entities that had obtained the required authorisation to carry on currency-exchange activities (in most cases, as an ancillary activity to their main commercial activity), but that at present no longer engage in this activity or, in a large percentage of cases, have even ceased to carry on business operations.

The fact that these legal entities or individuals that do not carry on the operations for which they obtained the required authorisation remain in the official registers, largely because they are unaware of the need to request deregistration or simply because they have neglected to do so, means they are subject to certain obligations to supply information to the supervisor that, given the situation, lack any practicality, and that in any event entail efforts and management costs by the Banco de España that are unjustifiable within the exercise of its supervisory powers.

The subject matter of the proceedings resolved in 2004, in terms of the infringements committed, is described and classified below in accordance with the nature and gravity of the infringement sanctioned.

Very serious infringements

As regards the existence of *very serious infringements,* it should be noted that these were only found to have been committed in one proceeding conducted against a credit institution and six of its directors, in four proceedings against appraisal companies and their respective boards of directors and, finally, in proceedings against various individuals and legal entities that are shareholders of a credit institution.

Credit institutons' infringments

In the proceedings against a credit institution and its directors and senior executives, it was found that four very serious infringements had been committed. The first, which consisted of the recognition of insufficient bad-debt provisions (a final sanction having been imposed on the institution in the preceding five years for the same type of infringement), led to sanctions on the institution, on its chairman, on the four members of its board of directors and on its general manager. As can be seen, the events constituting the infringement would have been classed as serious, but since the institution had been sanctioned for substantially identical conduct less than five years earlier, the infringement was deemed to be aggravated in accordance with the provisions of the LDI in this respect. The second infringement consisted of the maintenance, for a period of six months, of own funds below those required to obtain authorisation to operate as a credit institution (€18 million). The third was non-compliance with the duty of accuracy in compulsory information to depositors and to the general public, for which the institution and all the aforementioned directors and senior executives were sanctioned. Lastly, the fourth, consisting of the refusal of or resistance to inspection, was found only in respect of the institution, its chairman and its general manager. In this connection, it should be mentioned that, in view of the extremely serious circumstances apparent in this proceeding, it was decided to impose on the institution four sanctions of withdrawal of authorisation to operate as a credit institution, as well as the heaviest fines envisaged by law on the directors and senior executives found to have greatest responsibility in several of the infringements.

Appraisal companies' infringements

In the case of appraisal companies, very serious infringements were found in four proceedings, basically arising from non-compliance with various requirements in the applicable legislation for authorisation to engage in appraisal activities. They include the following:

1 those relating to minimum capital requirements;

2 not having an appropriate organisation, resources and internal control systems;

3 not having insured for any third-party liability that may arise from appraisal activities;

4 not having limited in the articles of association its corporate purpose to the appraisal of all manner of goods, companies or asset pools;

5 not having the minimum number of professional staff required in the regulations, and

6 non-compliance with professional qualification requirements by the persons signing the appraisal reports and certificates.

A proceeding against an appraisal company and four of its directors found that infringements 1, 2, 4 and 5 had been committed, and both the company and its directors were sanctioned. Owing to the particular seriousness of the conduct in this case, it was decided to impose on the company four sanctions of definitive loss of authorisation to provide appraisal services and on its board members four sanctions of suspension from duty and disqualification from serving as a director or executive in any credit institution or appraisal company for one year. Another proceeding against an appraisal company and three of its directors found that infringements 1, 2, 3, 5 and 6 had been committed, and both the company and all its directors were fined. In another proceeding against an appraisal company and its three directors, all the initial defendants were sanctioned for the commission of infringements 1 and 2.

Finally, in a proceeding against an appraisal company and 11 directors or senior executives, the company and four of its directors were sanctioned for the commission of infringement 2.

As has been seen, the proceedings against appraisal companies resolved in 2004 detected one very serious infringement, which consisted of not having an appropriate organisation, resources and internal control systems, repeatedly accompanied by non-compliance with minimum capital requirements. Moreover, in all the proceedings in which appraisal companies were sanctioned for very serious infringements, sanctions were also imposed on the directors of the sanctioned companies following case-by-case analysis of the extent of their responsibility of each in the acts of infringement.

Individuals and legal entities that are shareholders of a credit institution

Lastly, various individuals and legal entities that are shareholders of a credit institution received a total of three sanctions for very serious infringements which consisted of acquiring or increasing significant holdings in a credit institution without previously notifying the Banco de España or with its express opposition. In this respect, it should be noted that Title VI of the LDI sets in place a system for the surveillance of holdings in credit institutions which, while observing the general principle of freedom of ownership interests, assures transparency in their control relationships by means of public notification and communication to the supervisory authorities. In the particular case of banks, and given their special importance within the financial system, a special regime has been established whereby anyone taking significant holdings in them must inform both the investee and the supervisory authority and whereby the acquisition of holdings above the percentages of a bank's capital established in the LDI are made subject to authorisation. The exercise of voting rights is subject to that communication or authorisation.

Serious infringments

The *serious infringements* sanctioned cover a broad range of conduct, depending to a large extent on the nature of the institution concerned. However, they can be divided into four categories according to whether they relate to: solvency; the technical compliance by the activities of institutions with the applicable legislation; transparency in relations with customers; or the reporting of information to the Banco de España as a fundamental element of its supervisory activities.

Solvency related infringements

The first of these four major categories of serious infringement, which is characterised by inappropriate practices by institutions that directly or indirectly affect their solvency, includes a proceeding against a credit institution and six of its directors and senior executives. As a result, sanctions for the recognition of insufficient bad-debt provisions were imposed on four of those directors or senior executives, because, insofar as they were concerned, no evidence was found of repetition of the infringement analysed above in the section on very serious infringements.

This category of serious infringements that affect institutions' solvency also includes, in the case of proceedings brought against currency-exchange and cross-border money-transfer bureaux, the following non-compliances which, as the data show, appear repeatedly in the proceedings resolved in 2004:

1 non-compliance with the rules regulating the minimum capital of these establishments, since it was established that their own funds were below the minimum level required to retain the authorisation (proceedings against two bureaux and against four directors of one and two directors of the other);

2 non-compliance with the rules regulating insurance against liability. This requirement is aimed at protecting bureaux against any contingency that may directly or indirectly affect their own funds (seven proceedings in which, in addition to the bureaux, sanctions were imposed on the members of their boards of directors —seven, two, three, four, two, two and four people, respectively—), and, finally:

3 non-compliance relating to the performance of activities outside the exclusive corporate purpose. This rule aims to prevent the resources of bureaux being used in activities other than currency exchange or cross-border money transfer, so that the bureau's own funds and solvency are not negatively affected by an activity other than that for which it obtained due authorisation (four proceedings against bureaux and their directors or executives —two, four, one and one people, respectively—).

As can be seen, in all the proceedings, both the bureaux and their directors/executives were sanctioned.

Technical infringements

The second category into which, for the purposes of exposition, serious infringements have been divided relates to technical compliance by the activities of the supervised institutions with the applicable legislation. This covers a broad and varied range of different types of conduct, which can ultimately be grouped under this single heading as they all involve failure to comply with the detailed rules that technically define what is meant by the correct and prudent pursuit of the activity.

The serious infringements in this category that led to disciplinary proceedings against appraisal companies and their directors or executives are as follows:

1 non-compliance relating to the issuance of certificates or reports found to contain inaccuracies and, in particular, a lack of concordance with the data and evidence obtained in the valuation activity performed, and/or which departed, without saying so expressly, from the principles, procedures, checks and instructions provided for in the applicable legislation (sanctions on four companies and the members of their boards of directors comprised of four, three and three individuals, respectively), and

2 the issuance of appraisal certificates that do not agree or accord with the appraisal report (sanctions on one company and the three members of its board of directors).

In the proceedings against currency-exchange and cross-border money-transfer bureaux and their directors and senior executives, the following serious infringements were found to have been committed:

1 non-compliance with rules on the documentation and recording of cross-border money transfers or on customer identification. These infringements were found in nine proceedings resolved in 2004, which gives an idea of the widespread non-compliance with sectoral regulations in this connection. For this reason, sanctions were imposed not only on the nine bureaux, but also on their directors and/or executives (seven, four, two, one, three, two, one, two and one people, respectively);

2 violation of the rules governing cross-border transfers when the amount exceeds €3,005.06, which impose certain special obligations to record and check this type of operation (sanctions imposed on three bureaux and on the members of its board of directors: two, four and one people, respectively);

3 non-compliance with the rules regulating the agents and correspondents of bureaux and, in particular, on the formalities for agreements with such agents, due to a failure to observe certain of the regulatory requirements (sanction on eight bureaux and on seven, four, two, one, two, one, two and one directors and/or executives, respectively). The repetitiveness of this type of non-compliance reveals the weaknesses of the business model toward which this sector of financial law is turning, in a trend that increasingly revolves around the creation of extensive agent networks. Consequently, the correction by disciplinary means of the aforementioned non-compliances seeks to redirect such acts so as to bring them within the bounds set by sectoral law;

4 non-compliance with the rules on the exclusive use of the accounts through which the transferred funds are channelled (sanction imposed on six bureaux and on seven, four, two, one, two and one directors and/or executives, respectively; and

5 non-compliance with current rules on auditing, on accounting for transactions and on the preparation of balance sheets, income statements and other financial statements to be compulsorily reported to the competent administrative body (sanctions imposed on six bureaux and on seven, four, two, two, two and one directors and/or executives, respectively).

Transparency related infringments

The third major group in which serious infringements have been divided consists of failure by supervised institutions to comply with transparency requirements in their relations with customers. This group is becoming an increasingly significant focus of supervisory tasks because of the importance of protecting the interests of the customers of supervised institutions and because of the evidence of habitual infringement by certain institutions in this respect.

Indeed, this category of infringements is present in all the proceedings conducted and resolved in 2004 against currency-exchange and cross-border money-transfer bureaux and their respective directors. They resulted in sanctions on nine bureaux and their directors and/or executives (seven, four, two, one, three, two, one, two and one people, respectively), and arose from separate and highly diverse violations of the requirements in this area, basically contained in Banco de España Circular 6/2001 of 29 October 2001 on the owners of currency-exchange bureaux.

In this connection, these infringements are of singular importance in this sector of financial activity since it is characterised by the unfamiliarity of its increasingly broad and varied clientele with the procedures and guarantees that exist under Spanish financial law and the purpose of the infringed transparency laws is precisely to ensure that their existence is adequately disseminated.

Information infringements

The fourth and final category into which the various serious infringements sanctioned in 2004 have been classified relates to failure on the part of supervised institutions to comply with their duty to report information to the Banco de España. This is one of the fundamental elements of proper performance by the Banco de España in its supervision duties. In this respect, it should be noted how the current financial supervision model relies on the efficient reporting of information by supervised institutions, for subsequent processing and analysis by the supervisory authorities. This calls for increasingly close and careful co-operation by the supervised institutions in complying with the various reporting requirements of sectoral law and means that an increasing role is being played by infringements involving non-compliance with the aforementioned duties.

In 2004 all the proceedings brought against sanctioned appraisal companies and/or their directors or executives (three institutions and four, three and four members of their respective boards of directors) resulted in sanctions for failure to send the data that must be reported to the Banco de España under the obligations established in Rule one of Circular 3/1998 of 27 January 1998.

Also, as regards currency-exchange and cross-border money-transfer bureaux, sanctions were imposed on two bureaux and on three and one directors, respectively, for inaccuracy in the data or documentation that must be sent to or is required by the competent administrative body in the exercise of its duties. It should be noted here that, in the case of four proceedings initiated against bureaux, ratings of "minor" have been assigned to non-compliances with various obligations to report information to the Banco de España that, due to their scant significance, limited impact on subsequent supervision tasks or isolated nature, could not be classed as serious infringements.

Serious infringements relating to significant holdings

Lastly, falling under the heading of serious infringements, although not fitting into the above classification of sanctions, is the imposition on a credit institution of five sanctions for the commission of a serious infringement consisting of the failure to communicate the acquisition or sale of significant holdings. For this same reason, three sanctions were imposed on the chairman of that institution. Also, within the same proceeding, two individuals with a significant holding in a credit institution were each sanctioned for reducing a significant holding without duly communicating it to the Banco de España.

Minor infringements

Finally, 14 sanctions were imposed for minor infringements in 2004. According to the disciplinary rules, these can only be committed by supervised institutions and not by their directors and senior executives. Such infringements, by their very nature, are limited to isolated or unimportant infringements that cannot be classified as serious infringements.

Unauthorised names or operations

As regards sanctions imposed on individuals or legal entities for carrying on activities restricted to supervised institutions without having the necessary authorisation, in 2004 a commercial company received the highest sanction envisaged in law for engaging in the acceptance of repayable funds from the public in the form of loans. In fact, the performance of these acts, which under Spanish law are reserved exclusively to credit institutions, represents a grave infringement of the legal interests protected by financial legislation, in that certain persons may be induced to deposit their funds in entities of this type which are outside the financial system and thus lack the regulation and guarantees established in it. Accordingly, the infringing individuals or entities merit the most severe sanction, particularly since the volume of these acts and their public dissemination may become more significant if not met by firm action.

In addition, in 2004 an individual was sanctioned for carrying out, on a professional and regular basis, foreign currency exchange transactions without having the necessary authorisation.

As regards the unauthorised use of generic names whose use is restricted to credit institutions, or of any other that may be confused with them, a sanction was imposed on a commercial company in 2004 after it was established in the related proceeding that it had unlawfully used the name "caja".

Minimum reserve infringements

Four infringements consisting of non-compliance with the obligation on credit institutions to maintain a certain level of minimum reserves, established by the Governing Council of the European Central Bank in accordance with the provisions of Article 19 of the Statute of the European System of Central Banks and of the European Central Bank, were found to have been committed in the appropriate proceedings brought and resolved by the European Central Bank, which were heard by the Banco de España.

In 2004 further work, building on the achievements of previous years, was done to add specificity to and improve the complex process of assignment and revision of sanctioning responsibilities, both those of credit institutions with respect to their boards of directors and executives and those within the latter group of officers.

In this respect, the growing complexity of business organisations, in which the day-to-day operating tasks are separated from strategic management, and their growing internationalisation, which means that their governing bodies often include persons or entities resident even in other countries, and the increasingly rapid turnover of executives, which means that the successive officers of an institution have to be included even in a proceeding relating to acts of infringement committed over a more or less long period of time, must be carefully analysed in light of the circumstances established in the disciplinary proceeding when it comes to determining the extent of responsibility of the various defendants. In doing this, account should always be taken of the special diligence and responsibility to be demanded of those who not only direct or manage a commercial company or similar entity, but who also direct or manage institutions that receive repayable funds from third parties.

Finally, Annexes 6 and 7 of this Report on Banking Supervision include a statistical table on the disciplinary and licence withdrawal proceedings initiated in the period 2000-2004, and another on the types of infringement identified in the proceedings in that period.

2.3 Other supervisory activities of the Banco de España

In addition to the powers and activities of the Banco de España, relating mainly to the prudential supervision of credit institutions, the Banco de España is also entrusted with overseeing other aspects of the activity of such institutions. As the best way of contributing to the more efficient functioning of the financial sector and of the supervised institutions at both individual and overall levels, the dissemination of information and the enhancement of transparency constitute a basic objective of the Banco de España's activity, so that financial service users can make reasoned decisions. For this purpose, in 2004 the Banco de España developed the so-called "Bank Customer's Portal", which since the beginning of 2005 has had a prominent place on the Banco de España's website. The Portal contains basic information on the characteristics and conditions of the most common bank products and on the workings of the financial system in general, all viewed from the standpoint of personal customers (see Box 2.1).

Furthermore, the Banco de España is entrusted with overseeing other aspects of the activities of credit institutions. A brief review of these functions is set out below, with comments on certain features worthy of mention in 2004.

2.3.1 COMMISSION CHARGES

Freedom —practically without exceptions— in setting the prices of bank services entails the obligation to draw up a brochure of commission charges, valuation conditions and chargeable expenses detailing the maximum amounts applicable, the item to which they relate and the terms of their application in the operations and services which banks habitually provide. This brochure is to be available at all times to customers and, since 2001, it can also be consulted on the Banco de España website. In the case of habitual services, the charges have to be included in the brochure before they can be applied to the product or operation concerned.

The Banco de España is responsible for checking and registering the brochure that includes these charges and changes thereto. Such checking does not, however, include securities operations, as these are the preserve of the CNMV (National Securities Market Commission), unless they refer to securities traded on the Public Debt Book-Entry Market.

Checking is restricted by law to verifying that the brochure reflects maximum prices and the conditions governing their application in an orderly, clear and comprehensible fashion. The Banco de España has also been rejecting those charges which either did not relate to the actual provision of a service that could be requested by the customer, or which, owing to the manifest difference between the amount involved and that habitually applied in the industry, may not be generally applicable and, therefore, may not reflect commercial practice of the bank, thereby distorting the basis for the publication of the charges.

There were no significant regulatory changes in 2004 regarding the application of credit institutions' commissions, so supervisory efforts focussed mostly on verifying the ongoing adaptation of the brochure of charges to the changes in institutions' commercial policies (closely linked to behaviour of the prices of certain services) and in interbank rates (particularly those for card transactions). Also noteworthy was the process of pricing new services or special commissions, the latter linked to specific transactions or to services packages.

Nevertheless, a task that retained some importance in the first quarter was that of verifying the adaptation of brochures to the provisions of Regulation (EC) No 2560/2001 of the European Parliament and of the Council of 19 December 2001, which provided that, from July 2002 and July 2003, respectively, the charges levied on cross-border electronic payment transactions and credit transfers in euro or Swedish krona up to €12,500, had to be the same as those levied in respect of corresponding payments and credit transfers in euro transacted within the national territory. However, from the second quarter such verifications were practically insignificant.

To make this adaptation smoother, the Banco de España informed the credit institutions' representative associations of the criteria to be applied in it and emphasised that the aforementioned equality had to extend to any item directly related to the transfer (including the charging of transmission costs) and that it could not be circumvented by using as a basis for comparison orders of a different nature or of different characteristics. Hence this equality could only be altered by the charging of additional commissions if the ordering customer had not communi-

BANK CUSTOMER'S PORTAL

BOX 2.1

The basic aim of this website is to offer guidance to non-business bank customers in certain practical aspects of their dealings with credit institutions and other supervised institutions. To this end the website includes specific information relating to banking regulation, the supervision of which is entrusted to the Banco de España (authorised institutions, economic information on interest rates or commissions, characteristics and economic and financial risks to be taken into account when acquiring certain bank products, customers' rights, etc).

In addition, the website informs personal customers about the role played by the Banco de España in those aspects of interest to them in their dealings with banks and other supervised institutions and, in particular, about the limits on those functions and about the role of other public authorities in this area.

In view of these goals, and that of tying the website in with the general functions of the Banco de España, it is included as a sub-site in the Bank's general website, with its own Portal. This Portal is endowed, within the Banco de España's visual image, with its own language and graphic design:

Home page

This begins with an introductory message and a brief statement of the Banco de España's aim and of the general content of the website. Then, at a second level, it goes more deeply into the functions of the Banco de España, the areas of interest to the target audience and the definition of tasks and information that enable one to get a clear idea of the broad areas of competence of other supervisors and similar authorities.

Content

- Institutions: Registers of institutions supervised by the Banco de España and information identifying the institution in question and enabling it to be understood; description of the various categories of institutions composing the Spanish financial system.

- Banking products: financial description of the characteristics of the main lending and deposit products and services, indicating the main economic and risk factors with which consumers should be familiar before, upon and after contracting any product or service. It includes specific sections about interest rates and commissions on products, the rights of customers in respect of those products and the obligations of institutions to make public certain information relating to them.

- Interest rates: At the first level, basic definitions help readers to understand the concept of interest rates. These give some introduction to the contents presented at subsequent levels, which include, firstly, updated data on official interest rates and aggregate rates of institutions (now in the Boletín Estadístico) and on the rates published by institutions, and, secondly, specific sections giving rates on the different financial products.

- Commissions: The first level consists of the basic elements that determine commissions in the Spanish financial system; the second level includes a link to the charges published by institutions and specific sections giving commissions on the various banking products.

- Complaints and claims: Description of the cases in which they can be submitted and the procedures to be followed, and link to existing systems (particularly the Complaints Service).

- Customers' rights: The first level offers a general description. At the second level are sections on banking products, which set out customers' rights in each case; guidance on interest rate regulation for users, giving a brief introduction to each legal provision; and a list of contents enabling searches for basic terms to be conducted in the legal texts. At the final level, users can gain access to those legal provisions (they can also be accessed through specific links located at those points in the website where they are used).

- Deposit guarantee: Description of the Spanish deposit guarantee system, mention of the basic Community rules and link to the Deposit Guarantee Fund (FGD by its Spanish abbreviation) website.

Tools and auxiliary areas

- News: publication in the form of news headlines, with details at second level.

- Frequently asked questions: arranged by subject matter.

- Basic glossary of financial terms.

- Calculators, with simulators of customer transactions.

- Links to other Internet websites.

- Contact us: e-mail contact for bank customers with the Banco de España.

- Translation: Given the interests of potential foreign users and our commitment to help create European information networks, these website will also be in English.

- Legal notice: extent of liability of the Banco de España for the didactic information produced and the purpose of the website.

- Search engine.

- Map, with subject index of the content of the website.

COMMISSION CHARGES TABLE 2.1

Number. Yearly data

	TOTAL				BANKS				SAVINGS BANKS			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
Cases examined	**855**	**860**	**1,384**	**1,264**	**396**	**371**	**573**	**526**	**234**	**243**	**424**	**402**
Decisions (a)	659	790	987	1,008	281	349	372	370	193	233	301	354
Approvals	*307*	*201*	*287*	*393*	*122*	*98*	*85*	*131*	*79*	*53*	*97*	*137*
With objections	*352*	*589*	*700*	*615*	*159*	*251*	*287*	*239*	*114*	*180*	*204*	*217*
Objections formulated	1,857	2,294	3,183	2,003	823	937	1,293	845	692	708	1,055	651

	CREDIT CO-OPERATIVES				SCIS				SECURITIES-DEALER COMPANIES AND CEB			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
Cases examined	**149**	**128**	**257**	**222**	**57**	**67**	**55**	**55**	**19**	**51**	**75**	**59**
Decisions (a)	121	103	204	200	48	54	52	45	16	51	58	39
Approvals	*71*	*21*	*54*	*89*	*26*	*14*	*20*	*16*	*9*	*15*	*31*	*20*
With objections	*50*	*82*	*150*	*111*	*22*	*40*	*32*	*29*	*7*	*36*	*27*	*19*
Objections formulated	247	371	614	367	78	88	130	83	17	190	91	57

a. A single decision may correspond to several cases.

cated to the institution essential data for automatic transmission of the order; furthermore, in this case, the additional commissions have to be included in the appropriate brochures of charges verified by the Banco de España, and the institution has to give prior notification to its customers of the existence of these additional charges.

In any event, the aforementioned absence of regulatory changes requiring an adjustment of the brochure of commission charges by all the institutions explains the decrease of nearly 9% in the number of cases examined (Table 2.1), although the growing importance of commissions in transaction cost-benefit terms, against a background of interest rate stability, meant that this number remained appreciably higher than its thereto traditional level (47% above the 2002 figure). The lesser work needed in adaptation to regulatory changes, work which on occasions is made particularly complex by the specific features of the transactions affected, explains the decrease in the number of decisions with objections (615 as against 700). The decrease was even more marked in the number of objections formulated, down by 37% due mainly to the limited nature of the changes proposed, since now they do not usually encompass various headings. In line with this, the decisions of the Banco de España without any (even partial) objection to the changes proposed by the institution showed a further increase on the previous year, rising by 37%, and they now exceed the levels prior to the aforementioned processes of change.

There was a decline in the number of cases presented by all groups of institutions except SCIs, which were barely affected by the regulatory changes mentioned and followed a steadier course. As in the previous year, credit co-operatives showed the largest percentage change, but this time in the opposite direction, since there was a decrease of nearly 14% to stand, in relative terms, at practically the level prior to the process described.

2.3.2 ADVERTISING

The function assigned to the Banco de España' in this area is the authorisation, prior to publication, of credit institutions' advertising projects that refer to the cost or return to the public of the services or products offered.

ADVERTISING PROJETCS TABLE 2.2

Number. Yearly data

	TOTAL				BANKS				SAVINGS BANKS				CREDIT CO-OPERATIVES				SCI			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
Cases processed	**2,784**	**3,185**	**3,539**	**4,273**	**1,555**	**1,805**	**1,997**	**2,315**	**566**	**462**	**520**	**743**	**220**	**180**	**166**	**120**	**443**	**738**	**856**	**1,095**
BY TYPE OF DECISION:																				
Authorised	2,225	2,555	2,797	3,622	1,220	1,395	1,515	1,932	474	400	448	633	188	157	148	111	343	603	686	946
Rejected	26	33	5	7	20	22	3	2	4	4	—	2	—	—	—	1	2	7	2	2
Modified (a)	354	383	478	519	206	258	340	317	63	32	31	77	14	12	10	8	71	81	97	117
Returned (b)	179	214	259	125	109	130	139	64	25	26	41	31	18	11	8	0	27	47	71	30
BY TYPE OF OPERATION (c):																				
Lending transactions	1,107	1,382	1,907	2,298	468	577	945	1,045	219	162	228	270	78	54	50	37	343	603	686	946
Deposit transactions	970	932	810	1,244	639	623	505	825	246	217	217	345	85	92	86	74	—	—	—	—
Other	148	241	80	80	113	195	65	62	9	21	3	18	25	11	12	—	—	—	—	—
BY TYPE OF MEDIUM (c):																				
Press	870	789	732	1,156	545	442	295	561	58	53	49	67	23	24	18	20	244	270	370	508
Radio	60	100	143	177	35	54	89	121	—	—	—	2	1	—	—	0	24	46	54	54
Television	94	112	158	290	56	62	97	197	4	—	5	3	3	—	—	0	31	50	56	90
Other	1,201	1,554	1,764	1,999	584	837	1,034	1,053	412	347	394	561	161	133	130	91	44	237	206	294

a. Modifications, normally in prices, in projects authorised in the same or in previous years.
b. Relate to projects whose content does not require authorisation, or which have been withdrawn by the applicant.
c. From 2001 includes only authorised projects.

This authorisation, which is unique among our peer countries (where self-regulation usually plays a greater role), is intended to ensure that advertising reflects clearly, accurately and in a manner respectful of the competition the essential features of financial offers, and that the calculation of the cost or return offered has been made in keeping with the rules regulating the annual percentage rate (APR) formula. This measure seeks to harmonise that calculation to ensure the comparability of different offers.

Confirming the trend of previous years, there was a further increase in the number of advertising projects submitted for authorisation. This increase became larger in yearly terms, expanding to nearly 21% and lifting the number of cases examined to 4,273 (2,032 in 2000).

Unlike in previous years, in 2004 the increase in the number of projects processed stemmed from both lending product and deposit product campaigns, particularly from the latter, which reversed the trend of prior years and showed a spectacular increase of more than 53%. Nevertheless, the lending product campaigns continue to be more numerous, almost twice those for deposit products.

The increase in lending product campaigns was led by SCIs which, with a rise of nearly 38%, account for 41% of this type of campaign. Meanwhile, the growth in deposit product offerings was evenly distributed between banks and savings banks, with rises of around 60% in both cases.

The products most advertised by credit institutions were, on the lending side, fast or small-amount loans, mortgage loans and electronic means of payment. On the deposit side, fixed-term and rate deposits and deposits in which a part takes the form of a fixed-term and rate

REPORTING OF INTEREST RATES ON LENDING TRANSACTIONS TABLE 2.3

Number. Yearly data

	2001	2002	2003	2004
Reports processed	**505**	**405**	**277**	**293**
Banks	282	237	166	146
Savings banks	115	91	60	79
Credit co-operatives	108	77	51	68

deposit, the rest being linked to the performance of certain indices or to the purchase of other products, were the most widely offered. The advertising activity of SCIs continued to be centred on consumer loans and small loans at a high cost.

The number of rejections, as in previous years, was a tiny percentage of all applications (only 0.16%), although this figure should be adjusted by the number of projects dropped by the institution itself before reaching authorisation. However, this number decreased appreciably in 2004 (by nearly 52%), evidencing the efforts by institutions to accommodate their advertising campaigns to the relevant regulations and to good commercial practice.

As regards the media, the number of projects authorised for the press reversed its downward trend of recent years, particularly sharp in banks, and increased by 58%, as a result of which its relative weight rose to 32% of the total projects authorised. The greatest increase, however, was in the projects authorised for television, which grew by 83%. At the same time, the growth in projects disseminated in other media was sustained, in particular those for radio and the Internet.

However, with respect to the latter medium it should be noted that, in accordance with current law, not all the information that appears on institutions' websites concerning the specific characteristics of their products or services should be classified as advertising (and where applicable subject to prior authorisation by the Banco de España), either because access to it will necessarily have to be at the initiative of customers and consequently making such information available to them cannot be considered an act of advertising, or because of its strictly informative nature.

Finally, in terms of the number of institutions, banks account for 54% of the cases processed, followed by SCIs with 26%, savings banks with 17% and, at an even greater distance, by credit co-operatives with 3%. This structure, which has not undergone any major changes in recent years, is explained partly by the greater or lesser market share of each group of institutions, and partly by the fact that the advertising of savings banks, like that of regional or local credit co-operatives, is usually subject to control by regional governments. Only campaigns with a wider than regional scope are submitted to the Banco de España's scrutiny.

2.3.3 REPORTING OF INTEREST RATES ON LENDING OPERATIONS

Banks, savings banks, Spanish credit co-operatives and the branches of foreign CIs are obliged to disclose a number of interest rates on their lending operations. These are their prime rate, the respective rates on current-account and credit-account overdrafts, the latter two applicable at the maximum rate unless lower rates are contractually envisaged, and the indicative reference rates relating to other financial facilities deemed most habitual or representative. In turn, institutions should report such rates, and changes therein, to the Banco de España, indicating the dates from which they will be applicable. The Banco de España publishes these rates on its website so that they may be freely consulted by analysts and customers.

CONSULTATIONS ON INTEREST RATES AND COMMISSIONS TABLE 2.4

Number. Yearly data

	2001	2002	2003	2004
Consultations	**403**	**355**	**267**	**209**
By institutions	319	312	208	181
Banks	*193*	*179*	*100*	*87*
Savings banks	*82*	*84*	*75*	*76*
Credit co-operatives	*9*	*13*	*7*	*1*
Other	*35*	*36*	*26*	*17*
By individuals	24	13	23	9
By corporations	11	11	15	6
By the courts	49	19	21	13
Internet consultations	**15,830**	**67,749**	**77,535**	**63,585**
Interest rates (a)	15,839	14,556	13,290	8,089
Commission charges		53,193	64,245	55,496

a. Number of hits on the related BE website pages with information on the interest rates reported for institutions' lending transactions.

To gauge the public usefulness of these data above and beyond their purely supervisory utility, Table 2.4 draws together the replies made in writing to CIs, to individuals and to court consultations channelled through the Banco de España's legal department, basically in relation to the interest rates obligatorily reported, although occasionally these consultations also relate to the fees shown in the charges brochures reviwed by the Banco de España. Also, it gives the number of consultations of the database of interest rates reported by CIs on the Banco de España website.

It should be mentioned that the last few years have seen a decrease both in the number of reports processed (despite a slight increase of 5% in 2004 due to a one-off adjustment) and in the number of consultations made, whether electronically or on paper. This decrease was around 20% in 2004, perhaps reflecting the scenario of stable interest rates that has characterised the last few years.

2.3.4 OFFICIAL REGISTERS OF SUPERVISED INSTITUTIONS

So as to implement the "vetted access" principle governing the presence of various institutions operating on our financial markets, and in order to publicise the fact that these institutions are subject to supervision by the Banco de España, the latter is also responsible for keeping the public records in which, prior to engaging in their activity, the following institutions must be registered:

– All CIs licensed to provide banking services in Spain: banks, savings banks, credit co-operatives, specialised credit institutions, foreign branches of CIs and foreign CIs providing services without an establishment, as well as the representative offices of foreign CIs whose functions are of a merely commercial or market prospection nature.

– The owners of currency-exchange and/or cross-border money-transfer bureaux, the only establishments other than CIs (excluding SCIs) that are licensed to buy and sell foreign banknotes or make transfers abroad.

– Appraisal companies, to which this activity is confined when it involves goods or rights that are to be transferred in the mortgage market, that are to form part of the

OFFICIAL REGISTERS OF INSTITUTIONS TABLE 2.5

Number. Year-end data (a)

	2001	2002	2003	2004
Institutions with an establishment	**576**	**566**	**553**	**547**
Credit institutions	369	361	350	348
Representative offices	60	62	57	56
Mutual guarantee companies	23	22	23	23
Reguarantee companies	1	1	1	1
Currency-exchange bureaux and money transfer agencies (b)	49	53	55	58
Appraisal companies	74	67	67	61
Credit institutions operating without establishment	**276**	**292**	**309**	**355**
Of which:				
EU credit institutions operating without an establishment	*272*	*288*	*305*	*350*
Of which: financial subsidiaries of EU credit institutions	*2*	*2*	*2*	*3*

a. The number of institutions also includes thoes that are non-operational and in the process of deregistering.
b. Does not include foreign currency purchasing establishments.

assets of real estate investment or pension funds or that are to be used to cover the technical provisions of insurance companies.

– Mutual guarantee and reguarantee companies.

The existence of these registers[1] in no way interferes with those which the regional governments may have set up for the purpose of certification of the institutions over which they have certain supervisory powers. Such institutions are essentially savings banks whose registered offices are in the region and credit co-operatives whose operating scope does not extend beyond the region in question. Nor do the aforementioned registers interfere with the more general powers of the Mercantile Registers.

Table 2.5 lists the number of institutions subject to supervision by the Banco de España and entered in the corresponding registers, as well as the number of institutions that operate in Spain under the freedom to provide services, in accordance with the provisions of Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 (Directive 2000/12) and of Article 11 of Royal Decree 1245/1995 of 14 July 1995.

As in previous years, the net change in 2004 in the number of registered institutions with an establishment (six institutions) was not significant, since the 17 additions to the registers in 2004 were more than offset by the 23 deletions in the same period. The additions consisted of eight CIs (five branches of foreign credit institutions and three SCIs), one AC, three owners of currency-exchange and/or money-transfer bureaux and five representative offices. The deletions were ten CIs (five banks, one credit co-operative, two branches of foreign CIs and two SCIs), seven ACs and six representative offices, partly as a result of mergers.

Also, in net terms, in 2004 46 new foreign CIs, 45 of them from the EU, notified their intention to provide services in Spain without a permanent establishment. This increase of approxi-

1. They are published in the Supervision section of the Banco de España website.

REGISTER OF DIRECTORS AND SENIOR EXECUTIVES TABLE 2.6

Number. Yearly data (except registered directors and senior executives)

	2001	2002	2003	2004
Directors and senior executives registered	**4,946**	**4,866**	**4,845**	**4,837**
Additions or deletions in supervised institutions	2,832	3,283	2,862	1,724
First-time additions	*570*	*702*	*632*	*650*
Reinstatements	*260*	*109*	*106*	*92*
Inquires as to integrity of directors and senior executives	757	504	38	48
Average number of people listed per document	5	5	4	8

mately 15% is unprecedented and seems to reflect the greater globalisation of credit activities and the ongoing expansion of electronically conducted operations.

2.3.5 OTHER INFORMATION FILED WITH THE BANCO DE ESPAÑA: DIRECTORS AND SENIOR EXECUTIVES, SHAREHOLDERS, AGENTS AND ARTICLES OF ASSOCIATION

The Banco de España receives information on directors and senior executives of supervised institutions for inclusion in the Register of Directors and Senior Executives, which it is responsible for keeping. In the case of savings banks, this information is passed to the Ministry of Economy. The category "directors and senior executives" includes here members of the board of directors, or the equivalent body, of the company in question and its general managers or similar officers.

Register of Directors and Senior Executives

At present, the most important function of this Register, which is confidential, is to supply updated, personal and professional data on those chiefly responsible for the activity of supervised institutions. This provides a further auxiliary instrument for the exercise of the supervisory and sanctioning powers assigned to the Banco de España; throughout the EU, and as provided for under harmonised Community law, those in the most senior positions of responsibility at CIs must have a recognised commercial and professional standing and reputation, in keeping with the factors envisaged to this end in the law.

Moreover, in the case of directors and senior executives of banks, savings banks and credit co-operatives, the Register is also a specific element for checking the restrictions and incompatibilities to which such individuals are subject in respect of holding similar posts at other companies. In the case of the directors and senior executives of banks and credit co-operatives, the Banco de España is responsible for this checking, while in that of savings banks the regional governments have this responsibility. The fact that inscription in the Banco de España Register precedes that required in the Mercantile Register reflects the need to carry out the aforementioned monitoring of incompatibilities as a prerequisite for effectively taking up a senior post.

As in the previous year, the fall in the number of directors and senior executives of supervised institutions included in the related registers was of little significance, continuing the mild trend of previous years, mainly as a result of the reduction in the number of institutions. However, there was a slight increase in the number of persons included for the first time in these registers, while the number of those who, having been included previously on account of positions held in the past, are considered reinstated decreased slightly.

Of the total, less than 8% were legal persons, these mostly belonging to the boards of directors of MGC (74%). The number of women members of the board of directors or general managers increased by 15% in 2004, although they only represented 9% of all the individuals included in the registers. Of the 380 women in the registers, 279 hold positions in credit institu-

REGISTER OF SHAREHOLDERS TABLE 2.7

Number. Year-end data

	BANKS				CREDIT CO-OPERATIVES				SCI			
	2001	2002	2003	2004	2001	2002	2003	2004	2001	2002	2003	2004
Registered shareholders	**687**	**640**	**618**	**566**	**417**	**336**	**359**	**364**	**181**	**181**	**179**	**179**
Individuals	166	141	126	96	200	137	171	169	37	37	38	38
Legal persons	521	499	492	470	217	199	188	195	144	144	141	141
Credit institutions (a)	113	115	115	116	75	67	67	72	67	66	60	61
Other	408	384	377	354	142	132	121	123	77	78	81	80
MEMORANDUM ITEM:												
Spanish	483	440	411	367	416	335	358	362	162	161	155	155
Foreign	204	200	207	199	1	1	1	2	19	20	24	24

a. Spanish credit institutions and branches in Spain of foerign ones.

tions, of whom 34 are in banks, savings banks having the highest percentage of women on their governing bodies (13%).

Also noted in the registers are the administrative penalties which the officials listed may have incurred in connection with the disciplinary rules applicable to them. This explains why other supervisory authorities direct numerous reputation-related inquiries to the Register. In 2004 these inquiries, however, remained at the low levels of 2003.

Information on shareholders

The Banco de España also receives confidential information on the shareholders of banks and SCIs and on the members of credit co-operatives. These institutions are required to report data quarterly on all their shareholders or holders of contributions that are deemed to be financial institutions, and on those who, while not deemed to be such, hold shares or contributions representing a percentage of the share capital of the institutions greater than or equal to 0.25% in the case of banks, 1% in that of credit co-operatives and 2.5% in that of SCIs.

This information is intended for the basic supervisory tasks of the Banco de España, it being essential for the latter to know the share ownership structure of the institutions under its supervision and, of course, to permit or facilitate application of the provisions which bring under control of the Banco de España any ownership interest in these institutions, once it exceeds certain thresholds.

The number of significant shareholders declared in the reports submitted by banks continued to decline in relation to previous years, falling by more than 8% in 2004. Of particular importance was the nearly 24% reduction in the number of individual shareholders, which centred on Spanish shareholders, due partly to the processes of concentration in the sector and partly to the more stable level of foreign investment, largely of a corporate nature.

By contrast, the changes in 2004 in the number of reported members of credit co-operatives and of SCIs were insignificant. Although this development is circumstantial in credit co-operatives given their natural propensity to attract new members, it is structural in SCIs because of the greater presence of legal entities among their significant shareholders and because many of these institutions form part of larger credit groups.

CREDIT INSTITUTIONS' AGREEMENTS AS AT 31 DECEMBER

TABLE 2.8

Number. Year-end data

	2001	2002	2003	2004
TOTAL	**465**	**544**	**105**	**106**
Banks	160	169	1	2
Savings banks	34	35	42	42
Credit co-operatives	—	—	—	—
Specialised credit institutions	269	337	62	62
Branches of EU credit institutions	2	2	—	—
Branches of non-EU credit institutions	—	1	—	—

Reporting of agents

CIs operating in Spain and, since the beginning of 2002, also the currency-exchange bureaux licensed to make cross-border money transfers, are obliged to report to the Banco de España certain of their agents, specifically those resident and non-resident individuals and corporations whom they have authorised to operate habitually with their customers, in the name and on behalf of the principal, in negotiating or entering into operations typical of their activity. There is no obligation to report correspondents, persons granted special power of attorney, persons linked to the institution by an employment relationship, those who are only authorised to attract customers but not to negotiate or enter into transactions, or agents' representatives, attorneys or employees.

In turn, Spanish CIs must report to the Banco de España the list of foreign CIs with which they have entered into agency agreements or agreements to provide financial services to customers[2].

As regards the owners of currency-exchange bureaux licensed to make transfers, 35 owners of the 42 licensed to carry on this activity have agents. Thus, at 31 December 2004, 5,840 agents were included in the Register (a quarter of them retained by the same owner), up 20% on 2003. This reflects the growing dynamism of the sector, especially when it is considered that, apart from exclusivity, the regulations require that the powers granted to these agents be executed before a public authenticating official and registered at the Mercantile Register.

As to the agents of CIs and the agreements entered into by the latter with foreign CIs for the regular provision of financial services to their customers, the more precise definitions of "agent" and "agreement" included, as described above, in CBE 6/2002 (which, in addition, spells out the public nature of the information received in this respect by the Banco de España, in order to increase the protection of customers), led to an appreciable reduction in the number of agents and agreements registered up to that time, because they did not meet those definitions. There was a further decrease in the past year. Thus at end-2004 there were only 65 CIs, which had 4,836 agency contracts (see Table 1.A.2 of the annex) for negotiating or entering into their transactions with customers (the numbers being 85 and 9,500, respectively, prior to the change in the law), representing a decrease of nearly 15% with respect to the previous year. Nevertheless, the agency contracts continue to be concentrated in three banks (with around 1,000 agents each) and in a second group of four institutions (three banks and one savings bank, with more than one hundred agents).

2. Article 22 of Royal Decree (RD) 1245/1995 of 14 July 1995, and CBE 6/2002 of 20 November 2002.

REGISTER OF ARTICLES OF ASSOCIATION TABLE 2.9

Number

	2001	2002	2003	2004
Amendments registered	290	275	232	268
Cases processed	39	57	62	59
BY TYPE OF INSTITUTION:				
Banks	13	14	27	33
Savings banks	—	—	4	3
Credit co-operatives	12	38	24	15
SCIs	6	5	5	3
MGCs	8	—	2	5
PROCESSING CHANNEL:				
Reported to Directorate General of the Treasury and Financial Policy	36	44	49	46
Reported to regional government	3	13	13	13

As for agency agreements with foreign institutions, these have also remained steady at the lower levels resulting from the aforementioned legal clarification.

Special Registers of Articles of Association

The Banco de España is also in charge of the Special Registers of Articles of Association of supervised institutions, established further to the obligation on CIs and other supervised entities to report any amendments to their public deed of incorporation.

These registers act as an auxiliary means of control for the Banco de España in relation to amendments of supervised institutions' articles of association which, in some cases, are subject to authorisation by the Ministry of Economy and Finance or the corresponding regional government body, further to a report by the Banco de España. In addition, and insofar as they reflect functional agreements that are usually of significance from a prudential and operational perspective, they are used as an auxiliary instrument of supervision.

As regards the entries made in these registers, those corresponding to banks and to SCIs mostly refer to changes in the amount of share capital or to adaptations to legal provisions (in particular, in the case of listed companies), to the establishment of the audit committee, as well as to amendments in the regulation of their boards of directors, largely arising from Law 26/2003 on transparency of listed companies and from recommendations contained in the Olivencia and Aldama reports. The amendments to the articles of association of savings banks and credit co-operatives were mostly due to changes in State law (Law 44/2002 on Reform of the Financial System and General Credit Co-operatives Law 27/1999) and regional law that specifically affects them. The amendments to the articles of association of MGCs also largely arose as a result of adaptations to Insolvency Law 22/2003.

2.3.6 ELIGIBILITY OF HYBRID CAPITAL INSTRUMENTS AS OWN FUNDS IN THE SOLVENCY RATIO

Included among the capital instruments that are elegible as own funds are some that, albeit to a lesser degree than ordinary capital, meet certain requirements, whereby they partially resemble ordinary capital. These requirements are that the instruments can be set off against losses, that the institution has issued them on a long-term or permanent basis and that in certain cases the returns on them depend on the existence of sufficient profits. These instruments are known as hybrid capital instruments.

The instruments in question consist of subordinated debt and preference shares. The main feature of subordinated debt is that, with regard to the ranking of claims, its holders are behind all ordinary creditors. Preference shares, meanwhile, have traditionally been issued by special purpose vehicles owned by CIs (which, following the entry into force of Law 19/2003 of 4 July 2003, may reside in Spain); to compensate for their lack of voting rights, the claims of the holders of preference shares rank ahead of those of ordinary shareholders and they have certain remuneration privileges.

There are no restrictions on the issuance of such instruments, although when they take the form of a series of securities the regulations of the securities market on which they are to be traded will apply. In addition, as regards the issuance of preference shares, Law 19/2003 of 4 July 2003, referred to above, clarified their fiscal arrangements and permitted CIs themselves or their Spanish subsidiaries to issue them. It further provided, in line with what the Banco de España had been suggesting, that at the time of a new issue, the amount of outstanding preference shares, including those of the issue itself, shall not exceed 30% of the tier 1 capital of the consolidated group or sub-group to which the issuer belongs. In any case, the Banco de España must verify that these instruments meet the conditions established by bank solvency law as a requisite for their eligibility as own funds of the issuing institution or of its consolidable group[3].

For this purpose, at the beginning of 2004 the Banco de España communicated to the CIs various criteria[4] which, from a prudential standpoint, they had to meet in the verification of preference share issues. These criteria regulated: (i) the limits on payment of dividends to preference shareholders in the event of a shortfall of eligible own funds at the guarantor or in its consolidable group, these dividends being reduced to zero if the shortfall exceeds 20%; (ii) the repurchase of securities by the issuer or by any entity in its group for the purpose of cancelling them, which will only be permitted as from the fifth year after receipt of the initial capital contribution and following prior authorisation by the Banco de España; (iii) the amounts to be settled with the holders of these securities in the event of dissolution or liquidation of the guarantor or of reduction of its capital to zero or below the legal minimum requirement, with a simultaneous increase in capital up to a level equal to or greater than that minimum, provided that such amounts may not exceed those that would have been paid to those holders from the guarantor's assets if the preference shares had been issued by it under the same conditions; and (iv) the treatment of, and guarantees to be received for, the funds raised through the issue for the purpose of their eligibility as own funds.

Also, rules of procedure were established to calculate the aforementioned upper limit on outstanding preference shares (30% of consolidated tier 1 capital) and to provide for non-compliance with that limit, and additional safeguards were defined for issues with complex remuneration structures.

These criteria were completed with a subsequent communication in which, in order to remove the uncertainty caused by the changes stemming from the process of adaptation of Spanish legislation to Community accounting regulations, it was specified that the consolidated profit or loss to be taken into account in determining the lawfulness of the agreed remuneration payment to preference shareholders was that stated in the confidential consolidated financial

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3. See Article 8 o CBE 5/1993 of 23 March 1993 on the determination and monitoring of minimum own funds. **4.** These criteria implemented and completed those specified in the second additional provision of Law 13/1985 of 25 May 1985 on investment ratios, own funds and reporting requirements of financial intermediaries, introduced by Law 19/2003 of 4 July 2003 on the legal regime governing capital movements and cross-border transactions and on specific measures for the prevention of money laundering (see Section III.1.2 of the Report on Banking Supervision in Spain 2003).

ISSUANCE OF ELIGIBLE INSTRUMENTS BY SPANISH CREDIT INSTITUTIONS TABLE 2.10

€ millon. Yearly data

	2001		2002		2003		2004	
	No.	AMOUNT	No.	AMOUNT	No.	AMOUNT	No.	AMOUNT
Total	**72**	**8,947.9**	**56**	**5,945.0**	**56**	**6,372.0**	**70**	**13,230.0**
Subordinated debt	**60**	**7,178.8**	**50**	**4,487.0**	**49**	**4,810.0**	**49**	**6,654.0**
Traditional	58	6,853.6	50	4,487.0	47	4,532.0	46	5,104.0
Banks	22	4,287.3	12	1,720.0	15	2,668.0	16	3,795.0
Savings banks	17	2,382.6	29	2,737.0	26	1,814.0	19	1,235.0
Credit co-operatives	2	72.0	—	—	1	20.0	2	24.0
SCIs	17	111.7	9	30.0	5	30.0	9	50.0
Of which:								
In pesetas/ecus/euro	*58*	*6,853.6*	*50*	*4,487.0*	*49*	*4,810.0*	*49*	*6,654.0*
In US dollars	—	—	—	—	—	—	—	—
Of foreign subsidiaries	*12*	*2,626.0*	*9*	*2,375.0*	*1*	*200.0*	—	—
Loans	*24*	*161.0*	*12*	*180.0*	*9*	*303.0*	*15*	*704.0*
Undated	2	325.3	—	—	2	278.0	3	1,550.0
Banks	1	322.6	—	—	2	278.0	2	1,050.0
Savings banks	—	—	—	—	—	—	1	500.0
SCIs	1	2.7	—	—	—	—	—	—
Of which: in pesetas/ecus/euro	*1*	*2.7*			*2*	*278.0*	*3*	*1,550.0*
Preference shares	**12**	**1,769.1**	**6**	**1,458.0**	**7**	**1,562.0**	**21**	**6,576.0**
Banks	3	729.1	3	1,138.0	3	1,100.0	14	5,063.0
Savings banks	9	1,040.0	3	320.0	4	462.0	7	1,513.0
Of which:								
In US dollars	*1*	*269.1*	—	—	—	—	*1*	*190.0*
In pesetas/ecus/euro	*11*	*1,500.0*	*5*	*1,298.0*	*7*	*1,562.0*	*20*	*6,436.0*

statements. In addition, it was indicated that when such profit or loss differed materially from that attributed to the group in the public consolidated annual financial statements, the difference and the reasons for it must be adequately made public in the notes to the entity's financial statements.

Most of these instruments are traded on organised markets between institutional investors, yet issues are increasingly distributed to customers through institutions' branch networks (in 2004, around 45% of their total amount and 80% of preference share issues). In these cases, the Banco de España places special emphasis on the need to inform customers clearly about the nature of such securities, which constitute venture capital in the strict sense, and to help potential subscribers to properly understand the characteristics of the securities offered and the risks that may arise from purchasing them, particularly those relating to their ranking in the priority of claims and, in the case of preference shares, the risks relating to their remuneration. Further, institutions are also warned of the risk that, at least from the reputational standpoint, may arise when products of such a complex nature are distributed through the branch network. This warning is also given when the interest rates applied do not realistically reflect this nature.

Until end-1998, preference shares were placed almost exclusively on the US market, their distribution in the Spanish market beginning at that time under the trade name of participaciones preferentes. In 2004, only six issues of this nature, totalling €1.2 billion, were placed outside Spain, one of them on the US market.

As regards subordinated debt, five issues were made completely outside Spain and three partly outside Spain, for a total of €3.9 billion. Also, seven subordinated loans amounting to a little over €50 million were arranged with foreign parents.

In 2004, the total funds raised by institutions through these instruments increased by a spectacular 108%. This surge was mainly because the issues increased in amount, since their number only grew by 25%. In fact, the number of subordinated debt financings was the same as in the previous year (49), although the amount classified as eligible increased by 38%. The issues of preference shares rose threefold and their total amount was up more than fourfold, in all likelihood reflecting the possibilities created by the aforementioned Law 19/2003.

Except for the preference share issue launched on the US market, which was denominated in US dollars, all issues, including loans, were denominated in euro. Only four financings (two of subordinated debt and two of preference shares) were at a fixed rate of interest; the rest were at a variable rate and they almost exclusively took EURIBOR as the reference rate, applying a wide range of differentials thereto.

Most subordinated debt issues were for a fixed term, ranging from 7 to 15 years, although nearly all of them allow for early repayment as from the fifth year after disbursement.

Subordinated loans, meanwhile, were arranged between CIs and their subsidiaries, exclusively for the purpose of compliance with the capital requirements of the latter, with loans of undefined maturity not being uncommon.

2.3.7 CUSTOMER SERVICE DEPARTMENT

Pursuant to Ministerial Order ECO/734/2004 of 11 March 2004 on the customer service department and ombudsman of financial institutions, in 2004 credit institutions (among others) and the branches in Spain of credit institutions with registered office in another State have been establishing and organising their customer service departments and, where applicable, ombudsman (the latter is voluntary and can be shared with other institutions).

The activity of these departments or services (which can be common to all institutions forming part of the same economic group) is governed by Customer Protection Rules the content of which, in the case of credit institutions and their branches, must be verified by the Banco de España, except for those of regional savings banks and credit co-operatives, the verification of which will be carried out by the competent body of the Regional (Autonomous) Community in which their registered office is located. In any event, the Banco de España must be informed of the designation of the head of the service or department and, where applicable, of the ombudsman, since this information is of importance both to its control and inspection functions, and for the purposes of general dissemination.

Although the aforementioned verification process was confined to checking whether the Customer Protection Rules contain the required regulation and whether they conform to the applicable legislation, it gave rise to intense activity in the second half of 2004, first, in order to co-ordinate this verification with the other supervisory bodies and credit institutions' representative associations, and subsequently, in order to actually carry it out.

The aforementioned activities included most notably, first, the determination of and communication to said associations of the documentation to be sent to the Banco de España and, second, the definition, jointly with the other supervisory bodies, of the minimum content of the customer protection rules.

As regards the verification process, by end-2004 45 sets of rules had been reviewed: 6 pertaining to banks, 25 to credit co-operatives, 10 to branches of foreign credit institutions and one to a specialised credit institution, the other three having been drawn up by the Confederación Española de Caja de Ahorros (Spanish Confederation of Savings Banks), the Unión Nacional de Cooperativas de Crédito (National Union of Credit Co-operatives) and the Asociación Española de Leasing (Spanish Leasing Association). As at 31 December, 128 sets of rules had yet to be verified.

Except as regards the three sets of rules submitted by branches of foreign credit institutions, to which there were objections on specific aspects, all the other verifications were positive.

Nevertheless, in practically all cases diverse recommendations had to be made to the institutions to improve the transparency or workability of their respective sets of rules, and in certain cases the institution had to be advised that their validity required certain of their clauses to be interpreted so as not to impair the rights of customers or the independence of the head of the service.

2.4 Corporate governance and the ongoing regulatory changes

2.4.1 2004: A KEY YEAR FOR CHANGES IN CREDIT INSTITUTIONS' REGULATORY ENVIRONMENT

The proximity of the major regulatory changes affecting the activity of credit institutions has made 2004 a year in which institutions, in addition to keeping abreast of the usual business, have had to step up their efforts to prepare themselves for these changes. This preparation stage has certainly not finished, and will continue with the same or growing intensity in the coming months.

Indeed, the adequate preparation for the changes in the environment in which banks operate, whether it be the regulatory environment, as in this case, or any other, constitutes the first requirement of good corporate governance, which is that companies must primarily seek to ensure the continuity of their operations. In the case of credit institutions, these aims stand side by side with those of the supervisory authorities insofar as these are promoters of financial system stability.

For this reason, now is a good time to reflect on the role of corporate governance in the regulatory changes currently under way.

From the standpoint of these changes, it can be said that 2004 has been a watershed.

For credit institutions, 2004 has marked the watershed between the "traditional accounting" represented by Banco de España Circular 4/1991 and the accounting based on the conceptual framework and principles of international financial reporting standards deriving from the European Union's new accounting strategy and represented by Circular 4/2004, applicable in 2005.

2004 was also the year in which the Basel Committee on Banking Supervision published its revised framework for international convergence of capital measurement and capital standards (Basel II), which will constitute a new way of controlling the solvency of institutions. Although it will be applied from 2007, it will require a long adaptation period.

Probably at no other time in recent history have Spanish credit institutions faced a series of regulatory changes that are so intense, so concentrated in time and so potentially able to affect the management of operations.

These new accounting and solvency standards have some common characteristics: their complexity, the fact that they aspire to represent and measure more faithfully the economic and financial reality of companies, their mission to bring rules more into harmony with management, and their greater sensitivity to risk and emphasis on transparency.

Corporate governance has a decisive role to play in the orderly adoption of the above-mentioned changes and in the improvement generally of management systems.

2.4.2 CORPORATE GOVERNANCE AND THE ACCOUNTING REFORM

As regards the application of the new accounting rules, which commenced on 1 January 2005, the management of this change now requires that institutions' governing bodies directly monitor the changes introduced by Circular 4/2004 on financial reporting, particularly during 2005, which will end with the submission of the first individual and consolidated annual accounts in accordance with the new accounting rules.

However, in addition to implementing the necessary valuation adjustments, institutions have to: assess the current and future implications of these changes, not only in the area of financial reporting, but also in the other facets of an institution's management; ensure that the training programs in place are well designed and sufficient; and see to it that their computer systems provide the data required to meet the new reporting requirements in a timely and reliable manner.

As the Banco de España has recently reminded institutions, the new circular expressly recognises a greater role and greater responsibility of directors in the accounting area, particularly in the setting of policies, which must be considered and assessed by the board of directors before they are finally adopted.

Moreover, the preamble to the new circular states that, along with the aim of making its content compatible with international financial reporting standards adopted by the EU, it also seeks to continue where possible the course of the previous circular, promote reporting transparency and meet the macroprudential aims of the Banco de España's supervisory task by enhancing the individual strength of credit institutions.

To address this latter aim, good corporate governance requires that the directors, in defining accounting policies and applying the criteria of the new standards, always keep in mind the need to protect the quality of assets, the solvency of institutions, and the confidence in and continuity of the business.

It follows from the functions legally assigned to audit committees that the work of these bodies is particularly important in this connection.

2.4.3 CORPORATE GOVERNANCE AND BASEL II

The second of the regulatory challenges mentioned above (Basel II) also gives rise to a number of reflections on the role of corporate governance in credit institutions which in fact do not refer only to preparing for the change, but extend more generally to institutions' risk management. The text contains diverse criteria in this respect. Obviously there are many facets to this question, so we will limit ourselves to some specific comments on preconditions, scope, foundations, nature and integrity of management models.

Premises of risk management systems

A necessary precondition for good corporate governance is the creation of an appropriate internal structure and well defined procedures for appropriately managing risk. There is thus a need for a good organisational structure, a complete definition of posts, properly assigned functions, properly assigned responsibilities, appropriate communication channels, and complete, efficient and documented operating and control procedures. Only in this way can there be an ongoing assurance of timely management information, of proper risk identification and measurement, and of reasoned decision-making on the assumption and mitigation of positions.

Within this structure, an important role is played by boards of directors and by legally mandatory committees such as the audit committee, the remuneration committee and the investment committee in savings banks. Also important is the function of the other specialised committees set up by institutions with a view to improved corporate governance.

Overall scope of management systems

The scope of risk management systems must be overall. The types of risk encountered in banking are highly varied, as shown by the diverse reasons for international banking crises in recent decades. It is true that in the business model preferred by Spanish credit institutions, namely retail banking, credit risk is and will continue to be, in general, the type of risk that most strongly determines the overall risk profile of an institution. But due attention should be paid to other risks.

This perspective is well captured in Basel II, which broadens the range of banking risks used as a basis for calculating regulatory capital requirements. Along with credit risk and market (including currency) risk, for which capital allocations are nowdays made in accordance with regulations derived from the still current Basel Capital Accord, the new framework also takes account of operational risk within the so-called Pillar 1, and of other banking risks within Pillar 2.

Institutions are fairly frequently seen to relax their controls in the case of risks that, although properly identifiable, are more difficult to measure or quantify, or even to fail to establish them rigorously. However, the directors' function is to take into account that exposures to these risks can always be identified and assessed, so all good risk management systems must include them in their scope as a starting point for defining the required controls and the most suitable mitigation techniques.

In particular, as stated in the *Report on Banking Supervision in Spain, 2003,* it is very important to take into account the implications of so-called reputational risk, which on that occasion was analysed within the framework of the establishment abroad of Spanish banks, although it has other manifestations, since the concept of reputational risk is closely linked to that of confidence, and the confidence of customers is a necessary condition for banking.

The foundations of management systems: reliable information, the input of experience and an analytical approach

A risk management system must be firmly seated in the institution's structure. Some of the foundations that assure it is firmly established, as clearly seen from the new regulatory capital framework, are as follows:

– Reliability of information.

  Effective risk management has to be based on reliable, practical and timely management information. This makes it important that there is a commitment by the directors, on the one hand, to implementing an effective information system throughout the whole organisation, and, on the other, to meeting the need to define the particular information required for responsibly exercising their functions.

  No risk management model can work well if it does not have reliable and timely information.

The new accounting circular includes among its aims that of improving the transparency of an institution's economic and financial information to its external users. But the pursuit of this aim should not lead to neglect of the priority task of ensuring adequate information for decision-making, which will also contribute to the quality of external information.

– Experience as a necessary input into risk management systems.

Nothing is more disheartening in any human activity than mistakes caused by failing to heed the teachings of experience. The point here is not just to incorporate into decision-making those intuitive insights that managers accumulate in the course of their professional activities, but also to design risk management systems that require, for decision-making, a knowledge and assessment of the data provided by historical experience. Spanish credit institutions in most cases have a long track record spanning a broad series of complete business cycles. If this information is made available in an ordered and complete manner, it can be used as an input into the best risk management systems. In a nutshell, risk is simply the possibility of a future loss; but the future, as in so many other facets, is partly explained by the past.

– Analytical focus of risk management.

The commercial angle is unquestionably a highly significant facet of banking activity, and institutions are increasingly acknowledging this through the development of customer-oriented business models. But this perspective should play a limited role in risk management systems, which have to take a technical and analytical approach. It is natural that on occasions the decisions of management, swayed by the circumstances at the time, tend to take commercial considerations very much into account, since it is tempting to conclude business that yields immediate results. But the risks taken may affect, and even compromise, the future situation of the institution, and a requirement of good corporate governance is to give priority to the aim of stability of institutions and their short-, medium- and long-term viability. Therefore institutions need to have risk control units that are separate from the commercial areas and before assuming risk it is essential to take into account first and foremost the conclusions drawn from management models.

These models cannot therefore be islands in the institution's organisational structure, but must impregnate all its areas and functions.

For example, an integral risk management model must, insofar as credit risk is concerned, be of use in valuing transactions for accounting purposes, in calculating the required economic capital, in calculating regulatory capital, in choosing and granting operations and in calculating risk premiums and setting prices that incorporate those premiums effectively.

Institutions are developing increasingly more complex and sophisticated management models, but must realise that these models will not deliver their full potential if they are not assimilated into the commercial practices of the institution.

Management system integrity: stress tests

The integrity of management models requires not only that they take into account risk measurements from the standpoint of their expected value, but that they consider the less probable, but potentially more damaging, situations. In short, it is necessary to conduct stress tests. "All imagined scenarios are possible scenarios" is a watchword fitting for a prudent bank manager with the gift of foresight.

Stress tests should form part of an institution's integral risk management structure. Hence they have to encompass not only those risks that have traditionally served to initiate institutions in this practice, such as interest rate risk and equity risk, but must extend to the other risks encountered in banking. Meriting mention in this respect because of their importance are credit risk stress tests of loan portfolios (credit risk is the main risk associated with the business of the Spanish banking sector) and those used to analyse liquidity risk, which is not so important under normal circumstances, but which becomes extremely significant if problems arise in this respect.

The incorporation of stress tests into the overall risk management structure involves, first, the need to integrate the various scenarios so as to take into account the correlations between the different variables and, second, in the case of financial groups or conglomerates, the definition of criteria to gain a knowledge of the effects not only at individual, but also at aggregate, level.

Risk management systems: the distinguishing features of credit institutions

The nature of risk management systems can be understood from several perspectives. One of these is their consideration as part of the distinguishing features of credit institutions.

In the coming years, and as has already started to occur, external analysts, auditors, supervisors and, in general, all parties interested in the performance of institutions will pay special attention to the quality and effective implementation of risk management systems. Consequently, these systems are a key element for differentiating one institution from another and will acquire increasing external prominence due to the new information transparency requirements.

For example, in the Risk-Based Approach to Banking Supervision (SABER by its Spanish abbreviation) applied by the Banco de España, the assessment of risk management systems, of controls in general and of corporate governance are of prime importance for determining institutions' risk profiles (see *Report on Banking Supervision in Spain, 2003).*

Thus risk management models have become a part of the distinguishing features of credit institutions.

A first consequence is that, although risk management is not a business area, and should not be one, it is an area in which to compete. Just as managers have traditionally been concerned with securing the best positions for their institutions in the rankings by size, profits, efficiency or other quantitative variables, it makes sense for them to compete to achieve the most effective and highly regarded management systems.

A second consequence is that, once the effort has been made to put in place the best management systems, it is reasonable to entrust them with the task for determining the competitive position of institutions in the market, as a means of ensuring the institution's continued existence and its orthodox management. When granting operations and assuming risks, managers will naturally look to their risk models and pay less attention to the movements of other institutions, rejecting the option of mimetic competition, i.e. the temptation to follow gregariously the decisions of other, losing one's distinguishing features in the process. Investment in management models is a failure if business decisions do not pay heed to them.

The validation of risk management models, a demanding process

Having said that, the use of internal rating based (IRB) models to calculate capital requirements in accordance with Basel II, which requires prior validation by the Banco de España, will be a demanding process in which particular attention will have to be paid to integration of the systems, the suitability of the databases used and the technological environment. Access to the most advanced approaches will require a very high level of operational security. Internal audit departments and external auditors will both play a significant role in the process of validating models, particularly in checks on data processing, on the construction, consistency and integrity of data and on the suitability of technology. In any event, the Banco de España is confident that, in the medium term, the greatest possible number of institutions will be ready to make use of advanced approaches.

Basel II is not just a sophisticated system for measuring minimum legal capital, the calculation of which aims to take account of requirements from the economic standpoint. Basically, it is a resolute attempt to improve institutions' risk management systems. For this purpose it introduces regulatory incentives. But meeting the requirements for using the more advanced capital calculation systems should not be regarded only as a way of gaining access to these approaches, since the true incentive is not so much the possible regulatory capital savings that may derive from advanced methods, but rather the improved management, and this is a requisite for good corporate governance that managers should aim for regardless of such regulation as may be applicable.

Investing in management systems: backing the future.

To conclude, implementation of the best risk management systems calls for time and the enlistment of considerable resources and efforts that do not give rise to immediate tangible results. Investing in risk management is tantamount to backing the future. But this is a winning bet. Having the best management systems endows institutions with resilience and endurance over the long haul. It may be that in cyclical upturns the differences between the various management systems used by institutions are not so clearly perceptible. But in cyclical downturns they are all too evident.

2.5 Supervision of international groups on a consolidated basis

Under the applicable legislation, the Banco de España is responsible for the individual supervision of credit institutions authorised in Spain and for the consolidated supervision of groups of credit institutions whose parent entity is Spanish.

In the international sphere, the relationship between the home country of the parent of a banking group and the host country of that parent's subsidiary is governed by the Basel Committee Concordat[5]. The purpose of these documents was, and is, that no bank's (foreign) establishment should be left without effective supervision, and to this end two measures were established: 1) a clear allocation of responsibilities between home-country and host-country supervisors, and 2) close co-operation and information exchange between them.

These principles, contained in current Community legislation[6], establish that the home-country supervisor (of the parent) is responsible for conducting the supervision of the group on a consolidated basis (along with, naturally, that of the individual institutions authorised in its jurisdiction), and the host-country supervisor (of the foreign subsidiary) is responsible for the subsidiaries authorised in the host country.

The realisation that greater co-operation will be needed to implement the new solvency rules in large international groups makes it all the more important to establish principles for the ef-

5. The 1983 Concordat replaced the 1975 version, Principles for the supervision of banks' foreign establishments. **6.** Banking Directive 2000/12, which, among others, compiles the earlier Directives 89/646, 92/30 and 95/26.

fective and efficient supervision of these cross-border groups. In August 2003 the Basel Committee issued high-level principles reaffirming the current division of responsibilities established in the Concordat and recommending greater co-operation between supervisors. The proposal to amend Directive 2000/12 to incorporate the new capital standards retains this assignment of responsibilities also in the European Union (EU), strengthening the role of the authorities responsible for consolidated supervision and the mechanisms for co-operation and information exchange between EU supervisors.

Against this background, a more detailed description is given below of the consolidated supervision of Spanish groups with an international presence, making special mention of their treatment in the framework of the European Single Market.

2.5.1 CONSOLIDATED SUPERVISION IN THE INTERNATIONAL SETTING

The good management practices of international banking groups and the basic principles for consolidated supervision that are set out below are based on the fact that Spanish groups have undertaken their international expansion using a structure of subsidiaries, because of the rationality provided by this approach, in which each of the group entities has its own legal personality and is subject to the respective local jurisdiction.

The Banco de España's *Report on Banking Supervision in Spain, 2002* set out the principles for the management of international banking groups that constitute good practice. The main principles are summarised below.

The banking group as a whole should have an adequate overall level of capitalisation. However, in addition there should be an appropriate distribution of own funds within the group, i.e. in proportion to the risk in any given location, so that each bank, including the parent, in each country has an appropriate amount of capital commensurate with its risk and leeway to allow for its growth.

Each credit institution in the group should be able to identify, manage and assess the risks arising in its own business on an individual basis, using the group's common techniques, systems and culture; all, however, without prejudice to the parent applying the appropriate control mechanisms.

The entities composing a group should be transparent in their financial transactions. Regardless of their degree of affiliation, each should have its own capacity to resort to the markets to finance its activity and to separately establish adequate coverage of its risks. Intra-group transactions should always be conducted at arm's-length prices and not be subsidised in either direction. The best way to effectively apply this principle is for the various entities in a banking group to operate directly with the market and thereby improve transparency, which will enable an effective knowledge and rating of the group and of each of its components.

The group and each individual entity should have an effective internal control system in place. The managers of the respective subsidiaries are responsible and accountable for them. The group should be subject to a rigorous and effective internal audit, as should each of its foreign subsidiaries.

That said, under the assignment of responsibilities described above, which has been functioning properly and which the Banco de España supports the role of the home-country supervisor as the consolidated supervisor cannot replace either the important function or the responsibility of the host-country supervisor in respect of the subsidiaries in the group, for the following reasons:

– The host-country authority has the legal prerogative and capacity required to take supervisory and precautionary measures regarding the subsidiaries in the event of contingency or crisis. The parallelism of the authority granting the licence and the authority supervising on an individual basis should be maintained to avoid any confusion or inconsistency between the responsibilities assigned.

– The host-country authority has a better knowledge of the local markets and, due to its proximity, a greater ability to assess the risks of the activity in the country. It also has a more precise knowledge of the laws applying in the jurisdiction, so it can exercise ongoing supervision of the subsidiary in a more knowledgeable manner, with greater capacity for control and with increased effectiveness.

– The current arrangement is fully consistent with the separate legal personality and legal liability to third parties of the subsidiaries in the group.

In its capacity as consolidated supervisor, the home-country authority has the following functions: verification of the consolidated financial statements, which must be prepared using measurement bases harmonised with those applied by the parent; control of the group's aggregate solvency; and surveillance of internal controls and management systems in all the group.

To carry out these functions, the home-country supervisor needs to obtain from the parent, any required information about the group since this is the natural flow of information between the home-country supervisor and the foreign subsidiaries of international banking groups. The managers of these groups must not be subject to legal or practical constraints or obstacles in gathering knowledge of and assessing the risks located in the subsidiaries.

However, it should not be overlooked that the effectiveness of consolidated supervision depends on the host countries exercising sound supervision that provides assurance as to the subsidiaries' financial position and risks, their solvency and the management and control mechanisms applied.

In the area of supervision of international groups, the basic aim of co-operation between prudential supervisors is, in addition to strengthening international financial stability, to help each authority in complying with its responsibilities, as described above.

Dialogue and co-operation with other supervisors are essential for the effective supervision of groups and convergence towards best supervisory practices. In view of the structure of Spanish groups, at present the most efficient way to achieve this co-operation is through a bilateral relationship between the home-country supervisor and the host-country supervisor, in a framework of transparency and mutual respect, while multilateral relations are more effective for dealing with conceptual matters and general supervisory issues.

Co-operation between the home-country supervisor and the host-country supervisor includes the communication of whatever significant information can realistically help them to perform their respective functions, taking into account their different nature and, in particular, the fact that a consolidated supervisor needs to have unrestricted information on the subsidiaries, and the host-country supervisor, assuming that the subsidiary is adequately capitalised and managed, needs group information that is significant for the subsidiary. The exchange of information between supervisors is without prejudice to dialogue between the latter and the group's managers.

An appropriate way of crystallising the principles and objectives of co-operation is through co-operation agreements, although there are also other less formal ways, depending on the importance of the subsidiaries. Memoranda of Understanding, apart from providing for the exchange of information, may envisage other types of co-operation, such as the possibility that, in exceptional cases, the home-country supervisor may, by agreement with the host-country supervisor, perform inspection of the subsidiary.

2.5.2 CONSOLIDATED SUPERVISION IN THE EUROPEAN UNION

The basic principles described in the preceding section for transnational banking groups and for organising their supervision are valid in the European Union, with some sharpening. The existence of a common legal basis and of progressively more integrated markets means that the EU, which follows the aforementioned basic assignment of responsibilities, currently has certain mechanisms of enhanced co-operation and plans to strengthen the role of consolidated supervisor.

In this respect, the draft amendment of Directive 2000/12 provides that the consolidated supervisor shall carry out co-ordination tasks in the supervision of the group and in the gathering and distribution of information, and particularly enhances its role in the validation of advanced models in the framework of the new solvency rules. The Committee of European Banking Supervisors (CEBS) is preparing principles of practical co-operation to give content to the Directive and facilitate and improve the consistency of its implementation.

3 Regulatory changes in prudential supervision

This section sets out what are considered to be the most significant national provisions within the prudential supervision framework to which CIs and other intermediaries, or financial auxiliaries, are subject.

The provisions have been grouped according to the subject predominantly addressed in them. Then, within each group so formed, they are ordered hierarchically by legal rank, where applicable, and, finally, by date.

When a provision is only partially relevant because it addresses matters falling outside the prudential supervision framework, only the parts that meet the above-mentioned criteria of significance are included.

3.1 National provisions

3.1.1 REGULATION OF THE SOLVENCY OF CREDIT INSTITUTIONS

Royal Decree 302/2004 of 20 February 2004 on the non-voting equity units of savings banks[1]

The main purpose of this provision was to specify and develop certain technical aspects of the regime for the issuance and functioning of non-voting equity units, thereby completing the substantive aspects of their regulation by Law 13/1985 of 25 May 1985 on the investment ratios, own funds and reporting obligations of financial intermediaries, as amended by Law 44/2002 of 22 November 2002 on measures to reform the financial system[2].

The Decree regulates:

1 The legal regime for non-voting equity units, which shall be that laid down in Article 7 of Law 13/1985 of 25 May 1985, mentioned above, that envisaged in Royal Decree 302/2004 and, also, that provided for shares in the consolidated text of the Public Limited Companies Law, approved by Legislative Royal Decree 1564/1989 of 22 December 1989, insofar as it is applicable.

2 The regime for issuance which, according to the provisions of Law 24/1988 of 28 July 1988 on the securities market, shall be unregulated. However, the Decree specifies that non-voting equity units may only be represented by means of book entries, that their issuance shall require a resolution of the General Assembly or, when the latter delegates its power, by the Board of Directors, and that the units issued shall be listed on Spanish or foreign organised markets or dealing systems to which the admission of equities is authorised.

3 The estimation of the value of the savings bank, which is necessary to determine the price of the units. This estimation shall take into account goodwill, unrealised capital gains and the actual capacity for generating future profits. In any event, the first issue shall require an external auditor's report and, depending on the issue procedure (specifically when there is no public offering or, if there is one, when the applications by institutions amount to less than 20% of the total), that of an expert in the valuation of financial institutions. For subsequent issues, only the auditor's report will be necessary, and that only in the event that the issue is not made by

1. BOE (Spanish Official State Gazette) of 3 March 2004. **2.** Article 14.

public offering or, if it is, when applications by institutions amount to less than 20% of the total.

4 The price of units. When there is a public offering and the applications by institutions amount to 20% of all applications, then the price shall be that resulting from such procedure. Otherwise, it shall be greater than or equal to the highest of those obtained from the relevant valuation reports of the savings bank.

5 The distribution of the issue premium of the units between the unit-holders' reserve and the savings bank's general reserves. This distribution, in the case of the first and subsequent issues, is determined mathematically, as a function of various financial variables.

6 The share of unit-holders in saving bank's profits, which shall be proportional to the volume of outstanding units relative to the net worth of the savings bank, and in losses, which shall be set off against the equity fund, the unit-holders' reserves and, where it exists, the stabilisation fund.

7 Early redemption of units which, except in cases of automatic redemption (if the savings bank holds more than 5% of those issued, or if the legal regime for the voting rights of the unit-holders is changed), shall require a resolution of the savings bank's General Assembly, the approval of the unit-holders' syndicate and authorisation from the Banco de España, as well as compliance with the guarantees and deadlines provided for in the public limited companies law for capital reductions.

8 In addition, certain aspects relating to the issuance of non-voting equity units are regulated, principally the creation of the syndicate of unit-holders and certain rights thereof, in particular ¿?¿preferential subscription? rights, as well as the merger of savings banks and the issuance of non-voting equity units by the *Confederación Española de Cajas de Ahorros* (Spanish Confederation of Savings Banks).

3.1.2 REGULATION OF THE ACCOUNTS OF CREDIT INSTITUTIONS

Circular 4/2004 of 22 December 2004. Credit institutions. Public and confidential financial reporting rules and formats

Circular 4/2004 of the Banco de España of 22 December 2004 on public and confidential financial reporting rules and formats adapts to the sector of Spanish credit institutions the International Financial Reporting Standards adopted by the EU by means of Regulations, in accordance with Regulation 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of International Accounting Standards.

The adoption of the IFRS by the EU is part of the project to promote the formation of a European capital market, and to increase convergence with US accounting standards. However, the compatibility of the Circular with the Community Regulation is no obstacle to its broader application with the aim of covering both accounting issues for external use and issues relating to the exercise of the powers and requirements of the Banco de España, especially in relation to supervision.

At the same time, the new accounting Circular gives continuity to the policies and approaches of Circular 4/1991 of 14 June 1991 on accounting standards and financial statement formats (CBE 4/91) when these are compatible with the IFRS. In line with the objective of continuity, the area of credit-risk allowances should be stressed (known as *coberturas por riesgo de crédito* in CBE 4/2004 and *provisiones por riesgo de crédito* in CBE 4/91). In CBE 4/2004, credit-risk allowances are divided into two types: specific, for the impairment of financial assets identified as impaired; and general, which are determined for the whole credit portfolio, being understood as a provision reflecting the collective assessment of impairment for groups of homogeneous assets, without identification of the individual impaired assets, but which experience indicates are always present in any credit portfolio.

The most important changes introduced in the Circular, arising from the IFRS themselves, relate to the following four aspects. The first is the introduction and application of the fair value of financial instruments, in both the balance sheet and the notes to the accounts. The use of fair value in the Circular is restricted in the case of capital instruments without an active market, when its estimation is not reliable.

The second aspect is the increase in the information to be disclosed in the explanatory notes, with the ensuing increase in the transparency of Spanish credit institutions. The basic objective of the financial statements is to enable current and potential investors, lenders and other users of financial information to use such information when taking economic decisions relating to the reporting institution.

A third aspect is the greater involvement and responsibility required of the directors of the institution in setting accounting policies, a consequence of the greater flexibility in the preparation of the financial statements.

The fourth aspect is the pre-eminence of economic substance over legal form, which means that the transactions of the institution are treated for accounting purposes from an economic perspective when this does not coincide with the legal form, as seen in the new treatment given to securitisation and leases.

The structure of the Circular is as follows: a first rule defines the exact scope of application, and then Title I lays down the criteria for public financial reporting.

Title II determines the level of detail of the confidential information required by the BE for the exercise of some of the functions assigned to it by law. This Title establishes that the criteria regulated in Title I for public reporting shall be applied when preparing confidential information with the relevant refinements where necessary.

Title III regulates the internal control and management criteria institutions must have, as well as the obligation to keep a centralised guarantee register, as has hitherto been the case, and to institute a register of powers of attorney granted and one of legal and administrative proceedings. In addition, this Title contains the final rules of the Circular (the Additional, Transitional and Repealing Provisions and the Single Final Provision).

The Circular also has nine annexes setting out the public and confidential financial statements, and those relating to sectorisation. Annex IX establishes the criteria relating to the analysis of and provisioning for credit risk.

Title I details the following salient changes:

- *Financial instruments:* it is provided that derivatives whose underlying is a market variable (interest rate, exchange rate, etc.) shall be valued at fair value and that transactions with capital instruments issued by the institution shall have no effect on the income statement.

The portfolios in which the financial instruments are going to be classified are regulated. On the assets side, financial instruments shall be classified into instruments at fair value through profit or loss, held-to-maturity investments, loans and receivables and available-for-sale financial assets. On the liabilities side, financial instruments are divided into the portfolios of financial liabilities at fair value through profit or loss and financial liabilities at amortised cost. Also, there is a portfolio of financial liabilities (at fair value through equity) whose actual impact is expected to be small because it arises from a very specific case of financial asset transfers.

The principles for the derecognition of financial instruments, as is the case of securitised assets, generally arise in the case of financial assets when the risks and rewards inherent therein have been transferred or have expired. For financial liabilities, derecognition of the instrument shall be on the basis of the expiry, maturity or satisfaction of the obligation.

– *Impairment of assets:* a distinction is drawn between the calculation for financial assets and that for other assets. In the first case, recognition of impairment losses must be objectively evidenced, although the importance of managerial judgment is highlighted when calculating them. It is further established that institutions shall observe the provisions of Annex IX for estimating impairment losses on debt instruments included in loans and receivables, held-to-maturity investments and available-for-sale financial assets, as well as for contingent exposures. Other assets, including goodwill, shall be deemed to be impaired if the asset carrying amount exceeds their recoverable amount.

– *Hedge accounting:* a distinction is drawn between micro-hedges and macro-hedges. Under the former, three types of hedges are distinguished: fair value hedge, cash flow hedge and hedge of a net investment in a foreign operation. The role of designating and documenting the hedges takes on considerable importance, as does the method of estimating their effectiveness. In the case of a portfolio hedge of interest rate risk, reference is made to the so-called “carve out” adopted by the European Union in international financial reporting standards.

– *Leases:* a distinction is drawn between operating and finance leases based on the economic substance of the transaction, irrespective of its legal form; that is to say, the presence or not of a purchase option in the contract is no longer the sole criterion to establish the status of the lease.

– *Non-current assets held for sale:* these are assets with an economic life of more than one year but whose value the entity wishes to recover by means of their sale rather than by using them in operations. The treatment to be given to foreclosed assets arising as a result of borrowers’ defaulting is included, along with the principles to be observed in the event of the sale of such assets financed by the entity itself.

– *Personnel expenses and equity-instrument-based employee compensation:* mention should be made of the possibility of using a corridor when allocating the actuarial results that exceed the limit of 10% of the value of the obligations or of the assets of the plan, whichever the higher, with a five-year allocation period. The entity's own equity-instrument-based employee compensation is likewise regulated.

– *Fees and commissions:* the treatment to be given to fees and commissions received or paid is determined, distinguishing between those that form part of the effective cost or yield of the transaction (which must be apportioned over the expected life of the transaction as an adjustment to the effective interest rate) and those that arise as compensation for a service provided (that shall be recognised in accordance with the timing thereof). Notwithstanding the foregoing, a mechanism is established enabling institutions to recognise financial commissions charged at the beginning of transactions as a form of compensation for the direct costs related to the transaction.

– *Insurance contracts:* following the provisions of the international financial reporting standards, no specific method is proposed for measuring the liabilities arising from these transactions, so that institutions shall apply the directly applicable national regulation.

– *Business combinations:* an acquirer needs to be identified in all transactions, with only the assets and liabilities of the acquiree needing to be revalued and all its intangible assets and contingent liabilities recorded. Goodwill is not amortised, but is subject to regular impairment analysis. In the event of impairment there is no possibility of reversal and the negative difference shall be recognised immediately in the profit and loss account.

– *Consolidation:* major changes that should be noted are the disappearance of the exclusion from consolidation for reasons of activity, the application of the decision-making-unit criterion as the crux of the definition of a group and the presumptions of a qualitative nature for establishing the existence of a significant influence in an associate. Also, the possibility of applying the equity method to jointly controlled entities is envisaged, although it should be understood as exceptional and subject to additional reporting requirements.

– *Explanatory notes:* in line with international accounting and prudential trends (Pillar III of the Basel II Accord), the reporting requirements are increased to promote the transparency of financial information, (among other the information required on related parties).

In relation to Title II, the rules relating to the sectorisation of financial information are notable, a vital aspect if adequate sources of information are to be available that facilitate its treatment both for supervisory and statistical purposes.

As regards Title III, the role of Transitional Provision One is noteworthy. It clarifies that, as a general principle, the rules contained in Circular 4/2004 shall be applied retrospectively, with the necessary adjustments against reserves. However, certain exceptions are allowed, which are also contained in the international standards.

In conclusion, and in the opinion of the Banco de España, institutions required to compile consolidated annual accounts that observe the rules laid down in Circular 4/2004 shall fulfil, as regards the matters regulated therein, the obligation that may be incumbent upon them to compile consolidated annual accounts in accordance with international financial reporting standards approved by European Union Regulations.

3.1.3 OTHER REGULATORY CHANGES AFFECTING CREDIT INSTITUTIONS AND OTHER ENTITIES SUPERVISED BY THE BANCO DE ESPAÑA

Order ECO/697/2004 of 11 March 2004 on the Central Credit Register[3]

This Order implements the legal regime for the Central Credit Register of the Banco de España established by Law 44/2002 of 22 November 2002 on measures to reform the financial system, specifying the periodicity and manner of reporting by the reporting entities (credit institutions, the Banco de España, the guarantee funds of deposit institutions, mutual guarantee and reguarantee companies and Sociedad Anónima Estatal de Caución Agraria), the characteristics of the borrowers (individuals and legal persons, both public and private, to whom exposures relate directly or indirectly) and the exposures to be reported (financial and commercial credit, leasing transactions, fixed-income-security transactions, credit derivatives, other guarantee contracts, commitments relating to financial instruments and any others that entail the assumption of credit risk).

As regards the data on borrowers, the Order provides that they shall include both those needed for their appropriate identification and those necessary to enable the information to be treated appropriately for economic and statistical purposes. Where applicable, links with other borrowers shall be included in order to enable the Banco de España to exercise properly its powers of supervision and inspection on a consolidated basis.

The Order also determines the content of the reports that may be obtained by both the reporting institutions, specifying that they shall not contain data relating to the name of the exposed institution, and by the Ministry of Economy and Finance and the Regional (Autonomous) Governments in relation to general government exposures.

Circular of the Banco de España 1/2004 of 29 June 2004 amending Circular 3/1995 of 25 September 1995 on the Central Credit Register[4]

The objectives of this Circular are, first, to adapt the rights of access, rectification, cancellation and suspension of transfer of the reported data to Law 44/2002 of 11 November 2002 on reform of the financial system, and second, to reduce the time between the reporting of exposures and the making available of information thereon to users so that the data supplied are as up to date as possible.

Thus, the basic aspects of the Circular are:

1 The data on borrowers and on exposures shall be transmitted separately to the Banco de España, and not jointly as hitherto. The latter data shall be sent monthly, while that on borrowers shall be sent from the day following that of notification of the data on exposures of the previous month, until the day the data on exposures of the month of the report are sent. These changes seek to achieve greater speed in the editing of borrower data with less work for the institutions and the Banco de España.

2 The data on borrowers are extended to improve the process of their identification and to facilitate the proper exercise of the Banco de España's powers of supervision and inspection on a consolidated basis, as well as the exchange of data with European Central Credit Registries.

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3. BOE of 18 March 2004. **4.** BOE of 9 July 2004.

3 All this, within the scope of protection of the rights of the borrowers with regard to access, rectification and cancellation of the data referring to them, especially those on individuals, enshrined in Law 15/1999 of 13 December 1999 on the protection of personal data, and in Law 44/2002 itself.

***Circular of the Banco de España 2/2005 of 25 February 2005 on automated files with personal data managed by the BE*[5]**

Work began in 2004 to update the way the Banco de España treated automated files with personal data, which was in accordance with the provisions of Organic Law 5/1992 of 29 October 1992 on the automated treatment of personal data, in order to adapt it to the latest provisions contained in Organic Law 15/1999 of 13 December 1999 on the protection of personal data. This work gave rise to Circular 2/2005, which appeared at the beginning of this year.

3.1.4 OTHER LEGAL CHANGES

***Order ECO/3722/2003 of 26 December 2003 on the annual report on corporate governance and other information tools of listed public limited companies and other entities*[6]*; Order ECO/354/2004 of 17 February 2004 on the annual report on corporate governance and other information of savings banks that issue securities admitted to trading on official securities markets*[7]*; and Order EHA/3050/2004 of 15 September 2004 on information on transactions with related parties that must be supplied by companies issuing securities admitted to trading on official secondary markets*[8]**

To describe satisfactorily the changes in the prudential supervision regulations referred to in this report, reference should be made, if only briefly, to these three Orders which, principally developing Law 26/2003 of 17 July 2003 on transparency, regulate the information that listed companies and entities issuing securities admitted to trading on official secondary markets are required to supply to shareholders, investors and the market.

In relation to the annual report on corporate governance, the information supplied, adapted to the nature of each institution, shall cover its ownership structure, its functional and administrative organisation, transactions with related parties, intragroup transactions, risk control systems and the degree of monitoring of any recommendations that may exist in relation to good governance. This report and its publication shall be considered significant events. Also, the report shall be made available to the public on the institution's website.

With regard to information tools, the minimum content of institutions' websites is regulated. In the particular case of savings banks, this regulation is mostly in the form of recommendations.

In addition, companies (so not savings banks) issuing securities traded on official secondary markets shall report half yearly all transactions carried out with related parties (deemed to be those who have the possibility of exerting control, directly or indirectly, over an institution or of significantly influencing its decision-taking). This information must be supplied in a structured manner, describing the type and nature of the transactions, the pricing policy applied and the security granted or received, and quantifying the results obtained.

3.2 Community provisions

For the purposes hereof, there was little activity in 2004 in the area of banking regulation. What there was focused mainly on the development and protection of the internal market and inves-

5. BOE of 22 March 2005. **6.** BOE of 8 January 2004. **7.** BOE of 18 February 2004. **8.** BOE of 27 September 2004.

tors by means of the identification and prevention of abusive practices and the achievement of greater speed and transparency.

Thus, it is worth mentioning only Directive 2004/25/EC of the European Parliament and of the Council of 21 April 2004 on takeover bids; Directive 2004/39/EC of the European Parliament and of the Council, also of 21 April 2004, on markets in financial instrument, which updates the provisions concerning the authorisation and conditions for taking up the business of investment firms and regulated markets; and Commission Directive 2004/72/EC of 29 April 2004 on accepted market practices and other matters relating to market manipulation.

It should be noted, finally, that in July 2004 the European Commission published a proposal to recast Directive 2000/12 and Directive 1993/6 of 15 March 1993 on the capital adequacy of investment firms and credit institutions, in order to transpose to Community regulations the provisions contained in the so-called Basel II Accord published on 26 June 2004. These amendments, which will ultimately entail the harmonised updating of the requirements for financial institutions, while giving market discipline a predominant role in ensuring that the latter are prudently managed, are still to be enacted.

ANNEX 1

1 Participation by the Banco de España in regulatory activity in 2004

In 2004 the Banco de España continued to participate actively in the international fora where the regulators and supervisory authorities of credit institutions meet regularly to examine and draw up the rules applicable to institutions and financial markets. The participants in these fora also share supervisory experiences that take us closer to the objective of convergence in supervisory practices and improve co-ordination between the supervisors of different countries.

Regulatory activity in 2004 was of particular importance since, among other things, it saw the culmination of the work over the past five years to reform banking solvency rules. As is well known, the Banco de España has been deeply involved in this task because in March 2003 the Bank's Governor became Chairman of the Basel Committee on Banking Supervision (hereafter "the Basel Committee"), which is the committee that has led this regulatory reform worldwide. Also noteworthy was the start-up of the Committee of European Banking Supervisors (hereafter "CEBS"), known in Lamfalussy[1] terminology as the level 3 banking committee (see Box A1.1), created by European Commission decision on 5 November 2003 and chaired since its inception by the Director-General of Regulation of the Banco de España. Its work in 2004 focused mainly on the pursuit of greater convergence in the application of banking solvency rules in the European Union (EU). Also significant was the work in the area of accounting, particularly that relating to how the introduction of the new accounting rules based on International Financial Reporting Standards will affect the regulatory capital of credit institutions and their provisioning policies.

During the year the Banco de España participated in a large number of meetings – nearly 200 – of groups related to regulation and banking supervision. Particularly noteworthy was the Bank's participation in the Basel Committee's working groups and committees, where it participated in around 70 meetings, and the role played in the EU sphere with a very high number of meetings (over 100).

In the EU arena, mention may be made of the Bank's participation in the CEBS and in its working groups, and the Bank's presence as an expert on the Banking Advisory Committee (BAC), a committee in transition which will be replaced in 2005 by a new level 2 committee known as the European Banking Committee. Within the purview of the European Central Bank (ECB), work on matters relating to financial stability continued through the Banking Supervision Committee (BSC).

The Banco de España also continued to participate in the Joint Forum and in various other groups, such as the OECD or the group relating to Bank for International Settlements (BIS) statistics, as well as in other international fora such as the ASBA (Association of Banking Supervisors of the Americas), where the Bank is a collaborating member. Finally, a significant event in 2004 was the holding in Madrid of the XIII International Conference of Banking Supervisors (ICBS), jointly organised by the Basel Committee and the Banco de España. Delegates from over 130 countries were present and discussed problems relating to the implementation of the Basel Accord and the relationship between accounting and supervision.

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1. For more information on the extension of the Lamfalussy approach to the regulation of the European banking industry, see Box A1.1 of the 2003 Report on Banking Supervision in Spain.

The Committee of European Banking Supervisors (CEBS), a level 3 banking committee set up further to the European Commission's decision on 5 November 2003, as a result of the extension of the Lamfalussy approach to the regulation of the European banking sector (see Box A1.1 in the 2003 Report on Banking Supervision), has worked actively throughout 2004.

It was formally set up on 1 January 2004 and now has the necessary infrastructure in place to carry out its work thanks to the drafting and establishment of its legal and organisational fundaments during 2004 and part of 2003. The most salient aspects of its functioning and its work in its first year of activity are detailed below.

Organisational aspects developed in 2004

The chair, who is elected by consensus or, if this is not achieved, by a two-thirds majority, is the Committee member responsible for public relations and for representing the Committee in external fora. The chair should regularly report to the European Parliament and Council when so required and maintain close links with the European Banking Committee (a level 2 committee) and with the Economic and Financial Committee. The chair is supported by a vice-chair and a bureau, comprising three members and whose role is to advise and assist the chair and to monitor the budget. Finally, the CEBS has a secretary general, supported by staff seconded from the Member States. These make up the Secretariat, which officially opened its offices in London in October 2004.

CEBS decisions are taken by consensus, except in tasks involving advice to the Commission. Here, if no consensus is reached, decisions may be taken by qualified majority. The CEBS meets at least three times a year.

As part of its organisation and in order to be able to carry out its work, the CEBS has set up four expert groups and a joint task force with the BSC:

- The capital requirements directive expert group
- The accounting and auditing expert group
- The supervisory transparency expert group
- The expert group for the preparation of a common standard in the reporting of credit institutions' solvency standards.

Furthermore, the Groupe de Contact set up in 1974 for information exchange between supervisors has been incorporated as the main working group reporting to the CEBS.

Interaction as a working principle

From the outset the CEBS has stressed the importance of transparency, dialogue, collaboration and interaction with market agents and end-users in the pursuit of its tasks[1]. To this end, the CEBS has established a procedure for conducting public consultations on matters on which it is working. To define this procedure, it subjected its own consultative practices to consultation in April 2004 and decided to set up a consultative panel. These practices include the possibility of formal consultations being complemented by informal contacts and information exchange with interested parties in the initial phase of the work.

The consultative panel is made up of 19 members with accredited experience in the banking industry (appointed by the CEBS, the European banking sector committee, the FIN-USE Forum, the European consumers' organisation (BEUC) and the Union of employers' confederations (UNICE). The panel assists the Committee in the performance of its functions and ensures that the consultation process works properly. The Group also acts as a "sounding board" for CEBS strategic issues. It had its first meeting in October 2004.

Furthermore, and on the basis of article 6 of the Commission's mandate and of article 6.1 of its statutes, the CEBS has to submit annually a report detailing all the work it has undertaken to the three European institutions (the Commission, Parliament and Council). This report, along with the work schedule published for the following year, allows all interested parties to know how and to what extent the CEBS is complying with its functions and objectives.

Work published and subjected to consultation

As earlier mentioned, the CEBS was very active throughout 2004. This was possible thanks to the prior existence of a culture of co-operation among banking supervisors, who have worked together for over 30 years. The consultative documents issued are listed below:

- April 2004, *Draft Public Statement of Consultation Practices.* This document specified the measures and obligations included in the Commission's decision.
- April 2004, *High level principles on outsourcing.* Work will continue on this matter in conjunction with the other level 3 committees (CESR and CEIOPS) and with the Joint Forum.
- May 2004, *The Application of the Supervisory Review Process under Pillar 2.* Work is also continuing on this subject; the results will, once finalised, be subjected to a second round of consultations.

Also of note was the *CEBS' work on national discretions,* specifically on convergence in national discretion, published in October 2004, and the publication in December of *CEBS guidelines on prudential filters for regulatory capital,* where the use of prudential filters is recommended in the context of the new IFRS and the new solvency Directive.

The CEBS also worked in 2004 on matters that have given rise to consultative documents published in 2005. At the time of this Report going to press, three other consultative documents were worthy of mention:

- January 2005, *Consultation Paper on the New Solvency Ratio: Towards a Common Reporting Framework.* This common

1. As a centrepiece of its transparency and communication policy, CEBS created its own website: http://www.c-ebs.org.

framework is of great importance for facilitating and reducing the cost of providing information on European institutions operating in several countries, and for smoothing relations between and the comparability of different national supervisors.

– March 2005. *Consultation Paper on the Framework for Supervisory Disclosure,* on the disclosure of solvency-related regulations and supervision, in implementation of article 144 of the draft amendment of Directive 2000/12. This will allow a significant comparison of the approaches adopted by the national authorities.

– April 2005, *Consultation paper on financial reporting,* which is a second consultation process on the disclosure of prudential information by credit institutions. This consultation focuses on the implementation of a standardised framework of consolidated financial reporting for these institutions.

The rest of the annex is structured as follows. Section 2 analyses the process for the approval of the new banking solvency rules, known as Basel II, in respect of Basel and the legislative process in the EU. It includes a description of the documents published in 2004 by the Basel Committee that are necessary for the approval of Basel II. Section 3 examines the problems relating to the implementation of the new solvency rules, distinguishing once again between the work carried out in Basel and that in the EU. Finally, section 4 describes the remaining important regulatory and supervisory developments during 2004, highlighting in a separate section the wok performed to analyse the effect of the introduction of the new accounting regulations on credit institutions' regulatory capital.

2 The approval of the new banking solvency rules

2.1 IN THE BASEL COMMITTEE

The Basel Committee, chaired since March 2003 by the Governor of the Banco de España, is the main international forum for banking supervisors. As is known, the Committee does not have legislative powers, but that does not prevent its recommendations being internationally accepted in the light of their high technical quality and because they normally have the backing of banks. This is achieved due to the fact that such recommendations have been formulated following a full consultation process with the parties concerned, an exhaustive analysis of the comments received and an explanation of the final decisions.

The chairmanship of the Basel Committee has meant that the Banco de España has assumed a leading role in the work pursued to achieve consensus among the member countries in respect of the finalisation and approval of the new solvency framework. It has played a very active role in the final decision, seeking first to obtain a product of high technical quality and, further, to publish the final document in a timeframe compatible with compliance with the resolutions reached at the Committee's October 2003 meeting in Madrid, which were widely discussed in last year's Report.

The conclusions of this Committee meeting saw the start-up of certain tasks whose dual aim was to ensure the quality of the proposals and to address the concerns of the banking industry before publication of the document.

In later 2003 and earlier 2004, the Committee's technical groups worked intensively to achieve this dual objective. Finally, at the May 2004 Committee meeting, consensus was reached on the open matters on which a decision had to be taken before the new banking solvency rules were published. These matters were, namely: all technical and policy aspects relating to the decision to calibrate capital curves so that they cover only unexpected losses; specific aspects relating to securitisation, risk-mitigation techniques and operational risk; and the treatment of the revolving credit card portfolio. The significance of pillar 2 and the recalibration process were also addressed.

An agreement was also reached in this meeting on the dates for the implementation of Basel II: end-2006 for institutions that adopt the Standardised and the Foundation IRB approaches for measuring their credit risk, or end-2007 for institutions that can use the most advanced methods for the measurement of credit risk or operational risk. Accordingly, although this work has meant a slight delay in the publication of the final document, from end-2003 to June 2004, no delay has been proposed regarding the date of implementation or entry into force of the new rules. Important decisions were also taken on the implementation of Basel II, particularly regarding the need to seek improved co-ordination and co-operation between home and host supervisors in the case of internationally active groups. Finally, on 26 June 2004, the central bank governors and heads of the supervisory authorities of the G-10 countries approved the publication of the new banking solvency regulation known as Basel II. The text has been drafted by the Basel Committee with the support of numerous working groups – including most notably the *Capital task Force* – entrusted with developing and tabling specific proposals. Since the document approved does not, as mentioned, have any legal force, it is up to each country to take the necessary measures to ensure its implementation on the above-mentioned dates.

However, the publication of this document does not mean work has concluded. Basel II is a framework that must evolve over time, especially in respect of certain points that may have to be amended to ensure their consistency with developments on financial markets and risk management practices. In this respect, following the third consultative process in April 2003, the treatment of trading book risk was identified as having become outmoded compared with the new treatment for credit and operational risk. It was likewise deemed necessary to include in the credit risk mitigation framework some acknowledgment of the so-called “double default” effect, i.e. the lesser likelihood of the obligor or guarantor both defaulting. Since early 2004, therefore, work has been under way on these two areas and the preamble of the June text includes the Committee’s undertaking to incorporate them in time to allow the entry into force of the Accord on schedule. Thus, in early 2004, several specific areas of work were identified in accordance with the parties concerned, banks and securities-dealer companies. A working group made up of representatives of the Basel Committee and the IOSCO (International Organisation of Securities Commissions) was set up, with three topics for discussion: first, the treatment of the counterparty risk in OTC derivatives, repos and other financial transactions; second, the study of maturity adjustment in short-term transactions in the IRB method and the treatment of “double default”, which will have effects not only on the trading book but also on the banking book; and third and finally, the analysis of certain trading book questions, including matters relating to “valuation”, risk management and the capital treatment for less liquid instruments held in this book. The Banco de España has been an active participant in this work. Indeed, in February 2005 the Bank organised the last meeting of the group at which the final solutions were drawn up, the text of which was approved by the Basel Committee and by the IOSCO before the publication of he consultative document on 11 April 2005. Any amendment of the text published in June will be after ascertaining the reaction of the institutions concerned to these proposals and the detailed analysis thereof.

The Committee has also confirmed the need to revise the calibration of the new Accord before its entry into force in order to check that the objective announced at the beginning of the process is being met, namely that the new rules generate similar capital requirements, in overall terms, to the current regulation, and that they provide incentives to use the most advanced methods, in terms of lower capital requirements. If the information available from the studies conducted indicates that these objectives are not met, the Committee will take measures. These will not consist of amendments to the text that has already been published, but of the introduction of a general multiplier. In this connection, regard will be had to the information provided by institutions through a new impact study, QIS 5, which will be conducted between October and December 2005. The Banco de España is working actively in the working groups that are designing the new questionnaire and a number of Spanish credit institutions will furnish data for the study.

The documents published by the Basel Committee on progress since the Committee's October 2003 meeting were listed in the press release following its January 2004 meeting, followed by the publication in the same month of three technical documents.

The first document, *Modifications to the capital treatment for expected and unexpected credit losses in the New Basel Accord,* explains that the calculation of capital requirements when institutions use the IRB method should be based solely on unexpected losses, instead of on the sum of expected and unexpected losses, as had hitherto been proposed. This proposal is conceptually more appropriate, it enables regulatory capital to be drawn closer to the economic capital calculated by institutions and it enjoys the support of the banking sector. In turn, it ensures the appropriate prudential treatment of expected losses, which should be properly covered with provisions or with capital. If the sum of the accounting provisions is not sufficient in relation to the expected losses, this shortfall should be covered with capital. If, on the contrary, there is a surplus of accounting provisions, it may be recognised in tier 2 capital up to a limit.

The second document, *Changes to the Securitisation Framework,* focuses on the treatment of securitisation, which is technically a highly complex matter in view of the variety of structures to be found in banking practice. Among the matters addressed, mention may be made of the design of the formula used when there is no credit rating for a tranche, the treatment of liquidity facilities and the consistency among the various methods for calculating capital requirements.

Finally the third document, *Principles for the home-host recognition of AMA operational risk capital,* focuses on the treatment of operational risk capital requirements for institutions using the advanced approach (AMA) in large banking groups with foreign subsidiaries.

The long-awaited publication by the Basel Committee of the new capital framework for the treatment of banking risks, the document known as Basel II and entitled *International Convergence of Capital Measurement and Capital Standards: A Revised Framework,* took place on 26 June 2004 and marks a milestone in banking regulation. In July, the Committee published a document entitled *Implementation of Basel II: practical considerations,* in which it describes the practical problems of implementing such a complex regulation, in certain cases, as Basel II and which offers so many options to supervisors and to banks themselves.

2.2 THE LEGISLATIVE PROCESS IN THE EU

As is known, legislative initiatives in the EU are taken by the European Commission, while legislative power lies with the Council and the Parliament, under the so-called co-decision procedure. These two institutions have to study the legislative proposal issued by the Commission and reach agreement on the amendments that should be introduced into the text.

Within the framework of the Capital Requirements Directive and so as to smooth and accelerate its preparation, and to reduce the complexity of the regulation and make EU legislation more accessible and comprehensible, the Commission opted to amend where necessary the two directives regulating the solvency of credit institutions and of investment firms rather than draw up a new directive. The amended directives are that on Consolidated Banking (D 2000/12/EC) and that on the Capital Adequacy of investment firms (D 93/6/EEC).

The European Commission published its legislative proposal on 14 July 2004, less than one month after the publication of its proposals by the Basel Committee. To do this required very intense work in parallel to that performed in Basel. Moreover, from January to June 2004 a group of experts was formed to analyse the latest proposals on the drafting of the Directive submitted by the various technical groups of the Commission. The aim was to achieve consensus among all countries that would allow the approval and subsequent publication of the legislative proposal, also bearing in mind more political aspects. The Banco de España participated actively in the working groups that made such publication possible.

As is the case with the current capital adequacy rules, based on the 1988 Capital Accord known as Basel I, and which affects all EU credit institutions and investment firms, the proposal published by the EU is largely based on the document published by the Basel Committee. Nonetheless, the work of the Commission and its working groups involved ensuring that the text of the EU should reflect appropriately the particularities of the European market and, especially, the need for the new solvency rules to continue to be applicable to all credit institutions and investment firms operating in the EU, irrespective of their size and level of complexity, whereas the Basel proposals are, in principle, conceived for application to internationally active banks.

Once the Commission's proposal had been published, the Council set up a working group in late July to seek a political agreement between all the EU countries on this proposal. The outcome of this work was a set of amendments to the Commission's text, which were approved at the ECOFIN meeting of 7 December 2004[2] and which will be the basis on which the presidency will maintain contact with the Parliament to secure the necessary agreement between both institutions. Represented on this Dutch-chaired group were the 25 EU Member States (following the latest enlargement). Participating on Spain's behalf were representatives from the Directorate General of the Treasury, the Banco de España and the CNMV.

The European Parliament, through its Committee on Economic and Monetary Affairs, began to work on the new solvency regulations once the Council completed its work and sent it its proposed amendments to the Commission's text. This Committee has held two hearings on this matter, one of which involved the appearance of the Chairman of the Basel Committee and Governor of the Banco de España, on 18 January 2005, for his opinion on the status of the process. The Directive was finally approved as expected by the Parliament in a first reading in the autumn of 2005.

After their approval, the new rules will come into force on 1 January 2007. However, and unlike in the Basel Committee's text, banks may, so as to allow for a reasonable adaptation to the new rules, continue to use the current rules until 1 January 2008, on which date they may use the more advanced methods.

It should be borne in mind that, once the Directive is approved, the necessary time must pass so that the national authorities may issue their national regulations. In Spain's case, an Act of Parliament, a Royal Decree and a Circular of the Banco de España must be approved.

3 Implementation of the new solvency rules

3.1 INTRODUCTION

The new bank solvency rules described in the foregoing sections contain various options left open to national discretions and a greater weight of qualitative factors, which heighten the possibility of their being applied differently to banks in different countries. Nonetheless, their

2. Both the Commission's legislative proposal and the Council's proposed amendments are available on their respective websites.

correct implementation requires a degree of consistency across the different jurisdictions. There are two ways to achieve this. The first involves seeking convergence in the practical application of the rules. The second lies in the pursuit of co-operation between supervisors. This is an area of great interest for regulators and supervisors, on which a significant part of the work both in Basel and in the EU is being focused.

The implementation work is being conducted at the global level by the AIG (Accord Implementation Group). Its work includes most notably: pillar 2, the validation of IRB (and AMA) models, the work on the areas of national discretionarity and, especially, matters relating to the application of the Accord to cross-border groups. The pursuit of a correct implementation does not necessarily entail the same application of Basel II in all jurisdictions, but rather convergence by means of information exchange between supervisors in those areas where national differences are not warranted by the specific particularities of markets.

The same issues are being analysed at the European level by the level 3 banking committee, CEBS, through the preparation of supervisory guides and not only by means of information sharing, as is the case in the AIG. Further, in the EU, it has been possible to address certain matters in the regulation (Directive) itself, where some areas of national discretionarity have been eliminated and the role of supervision on a consolidated basis has been extended.

3.2 IN BASEL: THE ROLE OF THE ACCORD IMPLEMENTATION GROUP (AIG)

The need for consistent application of the new solvency rules led the Committee to create a working group, the AIG. It was set up with the aim of promoting consistency in the application of the new regulation through the exchange of information between supervisors on the means of tackling practical implementation problems. The Banco de España has been participating actively in this group since its creation. AIG meetings have focused principally on analysing issues relating to cross-border matters, such as information exchange between the supervisor of the parent and the supervisors of the subsidiaries, and on how to address the validation of models in international groups. National discretions has also been analysed and experience has been shared on validation, especially in the case of the IRB method for credit risk.

As stated, improving knowledge of the way in which different countries apply Basel II is a very useful way to pursue consistent and co-ordinated implementation of the new solvency rules. In this respect, the AIG conducted a series of practical exercises during the year to encourage supervisors to consider how they review bank systems and internal processes when such banks operate in several countries. The AIG has identified two essential factors for smoothing the way to the new rules. First, it is very important that the bank's plans to move to more advanced methods should be as detailed, complete and clear as possible, which will also make the supervisory review and evaluation of the methods easier. And second, it is vital that the bank's subsidiaries and branches in other countries should have full knowledge of these plans, thereby making them more readily acceptable to the supervisors of the subsidiary.

Finally, in January 2004 the Committee published the principles for resolving problems relating to the allocation of capital for operational risk in the case of cross-border banking groups using the advanced method (AMA). This document indicates the action that should be followed by banking groups that calculate their operational risk using the AMA method for the entire group, to assign the operational risk corresponding to each subsidiary, in order to ensure that all the banks are adequately capitalised.

3.3 IN THE EU: THE ROLE OF THE CEBS

As earlier mentioned, the entry into force of the new solvency rules requires the transposition to national regulations of the related directives approved by the Parliament and the Council.

The EU is made up of a large number of Member States, each with a legal system and regulatory and supervisory approaches that may differ from one country to another. This gives rise to potential inconsistencies in the implementation of directives and in daily supervisory practices. However, the start-up of the so-called Lamfalussy approach is expected to be a suitable tool for facing up to these problems. In this respect, the CEBS, the level 3 committee of banking supervisors (see Box A1.1), worked intensely in 2004 and will continue to do so in the future to bring about as uniform an implementation as possible of the capital Directive, along with the greatest convergence as proves reasonable in respect of supervisory practices. In that way the principle of a level playing field for banks from different countries competing in the same markets will be observed.

Of note, primarily, among the foregoing work has been that conducted to develop a set of high-level principles regarding the content and application of pillar 2 (supervisory review), distinguishing between the work directed at banks themselves and their internal capital adequacy assessment process (ICAAP) and that directed at supervisors and their supervisory review and evaluation process (SREP), including the possibility of identifying, where appropriate, prudential measures. This work, conducted by the CEBS through the Groupe de Contact, resulted in the publication, in May 2004, of its third consultative document, entitled *The Application of the Supervisory Review Process under Pillar II.*

Another priority issue for the CEBS has been that of the validation of the advanced methods for credit risk and operational risk. This covers both technical aspects and supervisory processes in the broad sense, which means covering, in turn, quantitative and qualitative aspects. The aim is convergence in respect of the transposition of the standards included in the Directive and analysis of how these standards are implemented and interpreted in practice by the Member States. The CEBS addresses similar matters to those being treated in Basel in the AIG, albeit more extensively and ambitiously.

Mention should also be made of the work to reduce the areas of the Directive subject to national discretions. In this case, the options to be applied in the same way by all the EU countries and those others that may converge have been identified through establishing a common definition of criteria. Moreover, there has been analysis of a sizable number of options which it has been decided to maintain, because they reflect particularities of the European markets. However, work continues to ascertain these differences and pursue greater convergence, if not uniformity, as far as possible.

In addition to supervisory convergence, a second aspect that should be taken into account is co-operation between supervisors in the EU, especially as regards the supervision of internationally active banks. The aim is to avoid the duplication of effort. In this connection, the CEBS is working on the search for a common mechanism that ensures consistency in the supervision of European banking groups with cross-border activities, the rationalisation of the process of supervising cross-border groups and co-operation between home-country (of the parent company) and host-country supervisors. Under this same heading of supervisory co-operation is the ongoing work of the COREP (Common Reporting) group. It was set up to establish a common, EU-wide supervisory reporting framework in respect of the solvency of credit institutions. To do this, the necessary set of forms for an efficient reporting framework was developed, as was a data model suitable for implementing the proposed set of forms through the common use of XBRL language (see Box A1.2).

The CEBS published three consultative documents during 2004. The first, a *Draft Public Statement of Consultation Practices,* focuses, as its title suggests, on consultation practices. The

TOWARDS A EUROPEAN MODEL OF SUPERVISORY REPORTING ON SOLVENCY

BOX A1.2

In earlier 2004, a small group of supervisors from EU countries, including Spain, considered the possibility of establishing a supervisory reporting framework on the solvency of credit institutions which, for the first time, was to be common to the different countries of the EU. The proposal was an ambitious one, in that reporting on solvency had until then been a discretionary decision of each EU country and was therefore in response to supervisory requirements and practices, technical capabilities and the development of national financial markets and institutions. Breaking such deep-seated inertia would not, in principle, be straightforward.

On that premise and mindful of the difficulties, work began to evaluate the viability of the proposal. A set of forms was proposed to partially cover the supervisory reporting requirements arising from the changes under way in Directives 2000/12/EC and 93/6/EEC, which regulated the solvency of CIs and of investment services companies. Such changes ran parallel to those which were, in turn, being proposed for the updating of the Basel 1988 Accord, the basis of the Community solvency regulations.

The outcome of this intense effort by the aforementioned group of supervisors took the form, in June 2004, of a viability study submitted to the CEBS. The study did not confine itself to presenting draft forms with information on the composition of own funds and the related requirements (known as Pillar 1 in the new solvency regulations), but also included summary information on Pillar 2 (supervisory review and internal self-assessment of solvency) and opened the way for the common use of XBRL ("Extensible Business Reporting Language", a particularisation of XML) as a means of transmission for such information. Two of the reasons noted at that time on the importance of the proposal for the goals of the CEBS were the following:

- A common supervisory reporting framework reduces banks' regulatory requirement compliance costs, especially for internationalised groups, it improves the scope for co-operation between supervisors and it helps bring about a level playing field.

- The changes under way in solvency regulations, in international financial reporting standards and, particularly, at the European level offer a unique opportunity for the standardisation of supervisory reporting.

One conclusion may be highlighted: it is possible to attain the objective pursued but the proposal, in order to prove fruitful, must be sufficiently flexible so that the different countries determine the most appropriate level of reporting detail to be required of their institutions in accordance with their supervisory practices. That should not prevent certain national extensions, preferably specific developments of the agreed general framework which are, therefore, consistent with it.

The CEBS, at its meeting of 1 July 2004, took the results of the viability study on board and decided to move ahead with the work. In this connection, it created the COREP (COmmon REPorting) working group, open to all CEBS members, and with a specific mandate. The French banking commission chaired the group, which had its first meeting in Paris on 27 July 2004, followed by a further meeting on 15 September that same year when a "technical group" co-ordinated by the Banco de España was set up. This group was mandated to develop a full proposal (except for reporting on standard price risk measurement methods) on forms and an appropriate data model for their implementation through "third-generation languages (e.g. XBRL)" within a period of one month. The technical group met for two weeks at the Banco de España headquarters in Madrid and submitted its findings at the third COREP meeting which took place on 15 October at the CEBS headquarters in London. The principles applied in setting out the proposals were:

- Flexibility: so that the reporting structure may enable the optimal aggregation level for each supervisor to be chosen.

- Consistency: aimed at minimising the concepts to be used and ensuring that their meaning is always the same.

- Standardisation: allowing the number of different forms to be used to be reduced, assuming – where necessary – certain costs in terms of information loss.

A total of 25 forms with numerous common elements were completed or developed in the pursuit of an efficient reporting framework. But a set of legal references was also included, aimed at making the framework more readily understandable and avoiding uneven application from one country to another. This is also necessary for the development of the related XBRL taxonomy.

COREP accepted the proposals and forwarded them to the CEBS which, at its meeting on 28 October, supported them, giving the go-ahead for public consultations in two phases: the first at the national level, of a more informal nature and aimed at general questions, was to be conducted before the end of 2004; the second was to be conducted by the CEBS itself during the first four months of 2005 (it ended on 30 April). The forms continued to be developed until early 2005 and were finalised, in March 2005, with new forms (5) for standard market risk measurement methods, along with a set of explanatory notes for each form which sought to shed fresh light on their structures and content.

At the same time, a specific COREP sub-group was set up in January 2005 to develop the XBRL taxonomy relating to the proposed set of forms. The Banco de España also led this group, which set in train a project open to international collaboration between EU supervisors, national and international XBRL organisations, financial institutions, ITE application suppliers, universities and all organisations having anything to do with the use of XBRL language. Through either meetings or workshops in Madrid or through electronic means this subgroup has had to find a solution to multiple challenges that will mark a before and after in the development of XBRL language.

But the bulk of the work is essentially based on the status of the draft amendments of the capital requirements Directives disclosed in July

2004 and which had scheduled the completion of the work for June 2005. It was clear in May 2005 that the new directives would not be approved the following month; accordingly, the COREP and its technical and taxonomy-development sub-groups would have to continue with its work along two avenues:

1 Before June 2005, including the changes in the draft Directive agreed upon at end-2004 by the ECOFIN, along with the technical improvements posited and those others deemed appropriate for inclusion, in the light of the comments received in the CEBS public consultation process.

2 Until the final approval of the Directives, which took place as expected in the autumn of 2005, including the proposals of the European Parliament which introduced, inter alia, the latest developments that the European Commission considers appropriate to implement within the framework of the current amendment of European capital requirements regulations.

second, *High level principles of outsourcing,* addresses the externalisation of financial services. The third and final document was mentioned earlier. Part of the work of the CEBS came to fruition in a fourth consultation document that was published in 2005 (see Box A1.1).

4 Other supervisory and regulatory developments

4.1 ACCOUNTING MATTERS

As detailed in Chapter 3.1.2 of this Report, which addresses the “regulation of credit institutions’ accounts”, the publication of the Banco de España Circular (no. 4/2004), which adapts International Financial Reporting Standards (IFRS) to the Spanish credit institutions sector, was one of the most significant legislative changes in 2004. Spain has been a pioneer in this adaptation, which the other EU countries will also have to undertake.

Mention should be made here of the work performed both by the Basel Committee and the CEBS in analysing these new accounting rules and their effect on the regulatory capital of credit institutions and their provisioning policies.

In this respect, the Basel Committee has been studying the potential impact of the application of the new IFRS-based accounting rules on the definition of regulatory capital. Concern arises essentially from the introduction of the “fair value” principle, and the possibility of proposing adjustments to offset its effect on regulatory capital is being studied. Accordingly, the Committee issued three press releases during the second half of 2004. On 8 June the press release entitled *Regulatory capital in light of forthcoming changes in accounting standards* was published, and on 20 July and on 15 December two releases bearing the same title – *Capital treatment of certain items under IFRS* – were issued. The releases highlight the advisability of excluding from the definition of regulatory capital, inter alia, the profits or losses arising from changes in the credit institution’s risk as a result of applying the fair value principle to its liabilities or, in the treatment of available-for-sale instruments, the losses or gains arising from the use of the fair value criterion that may affect tier 1 capital, although the unrealised gains on tier 2 capital could be partly recognised.

Within the European Union, the CEBS has also worked on the analysis of the effect on credit institution’s solvency of the adoption by the EU of IFRS, especially in the case of the introduction of the fair value principle, which is introduced when this principle provides for the proper management of risk by banks. In this connection, the CEBS published guidelines on 21 December 2004 under the heading *CEBS guidelines on prudential filters for regulatory capital.* These recommend the use of prudential filters in the contest of IFRS and the new solvency Directive. The CEBS recommendations are in step with the work by the Basel Committee and share the same objectives. They seek to prevent the entry into force of the new accounting rules, scheduled in the EU for 1 January 2005, from exerting unwanted effects on the definition of regulatory capital and, at the same time, to bring about a level playing field.

4.2 OTHER WORK

Significant work was also conducted in other areas of a completely different order. The Basel Committee's cross-border banking group published a document entitled Consolidated KYC paper on 6 October. This emphasised the fact that credit institutions should manage their KYC (know-your-customer) risks on a consolidated basis. It is considered essential that all countries should have an appropriate legal framework in place so that the necessary information on KYC risk management can be sent unhindered from subsidiaries or branches to the parent. In this connection, the document examines which factors are critical for the effective management of KYC risk in a banking group.

The *Joint Forum*[3] published a document in May 2004 entitled *Financial Disclosure in the Banking, Insurance and Securities Sectors. Issues and Analysis.* The document assesses the current state of the information disclosed to the market on financial risks (market risk, liquidity risk, credit risk and insurance risk) with a view to improving it and, thereby, reinforcing the role of market discipline, especially for the major banks. The need to provide more extensive information relating to concentration risk, to potential future exposure and to the hedging of liquidity risk is considered. Also, in March 2005, following a period of consultation with the parties concerned that commenced in October 2004, it published a final document on the subject of *Credit Risk Transfer.* This document analyses the effect of credit risk transfer on financial stability and, in particular, it studies when a clear transfer of risks takes place, the degree of understanding of the participants in the market concerning the risks they incur and whether such activity may generate an undue concentration of risks both within and outside the regulated financial sector. It is also considered whether there is a need to improve the information that is sent to supervisors and to the market.

Further, under the documents published by the European Central Bank's Banking Supervision Committee (BSC), mention might be made, in addition to its regular reports on financial stability in the EU (EU Banking Sector Stability) and the structure of the banking industry in the EU (Report on EU Banking Structure), of the document published on 24 May: *Credit Risk Transfer for EU Banks:* Activities, Risks and Risk Management.

3. The Joint Forum is a technical group of experts that works under the aegis of three international supervisory committees in the areas of banking (Basel Committee), securities (IOSCO) and insurance (IAIS), and whose activity is related to financial conglomerates and to the study of matters of interest to the three aforementioned committees.

ANNEX 2

Consolidated groups of Spanish credit institutions in December 2004

Explanatory note

Consolidated groups (CGs) are classified in accordance with the nature of the parent institution. Credit institutions (CIs) that are not part of any CG (those that report own funds on an individual basis) are listed as such at the foot of the respective institutional blocks.

The code on the left is the number of the institution in the Banco de España's Register of Institutions.

Parent credit institution

SPANISH BANKS

	CONSOLIDATION METHOD APPLIED[1]
GRUPO SCH	
0049 Banco Santander Central Hispano, SA	11
0011 Allfunds Bank, SA	22
0030 Banco Español de Crédito, SA	11
0036 Santander Investment Services, SA	11
0038 Banesto Banco de Emisiones, SA	11
0073 Patagon Bank, SA	11
0083 Banco Alicantino de Comercio, SA	11
0086 Banco Banif, SA	11
0091 Banco de Albacete, SA	11
0224 Santander Consumer Finance, SA	11
4757 Bansalease, SA, EFC	11
4784 Transolver Finance, EFC, SA	22
4797 Santander de Leasing, SA, EFC	11
8206 Hipotebansa, EFC, SA	11
8236 Hispamer Servicios Financieros	11
8314 Bansander de Financiaciones, SA	11
8490 Santana Credit, EFC, SA	11
8906 Santander Factoring y Confirming	11
8910 Banesto Factoring, SA, EFC	11
Banco Caracas, NV	11
Banco Totta de Angola, SARL	11
Banco Río de la Plata	11
Préstamos de Consumo, SA	11
CC-Leasing Austria Gesellschaft, MB	11
Santander Central Hispano Benelux	11
Banco Santa Cruz, SA	11
Banco Santander Brasil, SA	11
Santander Brasil Arrendamiento	11
Stder Comp Securitiz Créditos	11
Santander Asset Management Ltda.	11
Banco Santander Meridional	11
Banco Santander, SA	11
Santander Banespa Cía. de Arend.	11
Banco do Estado de Sao Paulo	11
Santander Bank & Trust, LTD	11

1. Consolidation method applied: 11.–Full consolidation method; 22.–Proportionate consolidation method.

	CONSOLIDATION METHOD APPLIED[1]
Panamerican Bank (Bahamas)	11
Santander Investment Bank (SIB)	11
Santander Merchant Bank	11
Banco Santander Bahamas Internac.	11
Banco Santander Suiza, SA	11
Banco Santander Chile	11
Santander Factoring	11
Santiago Leasing	11
Bansaleasing Colombia, SA	11
Banco Santander Colombia, SA	11
CCB Finance, AS	11
CC-Bank AG	11
CC-Leasing GMBH	11
Omega Gesellschaft F Rvertriebsentw	11
Buhal Leasing, LTD	11
Abbey National, PCL	11
BSCH (Guernsey) LTD	11
CC Credit RT	11
Totta Ireland, PCL	11
Fc Factor SRL	11
Finconsumo Banca Spa	11
Totta & Azores Financing, Limited	11
Pinto Totta International Finance	11
Serfin International Bank & Trust	11
Banco Santander Mexicano, SA	11
Banca Serfin	11
Factoring Santander Serfin, SA	11
Abfin BV	11
Elcon Finance, AS	11
Banco Santander Colombia-Panam.	11
PTF Bank, SA	11
Polskie Towarzystwofinansowe, SA	11
Banco Santander Portugal	11
BSN Portugal	11
Banco Madesant	11
Banco Totta & Azores	11
Companhia Geral de Credito Predial	11
Totta-Crédito Especializado, Ific	11
Banco de Asunción, SA	11
Banco Santander Puerto Rico	11
Bansander de Leasing Corporation	11
Crefisa	11
Banco Santander International Miami	11
SCH Overseas Bank	11
Totta & Azores INC-Newark	11
Totta & Azores CT INC-Connecticut	11
Santander Mortgage Corp.	11
Santander International Bank	11
Banco Santander Uruguay	11

	CONSOLIDATION METHOD APPLIED[1]
Rio Bank International Saife	11
Banco de Venezuela, SACA	11
(Institutions: 86)	
GRUPO MAPFRE	
0063 Banco Ser. Fin. Caja Madrid-Mapfre	11
0125 Bancofar, SA	11
4837 Madrid Leasing Corporacion, SA	11
8793 Finanmadrid, SA, EFC	11
(Institutions: 4)	
GRUPO PASTOR	
0072 Banco Pastor, SA	11
8620 Pastor Servicios Financieros	11
(Institutions: 2)	
GRUPO POPULAR	
0075 Banco Popular Español, SA	11
0004 Banco de Andalucía, SA	11
0024 Banco de Crédito Balear, SA	11
0082 Banco de Castilla, SA	11
0095 Banco de Vasconia, SA	11
0097 Banco de Galicia, SA	11
0216 Banco Popular Hipotecario, SA	11
0229 Banco Popular-E, SA	11
0233 Popular Banca Privada, SA	11
8903 Heller Factoring Española, SA	22
Banco Popular France	11
BNC Internacional	11
Banco Nacional de Crédito	11
Heller Factoring Portuguesa	11
(Institutions: 14)	
GRUPO SABADELL	
0081 Banco de Sabadell, SA	11
0185 Sabadell Banca Privada, SA	11
8211 Bansabadell Financiación, EFC, SA	11
8821 Bansabadell Fincom, EFC, SA	22
Banc Sabadell D'Andorra, SA	11
Banco Atlántico (Bahamas) Bank and Trust	11
Bansabadell Finanziaria, SA	11
Banco Atlántico Mónaco, SAM	11
Banco Atlántico (Panamá), SA	11
Atlántico Leasing, SA	11
(Institutions: 10)	
GRUPO BBVA	
0182 Banco Bilbao Vizcaya Argentaria, SA	11
0009 Finanzia, Banco de Crédito, SA	11

	CONSOLIDATION METHOD APPLIED[1]
0057 Banco Depositario BBVA, SA	11
0113 Banco Industrial de Bilbao, SA	11
0121 Banco Occidental, SA	11
0129 BBVA Banco de Financiación, SA	11
0132 Banco de Promoción de Negocios	11
0227 Unoe Bank, SA	11
1004 Banco de Crédito Local de España	11
8321 Finanzia Trucks, EFC, SA	11
8908 BBVA Factoring, EFC, SA	11
Banc Internacional d'Andorra, SA	11
Banca Mora, SA	11
Banco Provincial Overseas NV	11
BBVA Banco Francés, SA	11
Credilogros Compañía Financiera	11
Banco Uno-E Brasil, SA	11
BBVA Suiza, SA (BBVA Switzerland)	11
Banco Bilbao Vizcaya Argentaria Chile	11
BBVA Colombia, SA	11
Banco Bilbao Vizcaya (Deutschland)	11
BBVA Privanza International (Gibral)	11
BBVA Ireland Public Limited Company	11
BBVA Finance Spa.	11
BBVA Privanza Bank (Jersey), LTD	11
Banc Internacional of Andorra (Caym)	11
Banco Francés (Cayman), LTD (en liq.)	11
Mercury Bank & Trust Ltd.	11
BBVA Bancomer Servicios, SA	11
Factor Multiba, SA de CV	11
Factoraje Probursa, SA de CV	11
BBVA Bancomer, SA de CV	11
Banco Bilbao Vizcaya Argentaria (Pa)	11
Banco Continental, SA	11
Banco Bilbao Vizcaya Argentaria (Po)	11
BBVA IFC, SA (Portugal)	11
Leasimo - Sociedade de Locaçao	11
BBVA Paraguay, SA	11
Banco Bilbao Vizcaya Argentaria Puerto Rico	11
Bbva International Investment Corp.	11
Valley Bank	11
Banco Bilbao Vizcaya Argentaria Uruguay	11
Banco Provincial SA	11
(Institutions: 43)	
0042 Banco Guipuzcoano, SA	11
0078 Banca Pueyo, SA	11
0128 Bankinter, SA	11
0188 Banco Alcalá, SA	11
0198 Banco Cooperativo Español, SA	11
0211 EBN Banco de Negocios, SA	11

		CONSOLIDATION METHOD APPLIED[1]
	1000 Instituto de Credito Oficial	11
	(Institutions: 7)	
SAVINGS BANKS	GRUPO CAJA CATALUÑA	
	2013 Caixa d'Estalvis de Catalunya	11
	4779 Leasing Catalunya, EFC, SA	11
	8915 Factorcat, EFC, SA	11
	(Institutions: 3)	
	GRUPO MP CÓRDOBA	
	2024 Caja de Ahorros y MP de Córdoba	11
	8612 Comerciantes Reunidos del Sur, SA	11
	(Institutions: 2)	
	GRUPO CAJA MADRID	
	2038 Caja de Ahorros y MP de Madrid	11
	0063 Banco Ser. Fin. Caja Madrid-Mapfre	22
	0099 Altae Banco, SA	11
	0125 Bancofar, SA	22
	4837 Madrid Leasing Corporación, SA	22
	8793 Finanmadrid, SA, EFC	22
	(Institutions: 6)	
	GRUPO CAJA ASTURIAS	
	2048 Caja de Ahorros de Asturias	11
	0115 Banco Liberta, SA	11
	(Institutions: 2)	
	GRUPO CAJA BALEARES	
	2051 Caja de Ahorros y MP de Baleares	11
	4838 Sa Nostra de Inversiones EFC	11
	(Institutions: 2)	
	GRUPO CAJA CANTABRIA	
	2066 C Ahorros de Santander y Cantabria	11
	4819 Bancantabria Inversiones, SA, EFC	11
	(Institutions: 2)	
	GRUPO C. SAN FERNANDO	
	2071 CAP S. Fernando de Sevilla Jerez	11
	8596 Unión Cto. Fin. Mob. Inm. Credifimo	11
	(Institutions: 2)	
	GRUPO BANCAJA	
	2077 Bancaja	11
	0093 Banco de Valencia, SA	11
	(Institutions: 2)	

	CONSOLIDATION METHOD APPLIED[1]
GRUPO CAIXA VIGO	
2080 Caixa Vigo, Ourense e Pontevedra	11
0046 Banco Gallego, SA	11
(Institutions: 2)	
GRUPO IBERCAJA	
2085 Ibercaja	11
4832 Ibercaja Leasing y Financiación	11
(Institutions: 2)	
GRUPO CAJA GALICIA	
2091 Caja de Ahorros de Galicia	11
0031 Banco Etcheverria, SA	22
(Institutions: 2)	
GRUPO KUTXA	
2095 Bilbao Bizkaia Kutxa	11
4809 Adefisa Leasing, EFC, SA	11
Arca, SA	11
(Institutions: 3)	
GRUPO CAJA PENSIONES	
2100 C. Ahorros y Pensiones de Barcelona	11
0133 Banco de Europa, SA	11
8209 Hipotecaixa, EFC, SA	11
8221 Corporación Hipotecaria Mutual	11
8776 Finconsum, EFC, SA	11
8788 Financiacaixa 2, EFC, SA	11
Caixabank, SA	11
Crèdit Andorrà, SA	11
Caixabank Banque Privée (Suisse)	11
Caixabank France, SA	11
Recouvrements Dulud, SAS	11
(Institutions: 11)	
GRUPO CAJA GUIPÚZCOA	
2101 Caja Ahorros Gipúzkoa y S. Sebastián	11
0059 Banco de Madrid, SA	11
8811 Grupo Serv. Hip. On-line, EFC, SA	11
(Institutions: 3)	
GRUPO UNICAJA	
2103 Unicaja	11
0184 Banco Europeo de Finanzas, SA	11
(Institutions: 2)	
2000 Confed. Española Cajas de Ahorros	11
2010 MP y Caja Gral. Badajoz	11
2017 Círculo Cátolico Obreros de Burgos	11

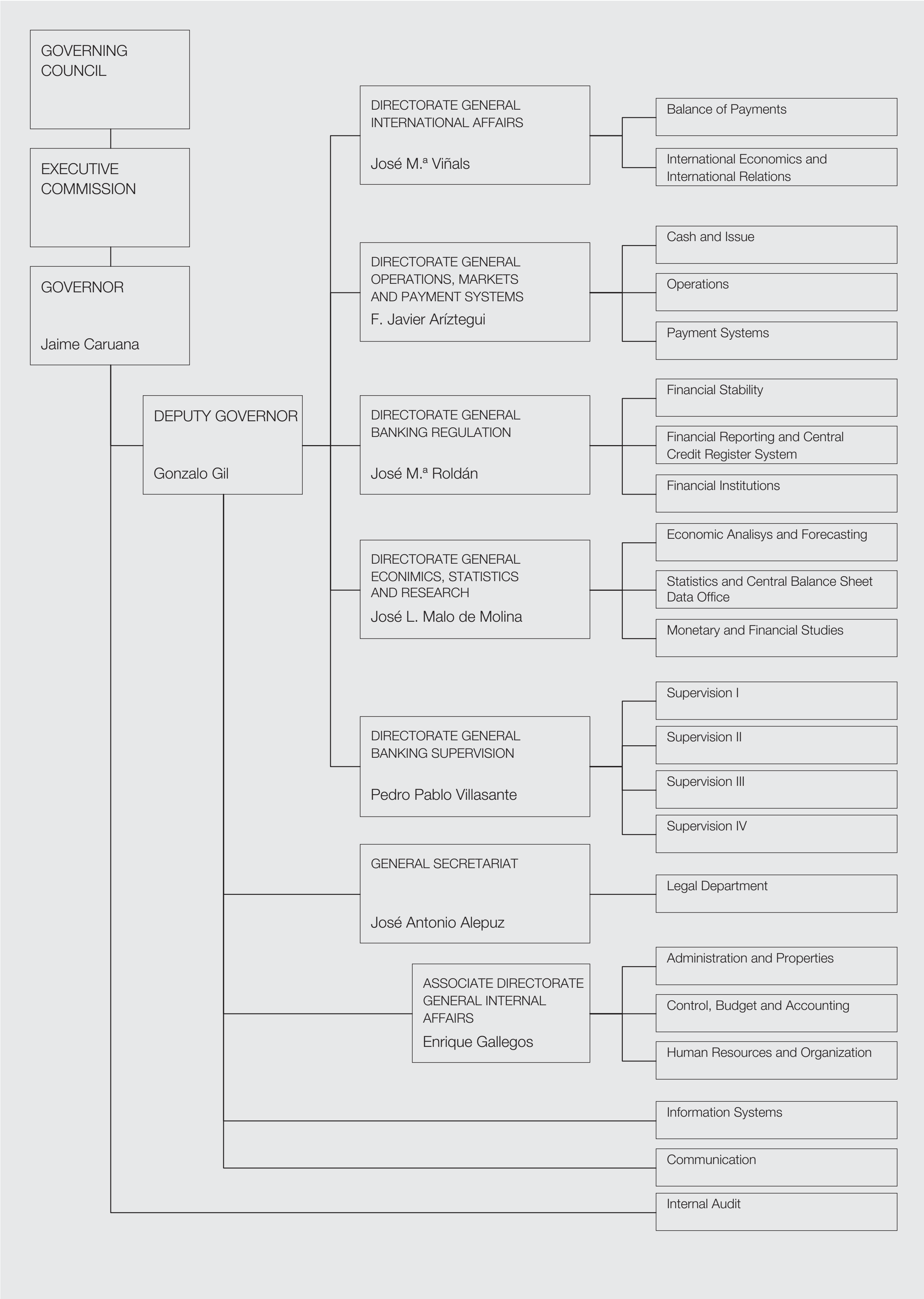
		CONSOLIDATION METHOD APPLIED[1]
	2018 Caja de Ahorros Municipal de Burgos	11
	2030 Caixa D'Estalvis de Girona	11
	2031 Caja General de Ahorros de Granada	11
	2032 Caja de Ahorro Prov. de Guadalajara	11
	2037 Caja de Ahorros de La Rioja	11
	2040 Caixa D'Estalvis Comarcal Manlleu	11
	2041 Caixa D'Estalvis de Manresa	11
	2042 Caixa D'Estalvis Laietana	11
	2043 Caja de Ahorros de Murcia	11
	2052 Caja Insular de Ahorros de Canarias	11
	2054 Caja de Ahorros y MP de Navarra	11
	2059 Caixa D'Estalvis de Sabadell	11
	2065 Caja General de Ahorros de Canarias	11
	2073 Caixa D'Estalvis de Tarragona	11
	2074 Caixa D'Estalvis de Terrassa	11
	2081 Caixa D'Estalvis del Penedès	11
	2086 Caja Ahorros Inmaculada de Aragón	11
	2090 Caja de Ahorros del Mediterráneo	11
	2092 Caja Provincial de Ahorros de Jaén	11
	2094 Caja de Ahorros y MP de Ávila	11
	2096 Caja España de Inversiones	11
	2097 Caja de Ahorros de Vitoria y Álava	11
	2098 MP y CA de Huelva y Sevilla	11
	2099 Caja Ahorros y MP de Extremadura	11
	2104 Caja Ahorros de Salamanca y Soria	11
	2105 Caja Ahorros de Castilla-La Mancha	11
	(Institutions: 29)	
Savings banks consolidated only with other institutions valued by the equity method	2045 Caja de Ahorros y MP Ontinyent	
	2069 Caja Ahorros y Monte Piedad Segovia	
	(Institutions: 2)	
CO-OPERATIVES	3008 Caja R. de Navarra, SCC	11
	3017 Caja R. de Soria, SCC	11
	3025 Caixa C. dels Enginyers, SCC	11
	3035 Caja Laboral Popular CC	11
	3058 Caja R. Intermediterránea, SCC	11
	3084 Ipar Kutxa Rural, SCC	11
	3085 Caja R. de Zamora, CC	11
	3159 Caixa Popular-Caixa Rural, SCCV	11
	3172 Caja Caminos, SCC	11
	3183 Caja de Arquitectos SCC	11
	(Institutions: 10)	
Co-operatives consolidated only with other institutions valued by the equity method	3067 Caja R. de Jaén, SCC	
	3082 Caja R. del Mediterráneo, SCC	
	3171 Caixa dels Advocats-Caja Abogados	
	3187 Caja R. del Sur, S. Coop. Crédito	
	(Institutions: 4)	

		CONSOLIDATION METHOD APPLIED[1]
FOREIGN CREDIT INSTITUTIONS	GRUPO DEUTSCHE, SAE	
	0019 Deutsche Bank, SAE 11	
	0205 Deutsche Bank Credit, SA	11
	(Institutions: 2)	
	GRUPO PARIBAS	
	0058 BNP Paribas España, SA	11
	0225 Banco Cetelem, SA	11
	8512 Unión Créditos Inmobiliarios	11
	8798 Euro Crédito EFC, SA	11
	(Institutions: 4)	
	GRUPO BARCLAYS, SA	
	0065 Barclays Bank, SA	11
	8905 Banzano Group Factoring, SA, EFC	11
	(Institutions: 2)	
	GRUPO URQUIJO	
	0112 Banco Urquijo, SA	11
	0228 Banco Ixis Urquijo, SA	22
	(Institutions: 2)	
	GRUPO CITIBANK	
	0122 Citibank España, SA	11
	8818 Citifin, SA, EFC	11
	(Institutions: 2)	
	GRUPO ESPIRITO SANTO	
	0131 Banco Espirito Santo, SA	11
	(Institutions:1)	
	GRUPO UBS	
	0226 UBS España, SA	11
	(Institutions: 1)	
	GRUPO ING LEASE	
	4709 ING Lease (España), EFC, SA	11
	8820 ING Real Estate Finance (España), EFC	11
	(Institutions: 2)	
	0079 Banco Inversión, SA	11
	0136 Banco Árabe Español, SA	
	0138 Bankoa, SA	11
	0200 Privat Bank, SA	11
	0217 Banco Halifax Hispania, SA	11
	(Institutions: 5)	

		CONSOLIDATION METHOD APPLIED[1]
Other consolidated groups	GRUPO BANKPYME	
	0142 Bco. Pequeña y Med. Empresa	11
SPANISH PARENT	4753 Edamleasing EFC, SA	11
	8734 Multiahorro EFC, SA	11
	(Institutions: 3)	
	GRUPO INVERSIS	
	0232 Banco Inversis Net, SA	11
	(Institutions: 1)	
	GRUPO LICO	
	4713 Lico Leasing, SA, EFC	11
	(Institutions: 1)	
	GRUPO CARTUJA	
	8817 Cartuja Financiera Andaluza, SA	11
	(Institutions: 1)	
	0061 Banca March, SA	11
	8807 Arafin EFC, SA	11
	(Institutions: 2)	
FOREIGN PARENT	GRUPO BANCOVAL-DEXIA	
	0094 Bancoval, SA	11
	0231 Dexia Sabadell Banco Local, SA	11
	(Institutions: 2)	
	GRUPO B. FINANZAS	
	0186 Banco de Finanzas e Inversiones	11
	(Institutions:1)	
	GRUPO RENAULT	
	8345 Renault Financiaciones, SA, EFC	11
	4726 Accordia España, SA, EFC	11
	(Institutions: 2)	
	GRUPO CARREFOUR	
	8795 Servicios Financieros Carrefour, EFC	11
	8815 Finandia EFC, SA	11
	(Institutions: 2)	
	0223 General Electric Capital Bank, SA	11
	4799 DaimlerChrysler Services España, EFC	
	8307 Volkswagen Finance SA, EFC	
	(Institutions: 3)	

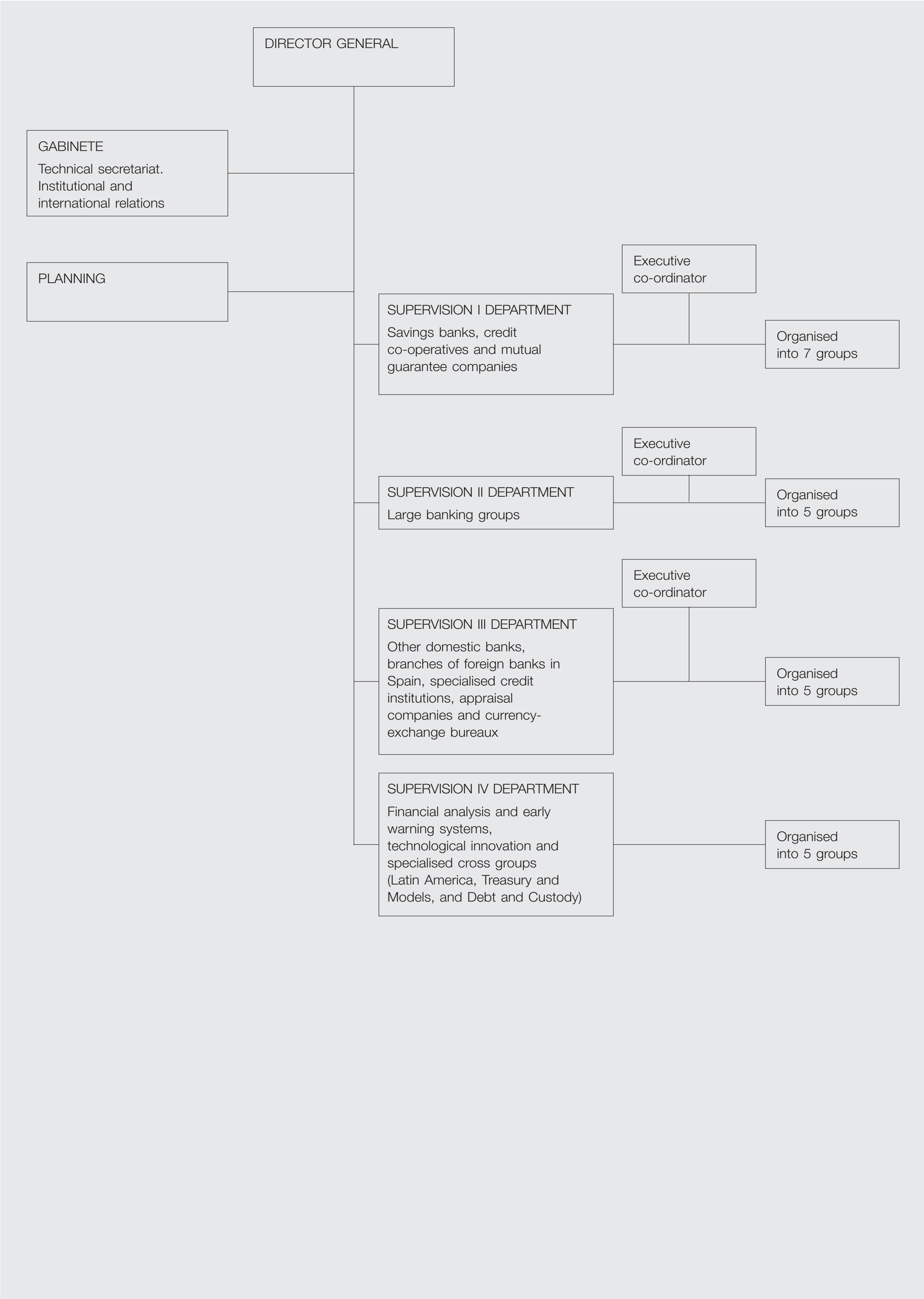
ANNEX 3

ORGANIZATION CHART



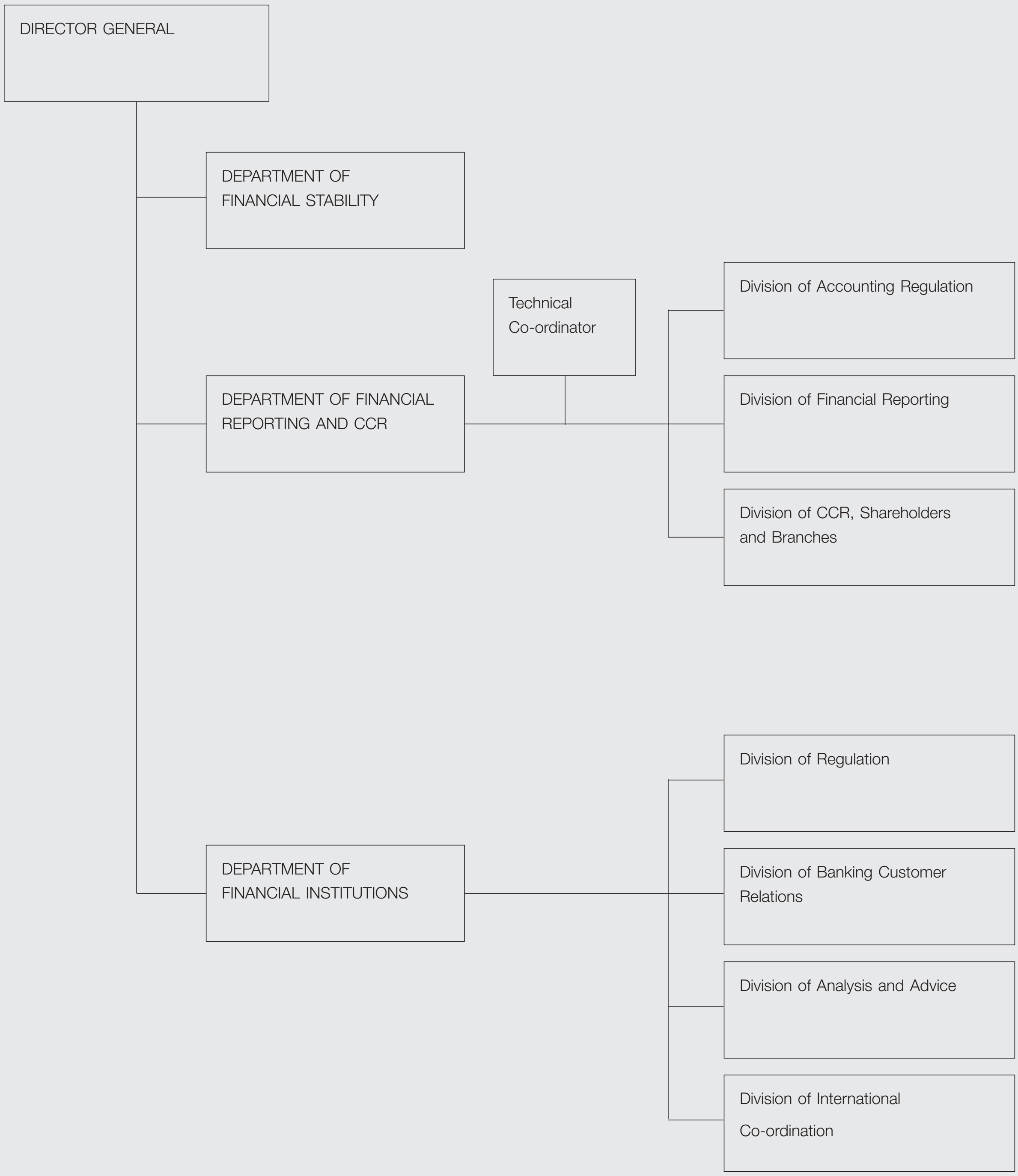
ANNEX 4

DIRECTORATE GENERAL BANKING SUPERVISION



ANNEX 5

DIRECTORATE GENERAL BANKING REGULATION



ANNEX 6

DISCIPLINARY PROCEEDINGS INITIATED DURING THE PERIOD 2000-2004

INSTITUTIONS	2000	2001	2002	2003	2004	TOTAL
Banks	2	2	4	3		11
Savings banks	1					1
Credit co-operatives	4	5				9
Specialised credit institutions	3	1		2		6
Appraisal companies	1		3	3	1	8
Appraisal companies revocations	3	1				4
Owner of significant credit institution holdings				1		1
Use of names or pursuit of activities reserved for credit institutions	2	2	4		2	10
Currency-exchange bureaux			5	8	4	17
Unauthorised currency-exchange bureaux				3	2	5
Currency-exchange bureaux revocations					183	183
Non-compliance with ECB minimum reserve requirements	6	7	10	4	4	31
TOTAL	22	18	26	24	196	286

ANNEX 7

PROCEEDINGS INITIATED AND RESOLVED, BY TYPE OF INFRINGEMENT

YEAR	NUMBER OF PROCEEDINGS	INFRINGEMENT			PROCEEDING DISMISSED	PROCEEDING SUSPENDED	RESERVED NAME (ARTS. 28-29 LDI)	UNAUTHORISED CURR. EXCH. BUREAUX	CURR. EXCH. BUREAUX REVOCATIONS	APPRAISAL COMPANIES REVOCATIONS (RD 775/97)	NON-COMPLIANCE WITH ECB MINIMUM RESERVE REQUIREMENTS
		VERY SERIOUS	SERIOUS	MINOR SERIOUS							
2000	22 proceedings against institutions	4	15	5			2			3	6
	76 proceedings against particular directors of such institutions	20	80	24							
2001	12 proceedings against institutions	1	6	1						1	7
	19 proceedings against particular directors of such institutions	13	18		3						
2002	17 proceedings against institutions	1	14	2	2		2				10
	43 proceedings against particular directors of such institutions	13	102		4						
2003	20 proceedings against institutions	9	35	5	2		3	3			4
	42 proceedings against particular directors of such institutions	59	131		3	2					
2004	75 proceedings against institutions	16	73	14			2		53		4
	70 proceedings against particular directors of such institutions or individual currency exchange bureaux proprietors	61	199				1	1	10		

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BANCO DE ESPAÑA PUBLICATIONS

Studies and reports

REGULAR

Annual Report (in Spanish and English)
Economic Bulletin (quarterly) (the Spanish version is monthly)
Financial Stability Report (in Spanish and English) (half-yearly)
Memoria del Servicio de Reclamaciones (annual)
Mercado de Deuda Pública (annual)
Report on Banking Supervision in Spain (in Spanish and English) (annual)
The Spanish Balance of Payments and International Investment Position (in Spanish and English) (annual)

NON-PERIODICAL

Central Balance Sheet Data Office: commissioned studies
Notas de Estabilidad Financiera

ECONOMIC STUDIES

53 ÁNGEL LUIS GÓMEZ JIMÉNEZ AND JOSÉ MARÍA ROLDÁN ALEGRE: Analysis of fiscal policy in Spain: a macroeconomic perspective (1988-1994) (1995). (The Spanish original of this publication has the same number.)
54 JUAN MARÍA PEÑALOSA: El papel de la posición financiera de los agentes económicos en la transmisión de la política monetaria (1996).
55 ISABEL ARGIMÓN MAZA: El comportamiento del ahorro y su composición: evidencia empírica para algunos países de la Unión Europea (1996).
56 JUAN AYUSO HUERTAS: Riesgo cambiario y riesgo de tipo de interés bajo regímenes alternativos de tipo de cambio (1996).
57 OLYMPIA BOVER, MANUEL ARELLANO AND SAMUEL BENTOLILA: Unemployment duration, benefit duration, and the business cycle (1996). (The Spanish original of this publication has the same number.)
58 JOSÉ MARÍN ARCAS: Stabilising effects of fiscal policy. Volumes I and II (1997). (The Spanish original of this publication has the same number.)
59 JOSÉ LUIS ESCRIVÁ, IGNACIO FUENTES, FERNANDO GUTIÉRREZ AND M.ª TERESA SASTRE: El sistema bancario español ante la Unión Monetaria Europea (1997).
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