

**REPORT ON BANKING
SUPERVISION IN SPAIN**

2003

BANCODEESPAÑA



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ABBREVIATIONS

€ m	Millions of euro
IBCD	First Banking Co-ordination Directive
2BCD	Second Banking Co-ordination Directive
ACs	Appraisal Companies
AIAF	Association of Securities Dealers
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
BOE	Official State Gazette
b.p.	Basis points
BSC	Banking Supervision Committee of the ESBC
CBE	Circular of the Banco de España
CCR	Central Credit Register of the Banco de España
CECA	Spanish confederation of savings banks
CERSA	Spanish state-owned reinsurance company
CGs	Consolidated groups of CIs, DIs, etc.
CIs	Credit Institutions (DIs, SCIs, and the ICO)
CNMV	National Securities Market Commission
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
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
IAS	International Accounting Standards
IASB	International Accounting Standards Board
IBFLs	Interest-bearing financial liabilities
ICO	Official Credit Institute
IFAC	International Federation of Accountants
IOSCO	International Organisation of Securities Commissions
IPO	Initial public offering
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)
LSM	Law on the securities market (Law 24/1988)
MGCs	Mutual guarantee companies
MO	Ministerial Order
MTG	Mixed Technical Group
OCC US	Office of the Comptroller of the Currency
OECD	Organisation for Economic Co-operation and Development
OJ L	Official Journal of the European Communities - legislation series
ORS	Other resident sectors
PBT	Profit before tax
p.p.	Percentage points
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)

SABER	Risk-based approach to banking supervision
SCIs	Specialised credit institutions
SEPBLAC	Commission for the Prevention of Money Laundering and Monetary Offences
SLBE	Banco de España Settlement Service
SNCE	National Electronic Clearing System
TSG	Technical Sub-Group
US	United States

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REPORT ENVISAGED IN LAW 44/2002 ON FINANCIAL SYSTEM REFORM MEASURES.
2003

1. INTRODUCTION

The Second Additional Provision of Law 44/2002 of 22 November 2002 on Financial System Reform Measures established, as its name suggests, certain measures to improve the efficiency, effectiveness and quality of supervision 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 2004 Audit Plan of the Banco de España, approved by the Deputy Governor on 8 January 2004 under the powers delegated to him and notified to the Executive Commission on 9 January 2004, includes the drafting of the report envisaged in Law 44/2002 of 22 November 2002 on Financial System Reform Measures. This report on how closely the decisions taken by its governing bodies conform to the procedural rules applicable in each case must be included in the Banco de España’s annual report on its supervisory function for 2003.

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 decisions taken by their governing bodies 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. 2003 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.

Our audit work was conducted in accordance with 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 2003 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.

However, it was noted that in certain matters relating to the Department of Financial Institutions:

- The proposals approved by delegates did not expressly indicate this.
- The proposals were not set forth in a separate document, or did not expressly include this Department's report among the documentation.

Madrid, 17 May 2004

DIRECTOR OF THE INTERNAL AUDIT DEPARTMENT

A handwritten signature in dark ink, consisting of a large, stylized 'M' and 'F' intertwined, with a long horizontal stroke extending to the right.

Miguel Martín Fernández

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

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

I Structure and evolution of the institutions under the Banco de España's supervision

I.1 Structure and composition of the banking system

The declining trend in the number of CIs continued in 2003, with 11 fewer than in 2002

I.1.1 TYPES OF CREDIT INSTITUTION

Of the 18 deregistration in the year, 11 were due to absorption by their respective parents

The total number of foreign banks held steady, with one less branch and one more subsidiary

There were six mergers or acquisitions, of which five were between banks

Domestic banks, which have lost 4.2 pp of market share since 2000, ceded scarcely 0.5 pp in 2003...
... and savings banks lost market share for the first time in the last decade (down 0.3 pp)

By contrast, the EU branches continued to gain market share: 1 pp in 2003 (2 pp since 2000)

The internal restructuring of groups of credit institutions (CIs) led small deposit institutions (DIs) and specialised credit institutions (SCIs) to be successively absorbed and so further reduced the total number of CIs in 2003. However, the banking groups that played the leading part in the recent mergers and acquisitions faced the need to rationalise their structures more rapidly than had been done in similar processes in the past. Even so, despite the processes of concentration, the stable staff numbers and the ongoing selective expansion of the branch and ATM network were noteworthy.

As at 31 December 2003, 350 CIs were registered with the Banco de España, 11 fewer than a year earlier, as a result of the 18 de-registrations and 7 registrations discussed in Section II.4 herein dealing with the official registers kept by the Banco de España (see Table I.A.1). This reduction prolonged the declining path initiated in the past decade, which seemed to have bottomed out in 2001 and yet accelerated again. The restructuring of Spanish and foreign banking groups, in which the respective parent companies absorbed smaller CIs, is the main cause of the de-registrations, to which must be added the change of corporate purpose by an SCI which remained active. Most notable regarding the number of institutions per grouping was that it was practically unchanged or decreased only slightly among the national banks and SCIs.

While the total number of foreign banks, subsidiaries and branches was unchanged, three new institutions were registered and another three deregistered. The 83 foreign DIs are mostly from EU countries, particularly France and the United Kingdom. There is only a token presence of DIs from non-Community countries, since they more frequently access the domestic market from other Community countries, and particularly from London. Meanwhile, the foreign CIs operating in Spain without a permanent establishment continued to increase considerably.

In 2003 there were six merger and acquisition processes in which two or more DIs took part. Of these, five were between banks and one between credit co-operatives, with 13 DIs involved (see Table I.A.1)¹. The continuing mergers and absorptions among banks contrasted with the calm reigning in this respect among the groups of savings banks and credit co-operatives.

As regards the shares of the various EU institutional groups in the total balance sheet, the most notable development was the slippage of 4.2 pp suffered by Spanish banks in the last four years (see Chart I.1) which, however, decelerated in 2003, with a loss in share of barely 0.5 pp. This lost ground was due to Banco Zaragozano, a medium-sized entity, being taken over by a foreign bank, and thus reclassified in the group of foreign subsidiaries. Nevertheless, the initiatives of the major banks in the domestic market and, in particular, in traditional deposit and lending (especially mortgage) business practically offset this reclassification.

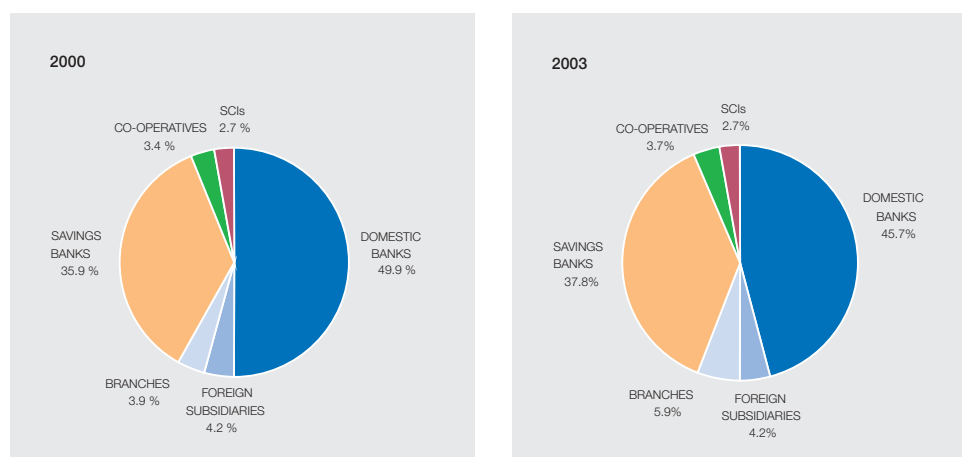
Significantly among the foreign institutions, the share of the subsidiaries has been stagnant since 2000, despite the aforementioned takeover. By contrast, foreign branches, driven by strong deposit-taking by an institution specialised in direct banking, raised their share by 2 pp in the same period. Along with these foreign branches, savings banks have also enjoyed a

1. This table does not include the absorption of Banco Zaragozano by the Spanish subsidiary of the UK bank Barclays. Although effective as at 31 December 2003, the de-registration of Banco Zaragozano was not entered in the Banco de España Register of Credit Institutions until 3 January 2004.

MARKET SHARE OF CIs REGISTERED IN SPAIN

CHART I.1

Balance sheet of total business



similar-sized gain in market share, although last year their share slipped back for the first time in the last 10 years (by 0.3 pp).

The environment in which CIs operated became more competitive, with customer demand oriented towards integral financial services...

Banking activity is exposed to a very competitive environment, created both by CIs themselves and by the penetration in the market of other financial intermediaries, particularly investment and insurance companies. Against this background, and influenced by the historically low interest rates currently prevailing, bank customers are demanding, and CIs increasingly offering, integrated financial services with a strong counselling component, as against the traditional straight lending and deposit products. That is why the range of own and third-party financial products marketed by institutions is becoming broader, while not only are bank branches not losing prominence, but they are refocusing and gaining value as a key element in business activity.

... which spurred the selective growth of branch and ATM networks and of personnel

In effect, despite the development of alternative channels such as the Internet and telephone banking, bank branches —refocused from their passive traditional model to a proactive multi-functional role characterised by high value-added personalised services— continue to be the key means of attracting customer loyalty. Branches are, moreover, supplemented by an extensive network of ATMs, many of them with operating features and capabilities that convert them into powerful virtual offices able to carry out an extensive range of banking operations.

Despite the introduction of automatic systems in administrative tasks, CIs created nearly 1,000 new jobs in 2003

The other pillar underpinning the change in the focus of banking services is the staff serving at DIs. Although it is true that there may still be certain problems of profile mismatch in these staff, it seems that their number, after a decade of significant cutbacks, has become relatively stable and is even rising (see Table I.A.2). The number of employees increased by nearly 1,000 in 2003, half of them at central services, which was a new phenomenon. Credit co-operatives, and particularly savings banks, were the institutions with the highest staff growth, which was used to cover positions in new branches. Banks slowed down their staff cuts due to the freezing of staff numbers at their central services.

The introduction of a stricter definition of agents prevents accurate analysis of how their number has changed with respect to the previous year

The fall in the number of agents, who are used primarily by the national banks, is a result of a methodological change that caused a break in the time series. This is because those declared to be agents must now meet a stricter definition which requires them to be formally authorised, resulting in a hard-to-quantify reduction in the reported number of agents.

Population changes and the new areas of expansion in the major cities contributed to the opening of 716 new branches by CIs

In parallel with the change in the number of employees, the branch network reversed its declining trend initiated in the mid-1990s and recorded an increase of 716 operational branches (+2%). This boost to the network was partly due to population changes, including notably immigration, and to new urban development which prolonged the expansion of population centres, particularly large cities. But it was also a continuation of the expansion of savings bank and credit co-operative networks.

In short, it seems that for the time being Spain will not see the much smaller branch network sizes customary in other developed economies. To compensate for this apparent oversizing, the average size of each branch, as measured by number of employees, is much lower. All this results in a type of branch that is much closer to customers, flexible, technologically well endowed and able to offer a wide range of financial products, making it an appropriate complement to alternative channels such as the internet.

The number of employees per branch remained at 4.7, which was within the bounds of the overall stability that characterises it

The number of employees per branch, which stood at an average of 4.7, has been fluctuating slightly as it reflects mixed behaviour, albeit always within the bounds of moderation, across the various types of CI. Thus, while at banks the number fluctuates around six, savings banks are very steady at around 4.2 and credit co-operatives seem to have achieved a certain equilibrium with three employees per branch. This relative structural rigidity clearly demonstrates the link between the branch network and employment or, in other words, that when the network expansion comes to a halt, job creation will stop.

The expansion of the branch network was complemented by the addition of new ATMs, which are 40% more numerous than branches

After the massive proliferation of ATMs in 2002, many of them located inside branches, and the growth of those at places heavily attended by the public (passenger transport centres, shopping centres, show venues), the ATM network, which is also the most extensive in Europe, continued to expand. ATMs were more than 40% more numerous than branches and accounted for more than 25% of bank transactions.

The number of bank cards, which was up by 5.3%, moved in line with the growth and higher use of ATMs. In this connection, according to the information published by the major card issuers, cash withdrawals increased by 23% in 2003, and cards were used to pay for nearly 40% of purchases in shops. Of the various types of payment card, deferred payment cards showed the most expansionary behaviour, thereby stimulating the growth of personal credit.

1.2 Activity of deposit institutions

Spanish CIs operated in a more favourable economic environment than in 2002, with Spanish GDP growth of 2.4%

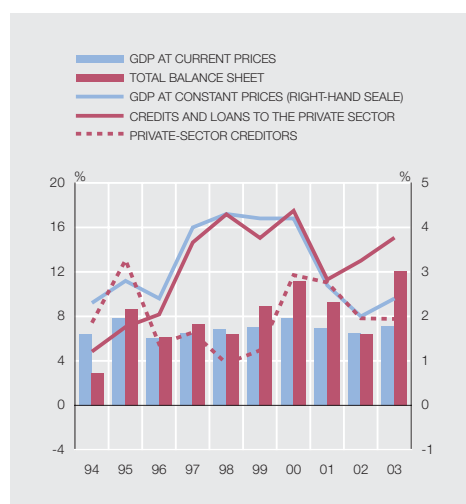
The domestic and international backdrop against which deposit institutions operated was more favourable in 2003 than in 2002, with higher growth rates than those recorded in the last few years. The Spanish gross domestic product (GDP) at constant prices rose by 2.4%, well ahead of the Community average of 0.4%. The favourable general economic setting was reflected in the considerable growth of domestic banking activity and in the recovery of that in other countries, particularly Latin America.

The rise in spending and house purchases stimulated balance sheet growth of 12%

The expansion of household spending on consumer durables and house purchases prompted by the low interest rates accelerated the demand for credit, which became the most buoyant component of the activity of DIs, whose balance sheet grew by 12.1% in 2003, nearly twice that in 2002 (see Table I.A.3). Apart from credit, the other notable feature of banking activity was the securities portfolio, which grew year-on-year by 17%, although this figure was upwardly biased by the repurchase of their own asset-backed securities, largely backed by *cédulas hipotecarias* (covered bonds), which grew strongly (see Section I.2.3).

DI BALANCE SHEET ITEMS (a)

Total business



a. DIs existing at each date.

I.2.1 ACTIVITY OF INDIVIDUAL DIS

At end-2003, the balance sheet total of DIs operating in Spain was €1,463 billion, up €158 billion on the previous year (+12.1%), doubling the percentage growth recorded in 2002 (see Table I.A.3).

a. Changes in the balance sheet and in its main items

Mortgage lending was up by 21%, again the most buoyant component of activity

Credit to the resident private sector, which in 2002 practically monopolised all balance sheet growth, was again in 2003 the basic activity underpinning new growth, although its contribution decreased to 63% of the total change (€100 billion). Of this credit, mortgage lending and, to a greater extent, house purchase credit to both developers and individuals, were again the most active components, boosted not only by the exceptionally low interest rates but also by the competition and constant innovation in mortgage financing. The 21% growth of mortgage lending was much higher than the 7% recorded in the euro area.

The securities portfolio, underpinned by purchases of own asset-backed securities, was the other driving force of activity in 2003, contributing 28% of balance sheet growth, amounting to €44 billion, against just €2.4 billion, or 3.1%, in 2002. The value of the securities acquired for the trading books increased appreciably, within their relative marginality. The other items on the assets side of the balance sheet held on the declining trend of previous years, the keynote being a fall-off of 3.5% in credit to non-residents.

Financing from financial intermediaries represented one-third of the fresh funds received

A third of the balance sheet growth was financed with funds from financial intermediaries, including the Banco de España. The resident private sector, despite recording growth which, at 7.8%, was similar to the previous year, accounted for a lower share of the new financing – 30% (€47.1 billion), against 57% a year earlier – while the contribution to debt securities, including the *cédulas hipotecarias* referred to above, was 23%.

The resident private sector saw a further rise in its debit balance vis-à-vis CIs, so these resorted to increased financing from abroad

The resident public sector continued to lose relative weight as a net debtor. By contrast, the resident private sector continued to increase its debit position strongly, given that the growth of its bank deposits was practically half that of the credit taken from DIs in Spain. Own funds remained the principal source of net financing, followed at a distance by foreign creditors and, in particular, by non-resident credit institutions, which built up their net lending position.

b. Concentration of activity
The two largest institutions lost 0.7 pp in the past year and nearly 5 pp since 2000. The middle-sized institutions (from the 6th largest down) gained most

Although having lost nearly 5 pp in relative weight since 2000, the two largest institutions still held 28.5% of the DI balance sheet at end-2003. This loss was picked up by the 6th to 10th institutions, which gained 2.1 pp and, to a lesser extent, by the 10 next largest institutions. Contributing to this gain was the incorporation in the related segment of certain medium-sized banks, which merged with or absorbed other institutions, along with the development of a telephone banking institution which recorded spectacular balance sheet growth in the period.

c. Interest rates on new transactions

The publication of ECB Regulation 18/2001, and its transposition into Spanish legislation via Banco de España Circular 4/2002, introduced significant changes in the reporting and calculation formula of the interest rates on new transactions sent by credit institutions to the Banco de España, producing a break with the data available up to 2002. The new interest rate statistics for the euro area countries as a whole in accordance with the new regulation are available only from January 2003².

Banco de España Circular 4/2002 transposed into Spanish legislation ECB Regulation 18/2001 on interest rates on new transactions, producing a break in the historical information available

The new data point to a decrease in the interest rates applied in all new transactions in 2003. This fall had a lower impact on consumer credit which, while at a higher level (nearly 8%), scarcely dropped 0.2 pp, although it only accounted for an 8% share of total household credit. Meanwhile, the rates on home purchase credit, which are the major component of balances and of new transactions, fell by nearly 90 bp to stand at 3.29% (3.46% APR) at end-2003. This was below the euro area average of 3.64%, although this same difference in APR terms was 1 pp.

The new NDER (and APR) rates on house purchase loans fell by 90 bp

d. Lending to the resident private sector and mortgage lending

The picture was as in previous years, with a slight fall in credit to productive activities and the resulting rise in credit to households (see Table I.A.5). First, the sharp fall-off in credit to goods production, which slumped 1.5 pp in 2003, was not sufficiently counteracted by the increase in credit to services, which gained 0.7 pp. Within the latter, credit to property development was more buoyant, its relative weight increasing by 2 pp.

Lending to households continued to gain market share at the expense of lending to business, the share of which shrank by 8.0 pp

The strong growth in mortgage lending to developers and to households benefited from the strong competition between DIs, reflected in an array of new offerings under innovative and advantageous conditions in respect of interest rates, repayment methods, amounts granted, etc. This was all done to build customer loyalty and to obtain commission revenue. As a result, the relative weight of mortgage lending in the balance sheet continued to increase (+2 pp), and has now reached 29% (51% of credit). Also, its year-on-year growth, far from slowing as seemed to be indicated by its behaviour in the first half of the year, ended the year with a growth rate of 21%.

Mortgage lending gained 2 pp in weight on the balance sheet (29%) and its growth accelerated in the second half of 2003

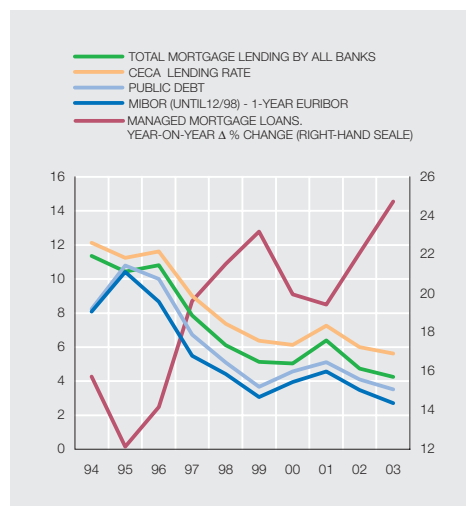
70% of total credit and 95% of mortgage lending are floating rate

Nearly 70% of total credit and more than 95% of mortgage lending are floating rate. This situation derives from the prevailing trend, from the low levels reached by interest rates and from the need to lengthen the repayment period of house mortgage loans due to rising house prices. Managed mortgage lending³, which is mostly floating rate tied to 1-year Euribor, continued to expand, driven by additional falls in reference rates (see Chart I.3), and reached a record level of €460 billion (€426 billion on the balance sheet), up 23.9% on 2002.

2. Expressed as narrowly defined effective rate (NDER), which is the same as the annual percentage rate (APR) excluding commissions. For more information, see the Banco de España press release entitled "Release of new statistics on the interest rates applied by monetary financial institutions to households and non-financial corporations", dated 10 December 2003. 3. Mortgage lending managed is calculated by adding to on-balance sheet loans the amount of the others that were removed from the balance sheet but which continue to be managed by the institution. It therefore gives a more complete view of mortgage lending. Removal from the balance sheet takes due to transfer to mortgage securitisation vehicles.

**OFFICIAL REFERENCE RATES FOR HOUSE PURCHASE
LOANS (a) AND YEAR-ON-YEAR CHANGE IN MANAGED
MORTGAGE LENDING OF Dis**
Total business (%)

CHART I.3



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

e. Doubtful exposures and their coverage

Despite the significant increase in credit exposure, non-performing assets were at a historical low, with a ratio of 0.81%

The statistical provision, which has room left for further growth, continued to counteract the extremely low non-performing loans

f. Financing of activity

The financing extended by financial intermediaries increased by 76%

g. Share of each type of institution in the balance sheet total

The gain in market share by banks was due to Community branches, thanks to their leading role in attracting deposits via the Internet...

Despite the credit escalation which raised credit exposure⁴ by 13.4% (see Table I.A.4), non-performing assets continued at historical lows, with a decrease in doubtful assets and guarantees of 4.7%, against an increase of 20% in the previous year. 60% of this reduction was due to the fall in non-performing assets. As a result, the ratio of total doubtful assets to total credit exposure stood at 0.81% (16 bp less than in the previous year).

Provisions showed very significant growth, with the exception of the specific provision, and the resulting coverage rate stood at 257%. The statistical provision again saw the highest growth rates, and still has room left to grow further, since it ended the year, in overall terms, 36% below its regulatory ceiling.

The strongly buoyant credit to the private sector led Dis to resort further to financing from other financial intermediaries, in particular, from non-resident credit institutions and from the Banco de España. In all, the net financing extended by financial intermediaries grew by 76%. Although the resident private sector's relative weight decreased, it continued to finance more than half the balance sheet. The slight increase in the weight of non-residents meant that they reversed their previously declining trend in financing.

The share of Dis in the CI balance sheet total increased by 2 pp to 97.3% (see Table I.A.6). Among the CIs, banks, which have been losing market share to savings banks and credit co-operatives for several years now, recovered 0.5 pp in 2003. As usual, the gain in share was concentrated in foreign banks, specifically in Community branches, which, with a gain of 1 pp, offset the loss of 0.5 pp suffered by domestic banks.

Community branches increased their market share mainly through strong deposit raising by institutions operating exclusively via the Internet or telephone and, in addition, as a result of the resolute drive by some of these institutions to grow in mortgage activity.

4. Excluding general government, the trading book and exposures with country-risk coverage.

<p>h. Banco de España Central Credit Register (CCR)</p> <p>Foreing residents increased in number by 35%, representing 2.6% of reported</p>	<p>The number of exposures reported to the CCR and their amount continued to increase considerably in line with credit growth. Thus in December 2003 more than 23 million exposures had been reported (+8.5%), for an amount exceeding €1,700 billion (+15.7%) (see Table I.A.7). Resident individuals in Spain continued to represent 94% of the total. Of these, residents of foreign nationality again showed the greatest buoyancy, with growth of 35%, although they barely represented 2.6% of the total.</p> <p>The increase in the average amount of exposures reported was a result of the buoyancy of mortgage financing, which also explains the higher demand for credit reports from reporting institutions.</p>
<p>I.2.2 ACTIVITY OF CONSOLIDATED GROUPS OF DIs⁵</p> <p>The 9.7% expansion in the activity of CGs, which was less than that of DIs, was affected by the appreciation of the euro restraining the improvement of business in Latin America</p>	<p>As at December 2003, the consolidated balance sheet of DIs and their consolidated groups amounted to €1,597 billion, up €141 billion on the same date in 2002. This represents year-on-year growth of 9.7%, down on the 12.1% shown by the individual balance sheet. As in the previous year, one of the reasons for this difference was the significant depreciation of the American currencies against the euro, which however was cushioned by the lukewarm recovery of the international economy, particularly in Latin America.</p> <p>85% of the consolidated balance sheet related to business in Spain which, moreover, saw its relative weight increase by 2.6 pp with respect to the previous year (see Table I.A.8). This was due to the improved performance of the economy and of financial activity in Spain, along with the fact that the largest, most international Spanish banking groups refocused their activity on the domestic market.</p>
<p>Fund management activity, highly concentrated in the large CGs, increased by 18.3%</p>	<p>The net asset value of managed funds, which are highly concentrated in the major institutions, also recorded strong growth of 18.3%, easily outstripping that of the balance sheet. The step-up of offerings of guaranteed funds and, to a lesser extent, the recovery of equity funds, particularly in the domestic market, were responsible for this growth, which far outpaced that of the EU.</p>
<p>a. Foreign business and concentration</p> <p>The fall in the weight of CGs' foreign business contributed to reducing the number of bank subsidiaries in Latin America</p>	<p>The activity of CGs abroad continued to decline in 2003, both in relative terms, diminishing from 17.8% to 15.2% of the consolidated balance sheet, and in absolute terms, with a fall of 6.3% (see Tables I.1 and I.A.8). Apart from the euro's appreciation and the refocusing of activity on the domestic market, one of the reasons explaining the fall in the weight of foreign business was the decline in the number of banking subsidiaries abroad.</p> <p>Financial assets and liabilities performed unevenly, with a greater decline in the former. This resulted in an increase of 21% in the net financing received from foreign business (€69 billion).</p>
<p>The net financing received by CGs from foreing business increased by 21%</p>	<p>The two large CGs accounted for most (41%) of the consolidated balance sheet of CGs (see Chart I.4). The difference between their share of total business and that of business in Spain, which is more than 9 pp less, was because these two groups are responsible for the bulk of foreign business.</p>
<p>1.2.3 SECURITISATION ACTIVITY OF CIs</p>	<p>Securitisation transactions grew enormously in 2003, following a trend initiated in 2000. CIs, with a market share of 99%, are virtually the only institutions active in Spanish securitisation, which is mostly traditional securitisation with mobilisation of the assets being securitised or the</p>

⁵ Consolidated groups of DIs (CGs) also include individual DIs not forming part of any group. The definition of consolidated group is contained in the accounting regulations for CIs. It includes all financial institutions and firms (except insurance companies) over which control is exercised or in which a significant ownership interest is held.

**FOREIGN BUSINESS OF CONSOLIDATED GROUPS
AND INDIVIDUAL INSTITUTIONS (a)**

TABLE I.1

€ m

	2000	2001	2002	2003 (p)
Consolidated foreign balance sheet (assets)	372,537	339,083	259,419	242,987
Financial assets	243,421	250,813	189,073	174,947
<i>EU</i>	47,563	54,154	47,169	49,301
<i>Financial assets</i>	169,737	170,312	121,051	105,884
<i>Rest</i>	26,121	26,347	20,853	21,762
Financial liabilities	246,553	245,899	205,989	196,977
<i>EU</i>	40,421	34,743	30,696	39,246
<i>Latin America</i>	147,866	155,829	110,227	96,437
<i>Rest</i>	58,266	55,327	65,066	61,294
MEMORANDUM ITEM:				
Funds managed (net asset value)	50,972	74,490	60,544	57,494
<i>EU</i>	4,626	5,968	6,951	9,175
<i>Latin America</i>	44,673	63,285	48,889	42,519
<i>Rest</i>	1,673	5,237	4,704	5,800

a. Institutions existing at each date.

Continuing the trend initiated in 2000, securitisation in Spain grew by 60% in 2003 to an outstanding balance of €77 billion

At the same time, the range of asset-backed securities was extended beyond mortgage loans to include *cédulas*, loans to SMEs and consumer loans

Mortgage loans continued to be the predominant asset-backed security in 2003, both in volume of issues and in outstanding balances...

participaciones hipotecarias (collateralised mortgage bonds) linked to them. Last year asset-backed securities amounting to €36.2 billion (growth of 60% with respect to 2002) were issued via 38 new securitisations, which raised to €76.6 billion the total outstanding balance of bonds on the market and represented more than four times the balance in 2000 (see Table I.A.9, containing data on new issues, and Table I.A.10, containing data on outstanding balances).

The unusually strong growth in the last three years has been accompanied by an increasing diversity of assets securitised. There was little securitisation activity in the period 1992-2000, because Spain only had regulations governing the securitisation of mortgage assets complying with certain minimum requirements⁶. Although new regulations in 1998⁷ widened the range of assets eligible for securitisation, the situation scarcely varied until early 2000, when non-mortgage assets started to be securitised. That was the year of the first securitisations of loans to SMEs, to large corporations and to municipalities, despite which, at end-2000, the outstanding balance of mortgage-backed securities⁸ still represented 69% of the total. By December 2003 the situation had changed radically, since, although mortgage-backed securities still accounted for 56% of the total asset-backed securities market, securitised portfolios now included practically any type of bank asset (see Chart I.5, upper panel).

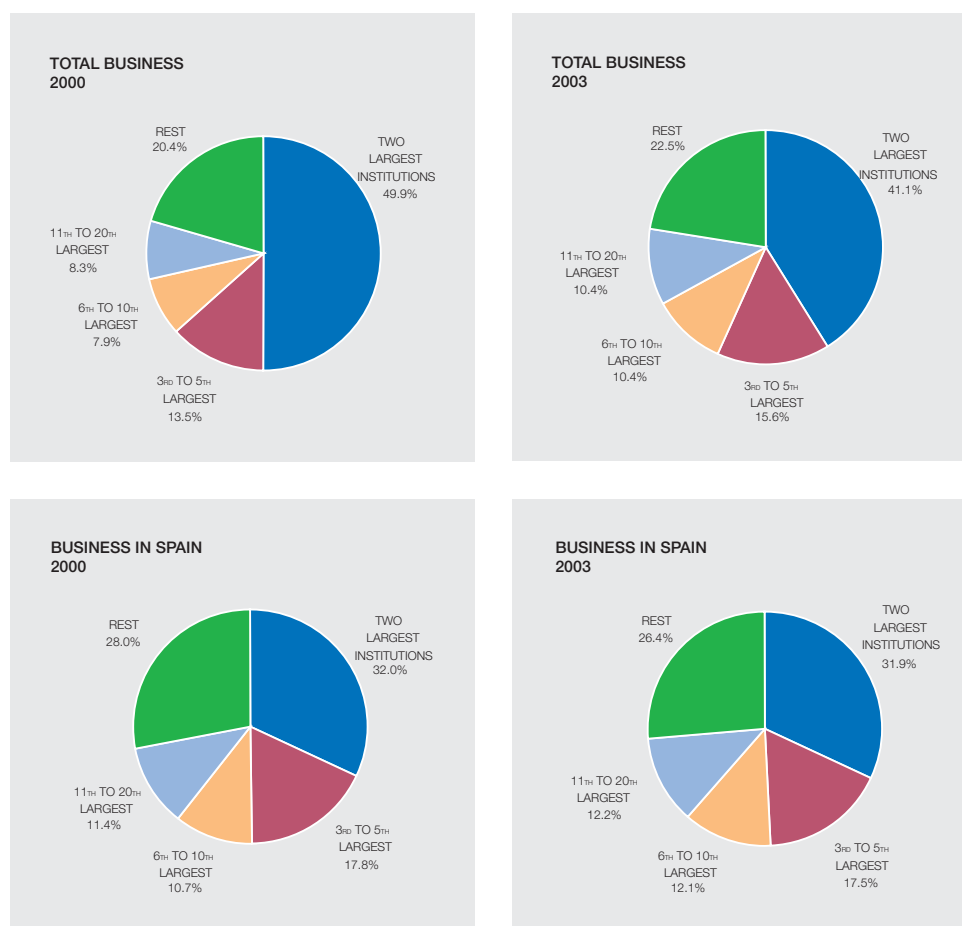
Considered in its entirety [mortgage-backed securitisation vehicles (FTH), plus asset-backed securitisation vehicles (FTA)], the securitisation of mortgage loans was the most important and

6. Law 19/1992 of 7 July 1992 on mortgage-backed securitisation vehicles (FTH) regulates the securitisation of *participaciones hipotecarias* meeting the requirements set forth in Section 2 of Law 2/1981 of 25 March 1981 on regulation of the mortgage market. 7. Royal Decree 926/1998 of 14 May 1998 regulates asset-backed securitisation vehicles (FTA) and securitisation vehicle management companies. 8. Mortgage-backed securities comprise all the securities issued by FTH (mortgage assets meeting the requirements set forth in Royal Decree 685/1982 implementing Law 2/1981), those of FTA included under the category "mortgage loans" (those not meeting the requirements of the Royal Decree) and those of FTA in the category "SMEs" in respect of collateralised mortgage loans to SMEs.

CONCENTRATION OF CONSOLIDATED GROUPS OF DIS BALANCE SHEET TOTAL

CHART I.4

Per cent



buoyant sector in 2003, with issues growing by 64% and with a market share of 56% of the outstanding balance of all Spanish securitisation vehicles as at December 2003.

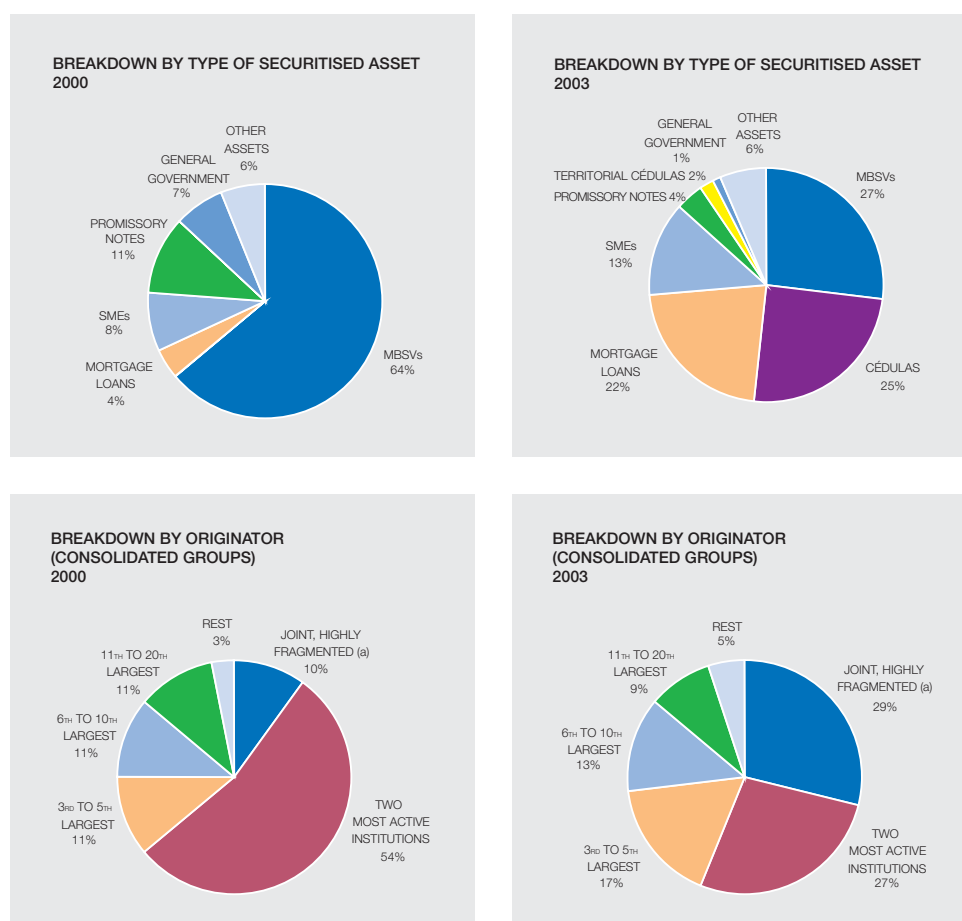
... although FTH lost ground to FTA, which are more flexible vehicles

It is noteworthy, however, that the issuance of mortgage-backed securities through FTH decreased last year, in contrast to the sharp increase of 127% through FTA (securitisation of *participaciones hipotecarias* and mortgage transfer certificates⁹), which, unlike FTH, do not impose any limitation on the loan to value ratio of the mortgages being securitised.

Cédulas hipotecarias (covered bonds) were the second most common asset being securitised (25%) in 2003, and represented an attractive financing alternativa for savings banks

In 2003 there was very striking growth of 184% in the securitisation of *cédulas hipotecarias* (covered bonds) within FTA, with the result that they came to represent a quarter of the outstanding balance of securitisations, behind mortgage loans. A large part of them were securitisations made jointly by a large number of savings banks seeking to geographically diversify their risks and optimise the placement costs of these *cédulas hipotecarias*, so as to make the transactions more attractive for savings banks and investors. The securitisation of *cédulas hipotecarias* usually has the same profile: a single series of AAA rated, fixed-coupon bonds is issued, normally tied to the rate of an interest rate swap (IRS) on medium-term Euribor (see Table I.A.9, lower panel).

9. Law 44/2002 of 22 November 2002 on financial system reform adopted the term "mortgage transfer certificates" to refer to the mobilisation, through collateralised mortgage bond issues, of mortgage loans not complying with the requirements set forth in Section 2 of Law 2/1981.



SOURCES: Comisión Nacional del Mercado de Valores, AIAF and Banco de España.

a. The category joint, highly fragmented refers, for 2000, to joint securitisations in which a large number of banks and savings banks are involved. For 2003, these joint securitisations refer only to savings banks.

As regards other assets, the securitisation of loans to SMEs doubled...

As regards other assets, the issuance of securities backed by loans to SMEs doubled in volume in 2003 to €6.2 billion, which made them third in terms of outstanding balances. These loan-backed securities, which are instrumented through a special FTA for SMEs (FTPYME), were introduced by the Ministry of Economy in 1999 to promote business financing in Spain¹⁰. The regulations allow the Treasury to guarantee a portion of the bonds issued by securitisation vehicles that pool together loans extended by credit institutions to non-financial corporations, a certain percentage of which have to be SMEs. This greatly assists placement on the market and heightens the attractiveness of this type of asset-backed security.

... and a new market was established with the first-ever securitisation of territorial *cédulas*

Finally, as a result of Law 44/2002 on financial system reform measures, the first securitisation of *cédulas territoriales*, collateralised by loans and credits to the public sector, took place in 2003.

The most active originators were savings banks (67% of issues), with only marginal securitisations originated by non-financial corporations

The most active originators of asset-backed securities, i.e. transferors of securitised loans, were savings banks, with 67% of the volume originated in 2003 and 57% of the outstanding balances at end-2003. At the other extreme, the securitisations originated by specialised credit institutions (SCIs) amounted to less than 5% of the total, and consisted basically of con-

¹⁰. Ministerial Order of 28 May 1999 on agreements to promote asset-backed securitisation vehicles to strengthen business financing.

sumer loans. Securitisations originated by non-financial corporations play a marginal role and only one issue, backed by receivables in June 2003, has been seen to date.

There has been a marked de-concentration of originators, with joint issues by savings banks playing a leading role

New securitisation issues have become markedly de-concentrated across originators in the last three years (see Chart I.5, lower panel), the main category in 2003 being joint issues by savings banks, with 29% of outstanding balances. By contrast, in the same three years the two most active groups have dropped from 54% to 27% of the outstanding balances.

60% of asset-backed securities issued by Spanish funds were acquired by foreign investors

Analysis of the holders of Spanish asset-backed securities reveals that more than 60% of them are purchased by foreign investors, although there is no information on the extent to which these investors are linked to Spanish groups, including those of the originators themselves. Of the bonds in Spanish hands, 76% were acquired by banks and savings banks (€23 billion), at times by the originators themselves in order to improve their liquidity management capacity, to the detriment of other alternative objectives of traditional securitisation, such as improving solvency or obtaining funding.

Banks and savings banks are the largest investors in the domestic market, largely investing in their own issues

Following a long way behind banks and savings banks are money-market funds, other non-monetary collective investment undertakings (CIUs) and insurance companies, which continue to account for very low percentages (less than 5%) of holdings of asset-backed securities, although the first two saw strong growth in 2003. These data highlight a difference from other markets, such as the US one, in which mutual funds and insurance companies are important investors in this type of structured product.

Synthetic securitisation is the optimum method when the transfer of credit risk takes precedence over the aim of improved funding/liquidity

Unlike traditional securitisation, synthetic securitisation transfers the credit risk associated with a group of assets without transfer of title. Credit risk is transferred through one or more credit default swaps (CDSs). Synthetic securitisation is an option for optimising the management of economic capital and risk profile without altering liquidity conditions.

Recent legislation in Spain will encourage synthetic securitisations

To date there have only been two synthetic securitisations in Spain and both used foreign special purpose vehicles¹¹ since there were still no local regulations governing this type of securitisation. It is expected, however, that synthetic deals will become more common in Spain due to the approval, on 30 December 2003, of Law 62/2003 on Fiscal, Administrative and Social Measures, article 97 of which addresses for the first time the regulation of the synthetic securitisation of loans and other creditors' rights.

In terms of remuneration, securitisations of *cédulas* are fixed-rate issues, while other securitisations are floating rate

As mentioned earlier regarding the *remuneration of asset-backed securities*, nearly all securities backed by assets other than *cédulas territoriales* and *cédulas hipotecarias* followed usual practice in that they were floating rate. Normally the yield offered is a given spread over three-month Euribor (occasionally the six-month rate). The estimated average spreads for the Spanish primary asset-backed security market have increased slightly in the last few years (see Table I.A.9, lower panel) for all ratings. However, these figures should be regarded with caution, since these spreads depend on factors other than bond ratings, such as the type of securitised asset, its average life and the investor at which they are targeted, which is especially important in the case of below-investment-grade tranches acquired by the originators themselves. The slight increase in average spreads in Spain also seems to be associated with the greater diversity of securitised assets, with an increasing weight of riskier assets.

There are factors pointing to a stronger expansion of securitisation activity in 2004

Finally, issues of asset-backed securities are expected to continue to expand strongly in 2004, in line with the trend initiated three years earlier, without any major changes in securitisation

11. The SCH group launched "CLO Hesperic" in 2001 and Caja Madrid launched "Cibeles 1" in 2002.

features, although foreseeably the weight of loans to SMEs and to the public sector, of synthetic securitisations and of deals originated by non-financial corporations will increase¹². Nine new securitisations were originated in 2004 Q1 for a total of €11.8 billion, of which €7.3 billion related to *cédulas hipotecarias* and the remainder to mortgage loans.

I.3 The results of DIs

Despite the failure of the European economy to recover in 2003, the Spanish economy grew by 2.4%...

... which, along with the modest recovery in the Latin-American economy, enabled a strong rebound in bank earnings

The results of Spanish DIs in 2003 should be viewed in an international macroeconomic context in which the strong recovery of stock market prices and the upturn in the US economy prompted positive expectations of global growth, which did not materialise in the EU. In these circumstances, interest rates reached historical lows in Europe and the US, while the euro appreciated strongly against the dollar.

However, the 2.4% growth of the Spanish economy was substantially higher than the EU average, which made possible the sustained growth of banking activity and the solvency of borrowers. This, together with a Spanish stock market that was also performing more favourably, prompted a positive trend in the results of DIs, which spilled over to the results of CGs, albeit with certain particularities in the latter.

Indeed, the gross margin of CGs performed negatively due to the effect of the euro's strength against the Latin-American currencies, which are all linked to the dollar. But the very strength of the euro reduced the operating expenses of Latin-American subsidiaries which, together with the lower write-offs needed as a result of stabilisation or improvement of certain of the region's major economies, finally gave rise to consolidated results that were even more favourable than those of individual DIs¹³.

I.3.1 THE RESULTS OF INDIVIDUAL DIs

PBT grew by 20% to €11.9 billion, despite the net operating margin growing by only 1.5%...

... due basically to the decrease of 21% in net provisions and write-downs

The growth of 3.8% in the net interest margin resulted from the strong expansion of activity, offset by the fall in interest rates

The *profit before tax (PBT)* of individual DIs as a whole grew somewhat more than 20% (see Table I.A.11), after two years of continual declines, reaching €11.9 billion. This growth doubled that of activity measured in terms of average total assets (ATA), raising the ratio of profit before tax (PBT) to ATA by 7 bp to 0.86%, the same level as in 2001. Nonetheless, improvement in institutions' capitalisation meant that the return on average own funds was practically unchanged at 11.5%.

The practical stagnation of net operating income (+1.5%) contrasted strongly with the growth of PBT, making it clear that the improvement in results came basically from the bottom of the profit and loss account, i.e. from the increase in positive extraordinary income and, above all, from the abrupt fall in provisioning for security price fluctuation. The operation of the statistical (anti-cyclical) provision as envisaged, in the face of cutbacks in specific provisions, and the additions to general provisions meant that provisioning for bad debts rose by 22%, so that the persistently strong borrower solvency was not reflected positively in results.

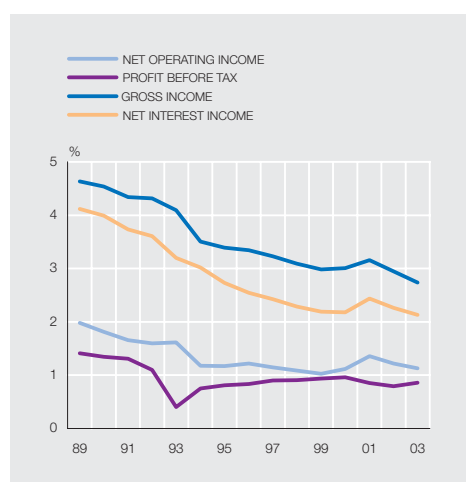
Behind the declining trend being suffered by the main margins in the profit and loss account above PBT in terms of ATA (see Chart I.6), lies a scenario of continually falling interest rates and of increasing competition and efficiency in the banking system. Symptomatic in this respect is the constant narrowing of the total *spread* between the return on financial assets and the cost of financial liabilities (see Chart I.7), except for the rise in 2001 for exceptional reasons (dividends from affiliated undertakings, as already discussed in the 2002 Banking Supervision Report). The fresh fall in the total spread in 2003 was not reflected clearly in *net interest in-*

¹². A Ministerial Order of October 2003 allowed securitisation of the so-called electricity rate deficit. A group of banks has already acquired the financial claims of electric utilities (€1.5 billion) and is preparing their imminent securitisation, which will be of a similar size to that in 1996 of the claims resulting from the nuclear moratorium. ¹³. The data in the tables and charts in this section have been updated to 30 March; they are still provisional for consolidated groups, although no substantial changes are expected in the picture they present.

MAIN PROFIT MARGINS OF DIs (a)

CHART I.6

Percentage of average total assets



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

come, which grew by 3.8% due to the sharp increase in intermediated volumes as a result of persistent expansion in domestic credit demand.

The surge in debt securities and in interbank financing from CIs has eroded the liability spread obtained by DIs to 1.2%

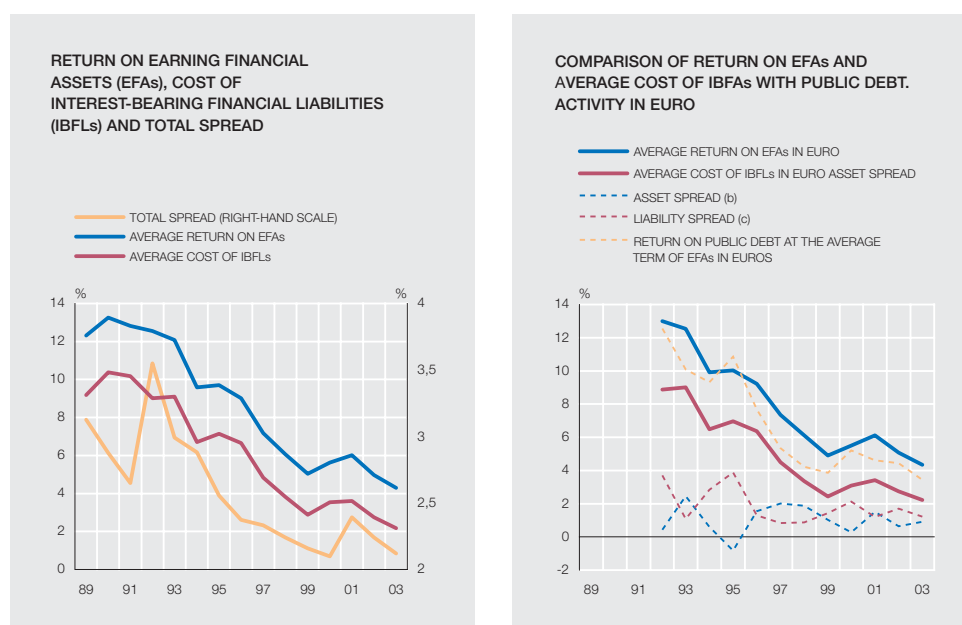
Significantly, separate consideration of financial returns and financial costs shows that the interest rate falls in 2003 fed through to a lesser extent to the average cost ratios than to the average income ratios. This was a result of a dual phenomenon. First, average returns have been becoming progressively more sensitive to interest rate fluctuations due to the growing weight of floating-rate mortgage loan portfolios. Second, the more aggregated average costs reflected a redistribution of liabilities in favour of the higher-cost ones, i.e. debt securities and interbank financing (in euro and basically from abroad) and, simultaneously, the extraordinarily low interest rates did not allow significant additional reductions in the remuneration of a significant segment of traditional banking liabilities.

If the return on earning financial assets (EFAs) and the cost of interest-bearing financial liabilities (IBFLs) are compared with a reference interest rate such as the return on Spanish public debt (see Chart I.7), the asset and liability spreads in euro can be obtained¹⁴. The asset spread indicates the remuneration obtained by DIs from the higher credit risk, lower liquidity and larger management costs of their assets compared with public debt. The *liability spread* measures the ability of DIs to obtain financing by capitalising on the advantages of banking liabilities compared with the same public debt (in terms of maturities, liquidity, etc). It can be seen that both spreads respond with a certain delay (around one year) to interest rate slope changes and that they tend to converge slightly above one percentage point, such that the total spread in euro is located slightly above two percentage points.

In short, a deceleration in interest rate falls or rises means that the asset spread narrows and the liability spread widens, and vice versa. Given that interest rates declined in 2003, it was a comparatively favourable year for asset products and unfavourable for liability products, in line

¹⁴ The euro-denominated spread is broken down into asset and liability spreads by comparing the return on euro-denominated EFAs and IBFLs with the annual average internal rate of return (IRR) on Spanish public debt with the same maturity as the EFAs. Note that the maturity of the public debt used as a reference is different every year, reflecting the growing average maturity of institutions' lending operations.

Total DIs (a)



- a. The data on this chart refer to the institutions active at some time during each year.
 b. Difference between average return on EFAs in euro and public debt.
 c. Difference between return on public debt and average cost of IBFLs in euro.

with the strong demand for credit mentioned above and the scarcity of domestic funds to meet it, all in a highly competitive setting.

The growth of €1.2 billion in exchange losses associated with the write-down of holdings in affiliated undertakings...

Non-interest income decreased by 8 bp in terms of ATA, as a result of an improvement in commissions received and a deterioration in income on financial transactions. The deterioration in income on financial transactions was due to the substantial exchange losses for the year (€1.2 billion) arising from the write-down of holdings in affiliated undertakings, specifically the accelerated amortisation of goodwill in Latin America, as discussed in the following section on consolidated results.

... offset, at the non-interest income level, the growth in trading-book profits arising from the stock market rally

The improvement in the bond and equity markets acted through the agency of intermediation services to slow the rate of fall of securities services commissions. This, together with the good performance of commissions received on the marketing of non-banking products and other commissions, helped to raise the growth rate of total net commissions to 7.9%. This market buoyancy and the improved prices enabled a sharp increase in trading book profits which, even so, were insufficient to neutralise, at the non-interest income level, the highly negative impact of the exchange losses and the negative results of futures transactions.

Operating expenses remained relatively steady in real terms for the second year running, which, however, did not prevent the efficiency ratio from deteriorating slightly to 58.9%

The results on futures transactions are, in part, the flipside of the results on the trading book and on the available-for-sale bond portfolio because of their use as hedging instruments, which meant that in this case they neutralised part of the income on the trading book. As a result, *gross income* grew by 2.3%, barely the inflation rate, and, in ATA terms, fell by 21 bp with respect to 2002, accentuating the fall of 13 bp in net interest income. Excluding the extraordinary effect of the exchange losses arising from write-down of affiliated undertakings, the fall in gross margin with respect to ATA moderated to 10 bp.

The effort to contain operating expenses was sustained in 2003. Their growth rate was near that of inflation and further decreased as a percentage of ATA to 1.6%, although there were

significant differences across groupings, as will be seen below. However, given that expenses grew more rapidly than gross income, *net operating income* grew by barely 1.5%, although the sharp fall in the gross margin, in terms of ATA, was mitigated to 9 bp. In sum, the efficiency ratio of DIs deteriorated slightly for the second year running (see Chart I.10), standing at 58.9%¹⁵.

The bottom of the profit and loss account improved substantially owing to the lower net provisioning for security price fluctuation (89%) and for specific coverage (22%)

The final section of the profit and loss account was the source of the strong growth in profit with respect to 2002. In particular, the allocation of funds for net provisioning and write-downs decreased by almost 21%, and this reduction was by 89% in net provisioning to the security price fluctuation fund. There was also a decline in specific provisioning for bad debts due to the good behaviour of non-performing loans, which reached historical lows, although, as mentioned above, they were outweighed by the impact of general provisions, which doubled, and of the statistical provision (+60%).

Following the substantial provisioning made, at end-2003 the statistical provision funds stood at 64% of their limit for DIs as a whole. Nevertheless, there were 97 DIs with a coverage of 100% and another 36 with more than 80 per cent coverage, which together accounted for 23% of the system's assets. This shows that there is still scope for this provision to play a stabilising role in a scenario of steady, and even declining, non-performing loans and of growing risk exposure. The coverage of doubtful assets stood at 257% at end-2003.

By contrast, general and statistical provisioning increased due to the growth in activity and the stabilising role of the statistical provision

The 17% growth of net extraordinary income contributed to the significant growth of PBT and, notably, the extraordinary decrease in pension-related losses following their sharp rise in 2002. Finally, the strong growth in corporate income tax meant that the growth of 7.5% in net income was little more than one-third of that in PBT, and in any event lower than the growth of activity (10.1%).

Results by grouping

The results of banks, savings banks and credit co-operatives continued to converge in 2003

In 2003 the trend towards convergence in the results of institutional groupings of DIs continued both in terms of ATA and in terms of own funds (ROE), reflecting the heightened competition and integration of markets (see Charts I.8 and I.10). These converging results nevertheless still mask appreciable differences in the profit and loss accounts of the various groupings.

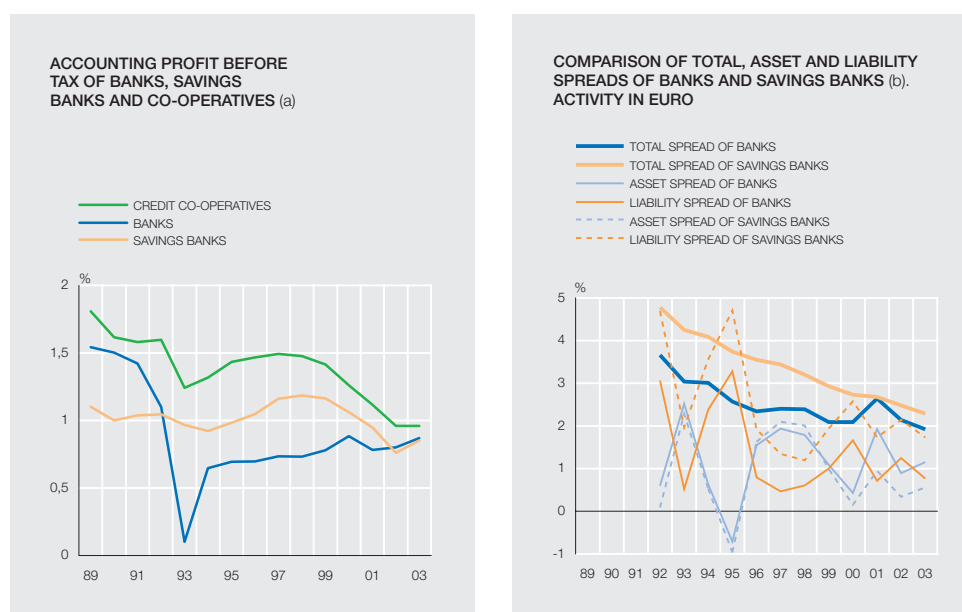
Credit co-operatives generally have higher operating margins than other DIs, which partly makes up for their higher operating expenses (see Table I.A.12). Their PBT in terms of ATA is still appreciably higher than that of DIs as a whole, while their ROE is lower because of their higher average capitalisation.

The net interest margin in terms of ATA reported by savings banks was 23 bp higher than that of DIs as a whole

The *savings bank* grouping had a net interest margin in terms of ATA that was 23 bp higher than in DIs as a whole, reflecting the wider total spread with which they operate (see Chart I.8). This wider total spread of savings banks has traditionally been based on their wider liability spread, which reflects their access to lower-cost sources of funding from private customers, as evidenced by the higher percentage of deposits in their funding. However, since 2001 – accentuated at that time by the effect of the extraordinary dividends recorded by banks in that year – banks have maintained a wider asset spread than savings banks, which has enabled them slightly to close the gap at the total spread level.

15. If allowance were made for the effect of the write-down of affiliated undertakings, the net operating margin would remain practically unchanged in terms of ATA and the efficiency ratio would improve by 2 pp with respect to 2002.

Percentage of average total assets



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

In contrast to their larger net interest and gross margins, savings banks' operating expenses continued to grow sharply (5%), although at a decelerating pace, which may indicate a change in the growth strategy followed in the past.

The steadiness of personnel expenses at banks once again highlighted their cost containment efforts

In the *bank* grouping, non-interest income performed more negatively than in the other groupings because of the greater impact of exchange losses and the worse behaviour of results on futures transactions, which neutralised the better outcome on the trading book.

The differing path taken by banks' operating expenses evidences the existence of particular business strategies. The steadiness of their personnel expenses in nominal terms, as compared with growth in DIs as a whole (3.1%), was a clear sign of their efforts to contain costs. The bottom of the profit and loss account also shows appreciable favourable differences from these institutions as a whole, since the provisioning to the security price fluctuation fund decreased by far more than at savings banks and credit co-operatives¹⁶.

I.3.2 RESULTS OF CONSOLIDATED GROUPS OF DIs
Comparison of the consolidated and individual results reflected, among other factors, the different structure of the costs and margins of CGs' foreign subsidiaries

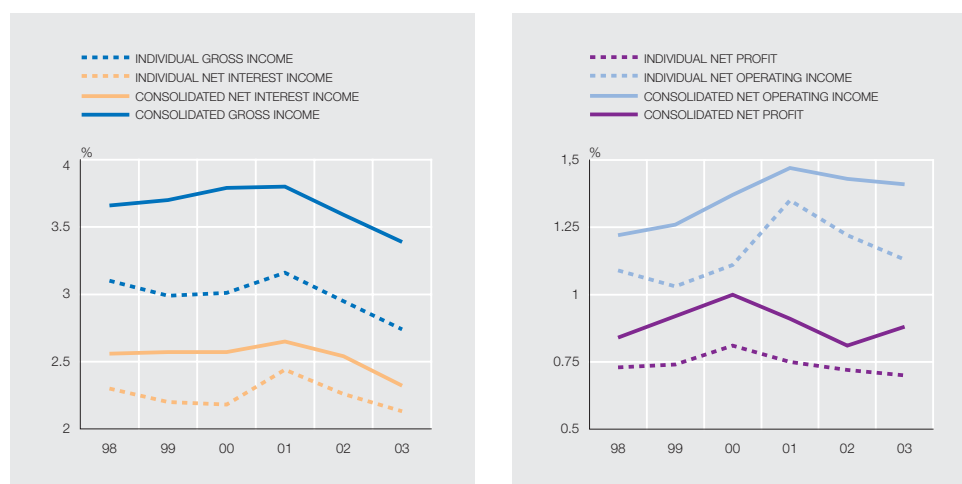
To the factors affecting results at individual level must be added, in addition to specific aspects impinging on non-credit institutions included in consolidation and those deriving from the very technique of accounting for consolidation¹⁷, those circumstances that have a differential effect on subsidiaries based abroad, basically in Latin America. The latter include most notably, as a structural factor, the larger operating margins and expenses of these subsidiaries, given the lesser developed banking markets in which they operate and the higher risk premia.

The appreciation of the euro led to lower margins, costs and profits of foreign businesses owing to the so-called "exchange rate effect", given that the subsidiaries' profit and loss accounts denominated in local currency were translated to euro at the average exchange rate of the

¹⁶. This behaviour is not unrelated to the fact that the write-down of affiliated undertakings referred to above in regard to the bank grouping has been recorded in exchange losses, rather than in the provision to the security price fluctuation fund. ¹⁷. Ranging from the inclusion of entities that are purely providers of financial services without any intermediation element (fund managers) to the inclusion of equity-method results on holdings in non-financial corporations.

TOTAL DIs (a)

Percentage of average total assets



a. The data in this chart refer to the institutions active at some time during 2003.

The downward stickiness of income from foreign businesses and the acceleration of income in Spain raised the consolidated ROE to 13.4%

However, the decline in the weights of the foreign businesses due to the euro's appreciation meant that the consolidated total financial spreads moved nearer to the individual ones of DIs...

period. The modest recovery of the major Latin-American economies partially counteracted that negative exchange rate effect, which allowed the foreign businesses to report a relatively sound consolidated net income. By contrast, the consolidated net income of the businesses in Spain grew markedly, helping the *consolidated net income attributable to the group* to rise by 17%, with an improvement of 8 bp in terms of ATA, which raised it to 0.77% (see Table I.A.14). Consolidated ROE rose to 13.4% (+1.5 pp) compared with no change at DIs.

The net interest and gross margins in terms of ATA performed similarly to those of the DIs, within a mild declining trend (see Chart I.9). By contrast, there was a certain divergence in the net operating margin, associated with a greater moderation of consolidated costs in terms of ATA compared with those of DIs. Thus the consolidated net operating margin grew by 3.9% (1.5% in DIs) and this advantage was passed through to consolidated results, being magnified in the process by the presence of other additional positive factors. The consolidated net income was more favourable than that of DIs in terms of both trend – putting to an end two years of sharply falling returns following the Argentine crisis – and level, since it was 18 bp higher in terms of ATA. This meant historical highs for profit before tax (€17.3 billion) and for net income attributable to the group (€11.5 billion).

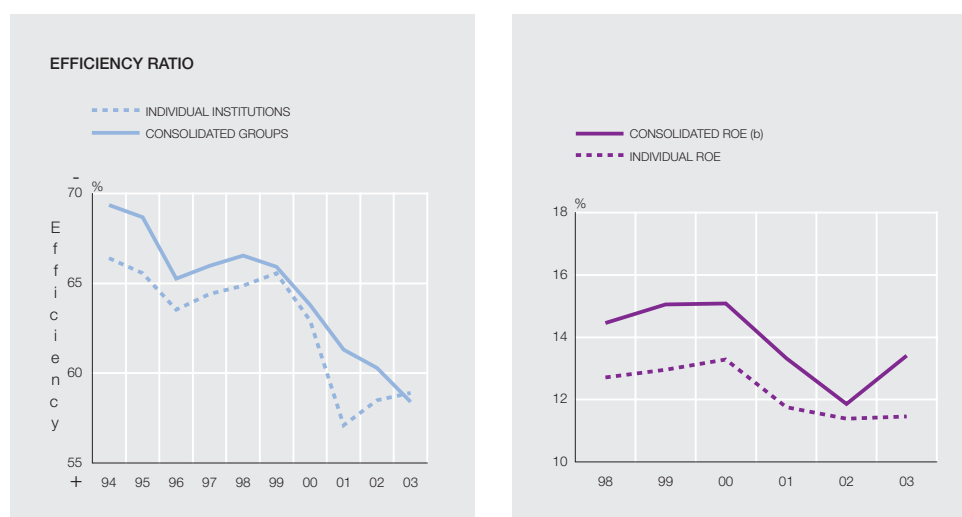
The *consolidated net interest margin* in terms of ATA continued its descent due to the narrowing of the total spread, drawing nearer to that of DIs. This was largely attributable to the poor contribution from foreign businesses which, as discussed above, suffered from the appreciation of the euro in the currency translation for consolidation purposes.

The *gross margin*, although also declining in terms of ATA, remained ahead of that of DIs (see Chart I.9), since the income on financial transactions was strikingly vigorous, growing by 62.5% due to the positive performance of the trading book (against the marked losses in 2002) spurred by improving Spanish and international stock market prices. Also notable was the positive contribution from exchange differences, as against the substantial losses at individual level¹⁸.

18. This difference between the consolidated and individual accounts was due to the aforementioned one-off accelerated amortisation of goodwill since, at individual level, the charge to the profit and loss account for the write-down of the holding in group companies was made at the level of income on financial transactions (exchange losses), as compared with realisation in the final section of the profit and loss account (amortisation of goodwill in consolidation) in the case of the consolidated accounts.

COMPARISON OF CONSOLIDATED AND INDIVIDUAL EFFICIENCY RATIOS AND ROE OF DIs (a)

CHART I.10



- a. The data in this chart refer to 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).

.... and also induced a decrease of 4% in consolidated operating expenses

Operating expenses, however, benefited from the “exchange rate effect” which, in conjunction with policies to cut costs and increase efficiency in foreign operations, led to a fall of 4% in these expenses. Contributing to this improvement in consolidated efficiency was the effort made by institutions to transfer methodologies and procedures developed in the competitive Spanish market to their whole group, in order to exploit that competitive advantage in the other markets where they operate. In these circumstances, the efficiency ratio of CGs improved by 2 pp to stand for the first time below (superior efficiency) that of DIs¹⁹ (see Chart I.10).

The improvement in the Latin-American economies allowed a decrease of 42% in specific provisioning

The *bottom of the profit and loss account* shows a sharp decrease in provisions and write-downs. Most notably, specific provisioning decreased by 42%, which nearly doubled the reduction in DIs (see Table I.A.14). In this case a key role was played by the recovery in the Latin-American markets and, once again, given the exposure to higher default rates in these activities, by their loss of relative weight at consolidated level following translation to euro. Also notable was the fresh effort in accelerated amortisation of goodwill in 2003, which has much to do with the preparations for applying IAS standards in consolidated groups of credit institutions from 2005 onwards.

Extraordinary net income rose spectacularly due to the lower extraordinary loss for the year and to the strong growth in income on the sale of investments from the available-for-sale equities portfolio, reflecting the improved situation of stock markets worldwide.

All this made possible a rise of 24% in the PBT of CGs, even higher than the rate of individual DIs

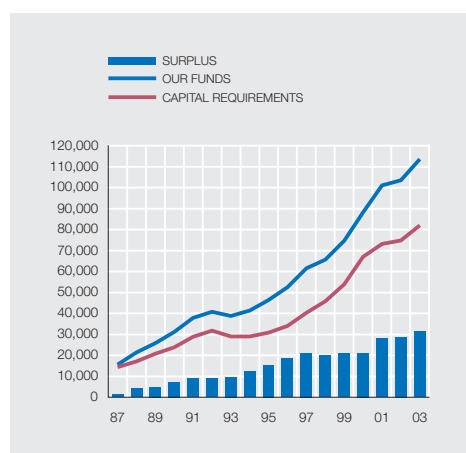
The lower deductions in the bottom of the profit and loss account than in 2002 raised the growth rate of *profit before tax* to 24%, which exceeded the already high growth of the individual PBT. After taxes and minority interests, the *net income attributable to the group* grew by 17%, which is a sign of the prudence exercised by CGs as they expanded in the various areas of financial activity and abroad. This expansion of group net income raised group return on ATA

19. However, this would not have happened if the aforementioned write-down of affiliated undertakings had been treated equally at individual and consolidated level for the purpose of calculating the efficiency ratio.

OWN FUNDS AND SOLVENCY OF CONSOLIDATED GROUP OF CIs

CHART I.11

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and on average own funds to 0.77% and 13.4%, respectively, which represented a recovery from the levels of 2001.

The improvement in consolidated results was much more significant in bank CGs, since it signified a recovery after two years of poor performance

As regards *performance by grouping*, it was the bank CGs that reported the most positive and divergent performance of net income, with respect to individual results, thereby reversing the situation in the previous two years. By contrast, the extremely strong growth of corporate income tax in savings bank CGs, after the significant fall in 2002, along with the higher growth of their own funds, meant that, despite the significant improvement in PBT (32.2%), the improvement in ROE in this grouping was more moderate than that in bank CGs (see Chart I.10 and Table I.A.13).

I.4 Solvency of CIs

In 2003 the high growth of activity and the improvement in returns accelerated own funds and capital requirements, leaving the solvency ratio of CGs unchanged at 11.1%

1.4.1 SOLVENCY OF CONSOLIDATED GROUPS

The declining trend of the Tier 1 ratio continued owing to the fall in preference shares, although the core ratio held steady at 6.8%

The solvency of consolidated groups and of individual institutions not belonging to any consolidated group (CG) in 2003²⁰ must be assessed against the backdrop of strong growth in activity and of recovery in bank earnings. In this situation, capital requirements and own funds accelerated strongly, contrasting with their sluggishness in 2002 (see Chart I.11), although the balanced nature of this acceleration allowed the solvency ratio to remain unchanged at 11.1% for the third year running. Notably, the solvency of the Spanish banking system has remained steady in the face of instability such as that seen in the last three years.

The solvency ratio stood 3.1 pp above the minimum requirement of 8%, with surplus capital of €31.5 billion, up 9.8% on the previous year. The Tier 1 capital ratio, by contrast, continued the persistent mild downward trend initiated in 1995, now reinforced by the efforts to reduce the weight of preference shares in the composition of Tier 1 capital. This decline in the Tier 1 capital ratio was thus offset by the increasing quality of own funds, which enabled the core ratio to remain at 6.8% (see Table I.A.15).

Application of the current 1988 Basel Capital Accord rules, which are less strict than Spanish regulations and, in particular, than those contained in Banco de España Circular 5/1993, would raise the solvency ratio to 12.6%²¹, the same level as in 2002. Calculation of the solvency ratio

20. All the solvency data given in this chapter are taken from the reports on own funds submitted by the reporting institutions on the relevant date. The December 2003 data are still provisional, but no substantial changes are expected in the picture they present. 21. This increase is basically because part of the general and statistical provision funds was recognised as Tier 2 capital.

Direct application of the Basel Accord or of the EU Directive would have raised the solvency ratio to 12.6% and 12.2%, respectively

under the minimum requirement set by the European solvency directives, which is halfway between the 1988 Basel requirements and the stricter Spanish regulations, would yield a ratio of 12.2% in 2003 (see Chart I.11).

The breakdown of the solvency ratio by brackets (see Table I.A.16) did not reveal any major changes with respect to the previous year, except for the greater concentration of institutions – and particularly system assets – in the 10%-11% bracket, at the expense of that immediately below it. Nonetheless, the higher percentage of assets in the 8%-9% bracket meant that the solvency ratio of the system as a whole remained steady at 11.1%. Mention should be made here of the intervention in 2003 in an institution which had an own funds deficit at the end of that year.

The differences between solvency ratio and Tier 1 ratio behaviour arise because the components of Tier 2 capital are more buoyant than those of Tier 1 capital, especially because of the strong growth of subordinated debt.

Tier 1 capital grew by 7.8%, at a lower pace than capital requirements, so the Tier 1 ratio fell again

Nonetheless, the growth of *Tier 1 capital* picked up in 2003, although the change of 7.8% was still insufficient to prevent a further decrease in the Tier 1 ratio. This improvement in Tier 1 capital was hindered by the ongoing reduction in the weight of preference shares, which had commenced in the previous year. A further boost in this respect came when Law 19/2003 on the legal regime governing capital movements and cross-border transactions and on specific measures for the prevention of money laundering was amended by the addition of a provision in line with the Banco de España's recommendations issued in 2001 to limit the use of this component of Tier 1 capital, as described in the *2002 Banking Supervision Report*. For the system as a whole, the percentage of preference shares in total eligible Tier 1 capital decreased by 1.9 pp to 18.8%, and there was even a decline in absolute terms.

However, given that the improvement in results induced growth in reserves and, conversely, preference shares fell by 1.9%,...

...there was an increase in the quality of Tier 1 capital

By contrast, CGs were able to boost their Tier 1 capital due to the strong improvement in their profit and loss accounts, which enabled them to continue devoting considerable efforts to the accelerated amortisation of goodwill (an item deducted from eligible capital) and to improve their bottom line and thus the appropriation to reserves. In addition, a more favourable economic environment in Latin America made it possible, despite the appreciation of the euro, for the net reserves in consolidated companies to perform positively after an extremely negative year in 2002.

The growth of 14% in Tier 2 capital came from the rise in subordinated debt and in its eligibility thresholds because of the higher Tier 1 capital

In 2003 *Tier 2 capital* resumed its path of strong expansion, as its growth of 14% broke with the stagnation of the previous year and enabled the solvency ratio to remain steady. The recovery in this capital component came from the increase in subordinated debt, whose growth accelerated to 11.3%, and from the higher eligibility thresholds of this component due to the rise in Tier 1 capital. These higher thresholds drastically reduced (by €0.8 billion) the subordinated debt that is ineligible because it exceeds 50% of Tier 1 capital.

Capital requirements accelerated to 9.7%, with the components for coverage of credit and market risk exposures being most notable

Capital requirements grew by 9.7% in 2003, against the slight growth of 2.2% in the previous year. This was a result of the strong demand for credit stimulated by the high growth rate of economic activity in Spain and the emergence of moderate optimism in the Latin American financial markets. The capital requirements for covering credit risk exposures, which represent 95% of total requirements, accelerated to rates of 10.1%, while the requirements arising from market risk grew by 22.5% as the international capital markets recovered. In this connection, there was a significant rise in the requirements arising from general price risk in fixed-income instruments and counterparty risk in derivatives.

No CG calculated its minimum capital requirements by the internal models regulated in 2003

The capital requirements for covering exchange and gold risk decreased for the second year running as a result of institutions' responses to the appreciation of the euro. It should be noted that, given the recent entry into force of Banco de España Circular 3/2003, which allows institutions to optionally use their internal calculation models to compute capital requirements to cover market, exchange, gold and commodity risk, as at December 2003 no institution had made use of this prerogative, although some had commenced the process of having their models validated by the Banco de España, following the guidelines laid down in the aforementioned Circular. Further, no price risk associated with commodities transactions was reported.

The increase in capital requirements for covering credit risk was due to the growth in the adjusted balances (volume) and in the average weight (type of activity)

The increase in *capital requirements for covering credit risk* was due to the rise in the average weight of on-balance-sheet exposures (see Table I.A.17) and contingent liabilities and commitments, and to the strong growth in the adjusted balances of these transactions. Notable in this respect was the growth in mortgage lending to *other private sectors*, where the surge in this activity came together with a notable rise in its average weight. The decline in the net borrowing requirement of central government, as compared with its relative increase in the rest of the public sector, would explain the increase in the average weight of lending to the public sector, given the transfer of risk that took place from the 0% weight to the 20% weight.

The additional capital requirements²² continued to be marginal due to the predominant weight of credit institutions in CGs, which increased still further in 2003. A notable new feature, however, was that, for the first time and albeit for a modest amount, use was made of the option to reduce capital requirements by reducing risk exposure through contractual netting agreements valid for this purpose.

Large exposures decreased in 2003, remaining, as usual, considerably below the regulatory limits

The *concentration of exposures* generally decreased in the year, which meant that at the total system level the institutions were a comfortable distance away from the limits²³. The growth of own funds was a basic reason for this, given that a large reportable exposure is defined as one exceeding 10% of a CG's own funds. In this respect, total reportable large exposures decreased by €40 billion which, in terms of the own funds of institutions with at least one reportable large exposure, represented a sharp decrease of 48 pp to 119%, due also to growth of the comparison basis itself. The only large exposures that increased, although not significantly, were those within the economic group.

I.4.2 SOLVENCY OF INDIVIDUAL INSTITUTIONS

As in previous years, the degree of compliance with minimum capital requirements at individual level was extraordinarily high, with a capital surplus of €5.8 billion

The subsidiaries belonging to CGs and the institutions belonging to horizontally consolidated groups must comply at individual level with minimum capital requirements. The level of compliance with these requirements was, as in previous years, very high, since own funds practically doubled the net requirements, with a surplus of €5.8 billion. The individual solvency ratio that would be obtained if the reducing factors associated with the percentage of ownership of the CG in the individual institution were not applied would be 10.2%, the same as at end-2002. As in CGs, capital requirements grew considerably, and likewise did the weight of the capital requirements for covering preponderant credit exposure (99%), the most notable of which are those arising from on-balance-sheet exposures (87%).

²². The capital requirements of a CG are the higher of the following two figures: the result of applying to the whole group the requirements contained in Banco de España Circular 5/1993, or the sum of applying to each category of institutions its specific requirements. If the latter were higher, they would result in additional requirements equal to the value of the difference. ²³. The concentration of exposures is subject to a double limit under Spanish regulations enacted to implement European directives. First, the overall exposure to a single client or group of mutually related clients shall not exceed 25% of the CG's own funds. This limit is reduced to 20% in the case of non-consolidated companies belonging to the economic group in question. Second, total large exposures may not exceed eight times the CG's own funds. If either of these limits is exceeded, all the excess must be deducted from the eligible capital.

1.4.3 SOLVENCY OF MIXED GROUPS

The capital surplus of the 34 non-consolidated mixed groups of financial institutions under the Banco de España's supervision²⁴ increased by 11.9% to €21.3 billion at end-2003 and in no case did any group fail to comply with requirements. This notable improvement was made possible by the sharp increase in own funds both at CGs and at the insurance companies belonging to these mixed groups, the latter being of scant relative importance (see Table I.A.18). Whereas the CGs included in mixed groups saw the same acceleration of capital requirements as in CGs as a whole, insurance companies saw the same low growth rates as in the previous year. Also noteworthy was the high growth of the deductions in own funds due to the increasing cross-holdings between CGs and insurance companies.

I.5 Other institutions supervised by the Banco de España

I.5.1 SPECIALISED CREDIT INSTITUTIONS

Specialised credit institutions (SCIs) are CIs²⁵ that engage in credit activities without access to financing via deposits from the public or equivalent instruments. The SCIs in existence are, with few exceptions, either vehicles specialised in certain financial operations at the service of DIs, by which they are controlled and with which they are consolidated, or units supporting the commercial policies of financial, industrial and commercial groups. Some of these "brand finance companies" are in turn investees of DIs by which they are administered and proportionally consolidated. Independent SCIs have little weight at overall level.

SCIs are institutions specialised in certain financing instruments or markets

Five institutions specialised in financial leasing, one in factoring and two in consumer finance were deregistered last year, most being absorbed by their banking parents. Three new SCIs were authorised, two subsidiaries of foreign CIs and one automobile subsidiary, although the latter, after recently commencing operations, has already applied for de-registration in order to operate as an ordinary firm. This transformation, whereby these institutions continue to operate outside the regulatory and supervisory scope of the Banco de España, has at least one precedent in a brand finance company deregistered in 2003.

They continued to decline in number in 2003 (-5) as a result of the restructuring of financial groups

The absorptions due to group reorganisation, along with the intra-group asset transfers, have had a significant impact on the apparent activity in the sector

These reorganisations and those in previous years have significantly affected the sector's aggregate figures, as can be seen by comparing the credit activity of the SCIs at end-2003 with that of the SCIs at previous year-ends (see Chart I.12). Whereas the first approach considers the institutions comprising the sector at a particular date, i.e. last December, what is relevant in the second approach, which takes the institutions existing at each date, is the behaviour of the sector as a whole. In addition, to interpret properly the figures of this institutional sector, account must also be had of the transfers of businesses between SCIs and DIs, and the credit exposure transferred to third parties, basically through securitisation.

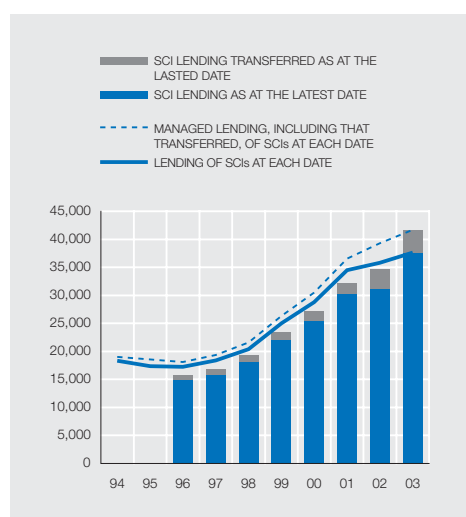
Activity

Credit transferred to third parties represented nearly 10% of managed credit

Given the importance of securitisation, the most representative variable for accurately assessing the volume and evolution of SCIs' credit activity is managed credit, which includes securitisation. Operations transferred off the balance sheet rose to practically 10% of total managed credit in 2002 and grew at a rate similar to that of the on-balance-sheet portfolio in 2003 (see Chart I.12).

²⁴ Non-consolidated mixed groups of financial institutions under the Banco de España's supervision consist of CGs per se and of their subsidiary insurance companies. Spanish regulations establish specific minimum solvency requirements for these mixed groups. Their capital is basically calculated as the sum of that of the CGs and the uncommitted assets of the insurance companies, net of any cross-holdings. The minimum requirements are obtained by adding the capital requirements of the CG to the solvency margin of the insurance companies, excluding cross-exposures. ²⁵ SCIs are basically regulated since 1994 by Law 3/1994 on transposition of the Second Banking Co-ordination Directive, amended by Royal Legislative Decree 12/1995 on urgent measures, which defined them as credit institutions, and implemented by Royal Decree 692/1996 on their legal regime.

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In 2003, credit activity by the SCIs active at year-end accelerated to 18%

The vigorous growth of the SCIs as at end-2003 increased the size of their total balance sheet by 18%, much more than the 4% of the previous year. This acceleration was driven by an increase of 20% in credit activity, which took this sector to nearly €42 billion of managed credit assets. The actual growth was, however, somewhat lower, since approximately 5 pp came from the transfer of the Spanish mortgage business of DIs in a foreign group to a new subsidiary SCI. This transfer contributed decisively to raising the mortgage portfolio managed by SCIs to €7.8 billion.

The growth of factoring by SCIs exceeded 22%, fuelled by transactions with general government

SCIs have traditionally played a basic role in factoring and financial leasing. Factoring in the broad sense, which includes financing to general government (extended in the case of SCIs almost solely by means of factoring), amounted to €9.4 billion, with growth of 22%. This strong growth resulted from a doubling in the volume of without-recourse factoring transactions with general government. In December 2002 SCIs accounted for 68% of outstanding factoring transactions. However, this key role weakened by around 12 pp last year due to the aforementioned absorptions of SCIs by their banking parents. Furthermore, banking group restructurings were behind the even greater slippage in the financial leasing segment, where the market share of SCIs shrank by 15 pp to 34%, equivalent to around €8.5 billion (-22%).

However, as a sector SCIs lost weight in the factoring and leasing markets (12 pp and 15 pp, respectively)

In short, group restructurings were a key variable in explaining this significant change in the structure of overall SCI credit activity in the last few years. In this respect, it should be pointed out that, in the particular case of term loans, its loss of weight in the structure was because these transactions formed a basic part of the non-mortgage credit transferred²⁶.

Results

The continually improving profits raised ROE to stand at 12%

The results of SCIs as at December 2003 continued the mild improvement seen in recent years. Profit after tax increased by 21% (27% before tax), up 9 bp in terms of ATA to 0.76%. Simultaneously, their return on equity (ROE) increased by three-quarters of a point more than in 2002 to stand practically at 12%. It should be mentioned that, whereas the balance sheet

26. Information on the source portfolio is only available for mortgage-backed securities; the only information available for the others is the date of issue.

increased by 18%, ATA, which is the key variable for the purpose of measuring flows of revenue and financial costs, showed much more moderate behaviour, growing by only 7.5% last year (see Table I.A.19).

Contributing to this was the good performance of all components of the financial margin (12%) and of the gross margin (13%)

This positive performance had its origin in the vigour of the gross margin and, in particular, of the net interest margin. The latter grew by 12% due to a much greater contraction in costs than in financial revenue. While the latter was unchanged in volume because the higher business volume was offset by the fall in interest rates, financial costs reflected the specific distribution of financing sources in this sector. Given that SCIs' cost of debt is linked to interbank interest rates, the fall in interest rates in the euro area had a large and immediate impact, which resulted in a 12% fall in financial costs, assisted, furthermore, by an increase in own funds. Non-interest income nearly doubled, as a result of which the gross margin improved by 13% to 3.2% of ATA (+17 bp).

The efficiency ratio improved to 48%, which enabled the net operating margin to widen

The growth of 11.5% in operating expenses was less than that of the gross margin, so it enabled the sector's efficiency ratio to rise to 48%. However, there was a slowdown in the prevailing trend towards improvement of efficiency. Accordingly, the net operating margin increased by 15% to 1.65% of ATA (+11 bp).

The improvement in the components of the final section of the profit and loss account offset the worse performance of general expenses and of provisions for the year

Net provisioning for bad debts grew more quickly than doubtful assets and activity, basically due to the higher growth of the statistical or anti-cyclical provision, but this only had a marginal impact on profits (-2 bp). Finally, the improvement in the other components of the final section of the profit and loss account (income on financial transactions, extraordinary revenue, etc) amply offset the higher general expenses, so the improvement in the gross margin passed through comfortably to profit before tax.

1.5.2 APPRAISAL INSTITUTIONS
The number of appraisers grew by two, following a long period of reduction

The 70 appraisal institutions²⁷ registered with the Banco de España at end-2003 are institutions specialised in property assessment. Last year three new companies were registered and one was deregistered, breaking the prolonged trend towards a reduction in the number of entities in this sector (see Table I.A.20).

The regulations were updated and improved in 2003 to define a new concept of mortgage value and prevent speculative appraisals

In 2003 the regulations on property appraisal in force since 1994 were updated²⁸. The legislator's main objectives included the following: a) improve the technical and formal quality of appraisals; b) increase the information and transparency of the technical parameters regularly used in professional practice that are important in assuring uniform compliance with regulations; c) introduce the concept of mortgage value for the purposes of financing backed by mortgage collateral, defined as the prudent value of the property, taking into account its possible future commercial use in the long term and its current and possible alternative uses, totally excluding speculative considerations; and d) reduce the mortgage value if there is a risk of nominal price volatility within a year. The statistical information on the activity of these institutions will be expanded and improved as a result of these reforms, which will be in force for the information relating to 2004.

The expansionary trend in appraisals continued: 17% in number, 29% in overall value and 12% in average unit value

Appraisal activity accelerated in 2003 within its strongly expansionary trend. The total number of appraisals grew by 17%, while the appraised value was up by 29%, which meant that the unit value of appraisals increased by around 12%. The higher number and amount of apprais-

²⁷ 67 appraisal companies and three appraisal services belonging to three DIs. These services can only appraise real estate provided as collateral for mortgage operations performed by companies in the financial group to which they belong and must meet the same requirements regarding certification and professional qualifications as apply to companies. ²⁸ Ministerial Order ECO/805/2003 of 27 March 2003 on rules for the appraisal of real estate and of certain rights for financial purposes, and Banco de España Circular 3/1998.

als related, as always, to houses (excluding residential buildings) which, moreover, grew faster than total activity: 21% in number and 40% in appraised value. The average value of appraised houses stood at €172,000, up 16% on the previous year²⁹ (see Table I.A.20).

CIs are the normal users of appraisals, given the weight of mortgage financing extended by banks

The purpose of appraisals once again related almost exclusively to the mortgage financing of houses and property, since this type of valuation represents 94% of the number and 87% of the total amount of those conducted. Accordingly, the immediate users of appraisals were financial institutions, among which savings banks and banks continued to figure prominently, with an approximate overall weight of 80% of the appraised value, irrespective of whether payment is always made by their customers, who are the ultimate beneficiaries of the financing if it finally materialises.

I.5.3 MUTUAL GUARANTEE AND REGUARANTEE COMPANIES

MGCs are mutual companies acting as instruments to strengthen the financial solvency of SMEs

MGCs, except when they are sectoral, have a territorial base which is the regional (autonomous) community in which they arose. In 2003 a new MGC was set up in Catalonia

Mutual guarantee companies (MGCs), which date back to 1978, are an effective instrument used by the public sector to provide guarantees to strengthen the financial position of SMEs, with the aim of making bank financing more accessible to them and fostering their relationships with customers, suppliers and general government itself. The Banco de España has been responsible for their prudential supervision since 1988.

Because of their operating scope and sponsorship by patron members, MGCs are normally linked to a specific territory, which is usually that of their regional (autonomous) government when they are sponsored by public authorities, and, in certain cases, they are linked to certain sectors of economic activity, such as that of gambling and leisure and that of transport. Last year a new MGC was set up by the Catalanian regional (autonomous) government, thereby extending the territorial coverage of these institutions³⁰.

The patron members play a basic role, not only at inception, but also during day-to-day activities, and hold 44% of the capital

In all MGCs, the patron members, which are mainly regional (autonomous) governments, are of great importance. This is so both at inception, in their capacity as direct sponsors and founding members, and during operations, when they gradually give way to participating members as the MGCs become more firmly established. The weight of the capital contributions by participating members in the total has been growing, but this trend was interrupted in 2003 due to the emergence of a new MGC, which is still highly dependent on contributions from its sponsors. Thus the percentage of the participating members in the total own funds contracted to 56% (-1.4 pp).

The support from regional (autonomous) governments and other general government agencies³¹ is not limited to capital contributions, but includes other instruments. These can be both direct, via subsidies, and indirect, through policies to stimulate, develop, modernise and strengthen SMEs and, most importantly, by means of partial, cost-free reguarantees of the transactions taken on by MGCs.

At end-2003 the outstanding risk guaranteed by MGCs amounted to nearly €2.9 billion, with annual growth exceeding 14%. Considering that the reguaranteed risk exposure increased by

²⁹. Based on average values of assets appraised in the year and therefore lacking uniformity in surface area or in any other parameter that would make them strictly comparable. ³⁰. La Rioja and Castilla-La Mancha do not have regional (autonomous) community MGCs. ³¹. State support is routed through the State-owned company CERSA (Compañía Española de Reafianzamiento S. A.), which guarantees up to 75% of the risk exposure taken on by general government agencies, provided that the transactions are for financing the initial installation or productive investment of SMEs within the framework of programmes especially intended to stimulate modernisation and technological innovation. The EIF (European Investment Fund) also operates through CERSA, with which it shares the risk exposure arising from operations undertaken within the framework of European programmes. All this co-operation is implemented transaction by transaction under a framework reguarantee contract entered into with the MGCs. In certain cases the regional (autonomous) governments participate in the reguarantee, subject to the overall limit of 75% mentioned above.

The outstanding risk exposure reached €2.9 billion (44% reguaranteed), after new transactions amounting to €1.3 billion.

The average cost of guarantees continued to be 1%

only 11%, the retained exposure rose at a rate of 17%. Following this mixed behaviour, the reguaranteed exposure component decreased to 44% of the total. As regards the guaranteed outstanding exposure, the SMEs reaping most benefit from it, which represented more than 50% of the total and showed the greatest vigour (annual growth of +20%), were those belonging to the tertiary sector of the economy (see Table I.A.21).

Last year MGCs entered into somewhat more than €1.3 billion of new guarantee transactions, with growth exceeding 26%. The guarantee commissions, which are under certain pressure associated with the policy of economic stimulus setting conditions on reguarantees, remained at around 1% of the outstanding exposure. At this level the revenue obtained barely covered operating expenses. In those cases in which profits were obtained, they were used to set up technical provisions for strengthening solvency.

I.5.4 CURRENCY EXCHANGE AND TRANSFER BUREAUX

These establishments are physical or legal persons authorised to exchange foreign currency and/or process foreign transfers

The reduction in the number of bureaux initiated following the changeover to the euro continued in 2003

These establishments are grouped into two broad categories. First, those engaging in *purchase*, in which oversight and control of compliance with provisions on the transparency of transactions and disclosure to customers is the responsibility of the government that holds powers relating to the protection of consumers and users; they are authorised only to purchase foreign banknotes or traveller's cheques for euro, which they may do either as their sole activity or to supplement their main business (hotels, travel agencies, casinos, etc). Second, those engaging in *purchase and sale and/or processing of transfers* (PST), which must adopt the form of public limited companies and pursue this activity as their sole corporate purpose. The paid-in capital stock of this second category, depending on the type of transactions they are permitted to conduct, must be between €60,000 and €1.8 million and they must take out insurance of between €300,000 and €600,000.

The latest full data, relating to September 2003 (Table I.A.22), indicate that there were 2,695 licensed proprietors at that date, of which 55 engaged in PST. Whereas the currency purchase bureaux continued to decline in number in parallel with the fall in this activity following the introduction of the euro, the PST bureaux tripled in number as the transfer business boomed, mainly due to remittances by immigrants.

Foreign exchange purchases from customers and transfers issued were the major components of their business, the volume of which was €3.5 billion

The transfers issued in 2003 (€2,022 million) significantly exceeded what till then had been the main transaction, namely the purchase of foreign exchange from customers (€1,234 million), and considerably behind these figures came transfers received and foreign exchange sales to customers, which were much less significant. The sale of foreign exchange to other licensed proprietors or to credit institutions is a logical outcome of the limited operating scope of currency purchase bureaux, for which this is the only way they can dispose of foreign exchange, so they should not be considered in the sectoral activity analysis.

The most purchased currency was sterling, while transfers issued were mainly in euro and dollars to Ecuador and Colombia

In year-on-year terms, up to September 2003 currency purchases from customers decreased by 17%, sales fell by 63% and transfers received were down by 3%, while transfers issued grew at a rate of 22%. The currency most used in foreign exchange purchases was sterling (€850 million) while the euro and the dollar (€1,185 million and €824 million, respectively) were the currencies most used to settle accounts with correspondents abroad arising from transfers issued. The main countries of destination of transfers issued were Ecuador and Colombia, while the countries of origin of transfers received were headed by the United States, followed by the larger countries of the European Union.

The number of agents used increased by 52%, and the transfers issued by them rose by 23%

The financial and structural information (see Table I.A.22) refers solely to the PST bureaux, the only ones that report this kind of information to the Banco de España. The capital and reserves of these 55 bureaux indicate that their financial capacity was strengthened, with growth of

25%. This strengthening was also manifest in the growth of the human and material resources used. Particularly noteworthy was the sharp year-on-year growth of the number of agents (52%) and of their premises (36%), and the rise in the transfers issued by them (23%), which represented 61% of the total.

APPENDIX

NUMBER OF CIs IN SPAIN

TABLE I.A.1

Year-end data

	2000	2001	2002	2003
CREDIT INSTITUTIONS	371	369	361	350
Deposit institutions	285	285	278	272
Banks	143	146	144	139
Domestic	65	63	61	56
Foreign	78	83	83	83
<i>Of which: Foreign subsidiaries</i>	25	27	24	25
Saving banks	48	47	47	47
Credit co-operatives	94	92	87	86
Specialised credit institutions	86	84	83	78
CONSOLIDATED GROUPS ^(a)	30	32	30	28
CIs included	116	121	116	109
MEMORANDUM ITEMS:				
Mergers and acquisitions	11	8	7	6
Between banks	5 (12)	4	5 (11)	5 (11)
Between savings banks	2	1	0	0
Between co-operatives	2	3 (8)	2 (5)	1
Acquisition of banks by savings banks	2	0	0	0

NOTE: The figures in brackets are the number of institutions involved where merged/acquisitions include operations in which more than two credit institutions take part. i.e. when the number of credit institutions involved is not equal to twice the number of operations.

a. Defined, in the case of at least two consolidated Spanish CLs, more strictly than in Annex 2.

SERVING EMPLOYEES, OPERATIONAL BRANCHES, ATMs AND AGENTS OF DIs

TABLE I.A.2

Unit and %

	NUMBER OF ACTIVE INSTITUTIONS	TOTAL	SERVING EMPLOYEES			THOUSANDS OF HOURS WORKED	OPERATIONAL OFFICES		ATMS	NUMBER OF CARDS (THOUSANDS)	AGENTS	EMPLOYEES AT BRANCHES AS % OF OPERATIONAL OFFICES (5/7)	
			OF WHICH:		TOTAL		OWNED OR UNDER FINANCIAL LEASE						
			PART TIME	AT CENTRAL SERVICES				AT BRANCHES					
	1	2	3	4	5	6	7	8	9	10	11	12	
TOTAL DIs													
2000	277	238,587	1,719	54,133	184,453	407,010	39,046	19,453	45,772	44,620	7,753	4,7	
2001	280	239,895	1,274	55,032	184,863	404,283	38,754	19,530	46,623	55,311	9,435	4,8	
2002	274	238,199	1,300	52,540	185,659	399,463	38,753	19,600	50,164	57,473	9,346	4,8	
2003 (p)	266	239,103	1,556	52,802	186,301	390,163	39,469	19,759	52,033	60,519	5,674	4,7	
MEMORANDUM ITEMS:										PER 10,000 INHABITANTS > 16 YEAR			PER INHABITANT > 16 YEAR
2000		72,8					11,7		13,7	1,3			
2001		71,0					11,5		13,8	1,6			
2002		69,9					11,4		14,7	1,7			
2003 (p)		69,7					11,5		15,2	1,8			
Banks													
2000	139	122,374	892	29,373	93,001	208,237	15,873	6,953	18,470	17,770	7,148	5.9	
2001	145	118,722	481	30,158	88,564	202,148	14,817	6,685	17,590	23,175	8,688	6.0	
2002	143	114,040	495	27,298	86,742	193,795	14,128	6,431	18,486	24,171	8,597	6.1	
2003 (p)	136	111,793	671	27,293	84,500	188,419	14,115	6,252	18,901	24,183	5,215	5.9	
Domestic													
2000	63	107,028	796	21,803	85,225	182,472	14,541	6,542	17,437	15,671	6,484	5.9	
2001	62	102,858	323	22,046	80,812	174,964	13,452	6,272	16,461	20,835	8,634	6.0	
2002	60	98,284	315	19,405	78,879	166,764	12,788	6,022	17,332	21,667	8,530	6.2	
2003 (p)	55	94,727	489	18,982	75,745	159,352	12,478	5,637	17,196	21,355	5,174	6.0	
Subsidiaries													
2000	25	11,902	28	4,872	7,030	19,905	1,208	392	1,017	2,092	616	5.8	
2001	27	12,169	57	5,272	6,897	20,801	1,227	399	1,114	2,332	–	5.6	
2002	24	11,899	69	4,905	6,994	20,377	1,201	398	1,139	2,480	–	5.8	
2003 (p)	24	13,484	78	5,323	8,161	23,103	1,524	604	1,688	2,665	–	5.3	
Foreign branches													
2000	51	3,444	68	2,698	746	5,860	124	19	16	7	48	6.0	
2001	56	3,695	101	2,840	855	6,383	138	14	15	8	54	6.2	
2002	59	3,857	111	2,988	869	6,653	139	11	15	24	67	6.3	
2003 (p)	57	3,582	104	2,988	595	5,964	113	11	17	163	41	5.3	
Savings banks													
2000	48	101,718	643	21,137	80,581	165,903	19,285	12,500	24,331	24,570	461	4.2	
2001	47	105,593	608	21,078	84,515	175,069	19,845	12,848	25,625	29,399	606	4.3	
2002	47	107,745	616	21,433	86,312	178,448	20,349	13,169	27,975	29,766	624	4.2	
2003 (p)	47	110,243	669	21,686	88,557	175,209	20,894	13,507	29,165	32,731	369	4.2	
Credit co-operatives													
2000	90	14,495	184	3,623	10,871	32,870	3,888	–	2,971	2,280	144	2.8	
2001	88	15,580	185	3,796	11,784	27,066	4,092	–	3,408	2,737	141	2.9	
2002	84	16,414	189	3,809	12,605	27,220	4,276	–	3,703	3,536	125	3.0	
2003 (p)	83	17,067	216	3,823	13,244	26,536	4,460	–	3,967	3,605	90	3.0	

BREAKDOWN OF ACTIVITY OF DIs (a)

TABLE I.A.3

Total Business (€ m)

	2000	2001	2002	2003	MEMORANDUM ITEMS: 2003		
					STRUCTURE	P.P. CHANGE	Δ ANNUAL %
					%		
ASSETS:							
Cash and central banks	14,221	20,975	16,522	21,864	1.5	0.2	32.3
Financial intermediaries	202,861	202,273	215,100	223,019	15.2	-1.2	3.7
Loans and credit	593,862	660,236	729,646	829,766	56.7	0.8	13.7
Government bonds	28,814	31,269	30,910	32,472	2.2	-0.1	5.1
Resident private sector	526,761	586,281	662,462	762,272	52.1	1.3	15.1
Of which: Secured	256,065	302,145	360,121	436,897	29.9	2.3	21.3
Of which: Mortgage guarantee	247,436	293,484	350,517	425,790	29.1	2.2	21.5
Non-residents	38,287	42,686	36,274	35,021	2.4	-0.4	-3.5
Of which: Variable rate	333,351	425,390	490,856	568,319	38.8	1.2	15.8
Securities portfolio	230,008	257,992	260,365	304,491	20.8	0.9	16.9
Bond trading book	16,536	19,164	24,293	26,722	1.8	0.0	10.0
Equity trading book	3,336	3,725	3,393	6,543	0.4	0.2	92.8
Avalaible-for-sale bond portfolio	108,266	130,006	120,304	158,586	10.8	1.6	31.8
Avalaible-for-sale equity portfolio	10,030	10,245	11,002	10,183	0.7	-0.1	-7.4
Permanent bond portfolio	29,649	28,029	31,501	31,152	2.1	-0.3	-1.1
Permanent equity portfolio	62,191	66,823	69,872	71,304	4.9	-0.5	2.0
Fixed assets	18,859	18,605	18,077	17,591	1.2	-0.2	-2.7
Other assets	63,046	67,128	65,491	66,447	4.5	-0.5	1.5
BALANCE SHEET TOTAL	1,122,857	1,227,209	1,305,201	1,463,177	100.0	0.0	12.1
LIABILITIES AND EQUITY:							
Credit institutions and Banco de España	271,281	264,618	275,719	327,993	22.4	1.3	19.0
Creditors	622,772	700,949	748,495	807,626	55.2	-2.2	7.9
Of which:							
Resident private sector	507,164	563,249	607,421	654,557	44.7	-1.8	7.8
Current accounts	124,490	144,890	157,506	172,715	11.8	-0.3	9.7
Saving accounts	107,473	120,149	128,069	145,082	9.9	0.1	13.3
Time deposits	190,365	208,030	228,292	246,928	16.9	-0.6	8.2
Repos	84,549	89,762	93,448	89,618	6.1	-1.0	-4.1
Non-residents	95,510	104,398	101,717	118,302	8.1	0.3	16.3
Debt securities	33,519	40,026	50,193	86,509	5.9	2.1	72.4
Of which: mortgage securities	12,304	14,328	25,266	42,909	2.9	1.0	69.8
Subordinated debt	33,612	44,322	45,501	48,380	3.3	-0.2	6.3
Provisions	35,062	41,181	45,446	50,639	3.5	0.0	11.4
Capital and reserves	64,267	69,187	74,206	77,551	5.3	-0.4	4.5
Rest liabilities	62,344	66,926	65,641	64,480	4.4	-0.6	-1.8
MEMORANDUM ITEM:							
Transferred assets	17,473	21,952	34,536	50,418	3.4	0.8	46.0
Of which: Securitised (b)	15,207	20,207	33,491	49,815	3.4	0.8	48.7
Of which: Mortgage-backed (Law 2/81) (b)	9,689	13,612	20,917	34,418	2.4	0.7	64.5

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 rest of the institution's bond portfolio.

DEPOSIT INSTITUTIONS (a): DOUBTFUL EXPOSURES AND THEIR COVERAGE (b)

TABLE I.A.4

Total business (€ m and %)

	2000	2001	2002	2003
Doubtful assets and guarantees	5,772	6,270	7,514	7,164
<i>Of which: Past-due</i>				
<i>Mortgage</i>	456	463	628	596
<i>Non-mortgage</i>	2,133	2,406	3,064	2,886
Provisions	10,233	12,768	15,277	18,401
<i>Specific</i>	3,541	3,475	4,162	4,114
<i>General</i>	5,508	6,177	6,651	7,642
<i>Statistical</i>	1,184	3,117	4,464	6,645
Total exposures (c)	629,194	708,601	776,813	880,888
Write-offs	21,098	21,157	20,391	20,472
<i>Of which: Write-offs during the year</i>	2,015	1,585	1,783	2,043
RATIOS (%):				
Doubtful / total exposures	0.92	0.88	0.97	0.81
Doubtful exposures to OSR / lending to OSR	0.95	0.91	0.92	0.79
Provisions / Doubtful exposures	177.29	203.64	203.31	256.85

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 portfolio and covered country-risk exposures.

STRUCTURE OF LENDING TO RESIDENT PRIVATE SECTOR (a)

TABLE I.A.5

Business in Spain (%)

	2000	2001	2002	2003 (p)
Lending to business	53.3	52.0	51.8	51.0
Goods	23.8	22.4	22.2	20.7
<i>Agriculture, fishing and extractive industries</i>	3.0	2.7	2.8	2.6
<i>Manufacturing</i>	10.8	10.0	9.0	8.1
<i>Energy and electricity</i>	2.3	2.2	2.2	1.8
<i>Construction</i>	7.6	7.4	8.2	8.2
Services	29.5	29.6	29.6	30.3
<i>Commerce, repair and hotels and restaurants</i>	8.4	8.2	8.0	7.6
<i>Transport and communications</i>	3.4	3.2	3.3	3.0
<i>Real state development</i>	6.2	6.9	8.1	10.1
<i>Financial intermediation</i>	3.1	2.2	1.9	1.6
<i>Other services</i>	8.5	9.1	8.3	8.1
Lending to households	44.3	45.9	46.3	46.7
Housing (purchase and refurbishing)	33.0	34.6	35.0	35.6
Consumer credit	3.9	4.4	4.2	3.5
Other purposes	7.3	6.9	7.1	7.6
Other	2.4	2.0	1.9	2.4

a. Deposit institutions existing at each date.

BREAKDOWN OF CI ACTIVITY BY INSTITUTIONAL GROUP

TABLE I.A.6

Total business. December 2003 (€ m and %)

	AMOUNT	BREAKDOWN											
		TOTAL Dls	BANKS								SAVINGS BANKS	CO-OPS.	SCIs
			TOTAL	DOMES- TIC	FOREIGN								
					TOTAL	SUBSID- IARIES	BRANCHES						
							TOTAL	EU	NON-EU				
ASSETS:													
Cash and central bank	21,905	99.9	46.7	40.8	5.9	3.3	2.6	2.3	0.3	48.9	4.3	0.2	
Financial intermediates	224,204	99.5	73.5	51.4	22.0	7.7	14.3	13.9	0.4	23.3	2.7	0.5	
Loans and credit	867,376	95.7	47.4	40.4	7.0	4.2	2.8	2.6	0.2	43.4	4.9	4.3	
Government bonds	34,717	93.5	57.2	50.3	7.0	6.0	1.0	0.9	0.1	34.7	1.6	6.5	
Resident private sector	796,383	95.7	45.7	38.9	6.8	4.1	2.8	2.6	0.1	44.8	5.2	4.3	
Of which: Secured	442,138	98.8	39.8	35.0	4.8	3.7	1.1	1.0	0.0	53.0	6.0	1.2	
Non-resident	36,274	96.5	74.4	64.5	9.9	4.9	5.0	4.4	0.6	21.7	0.4	3.5	
Securities portfolio	304,577	100.0	65.5	54.1	11.4	2.0	9.4	9.3	0.1	33.0	1.5	0.0	
Bond trading book	26,722	100.0	85.0	83.8	1.2	0.8	0.4	0.4	0.0	14.9	0.1	0.0	
Equity trading book	6,543	100.0	97.5	61.2	36.3	1.7	34.6	34.6	0.0	2.3	0.2	0.0	
Available-for-sale bond portfolio	158,629	100.0	67.1	49.1	18.1	3.0	15.1	14.9	0.2	31.0	1.9	0.0	
Available-for-sale equity portfolio	10,230	99.5	40.9	37.8	3.0	1.7	1.4	1.2	0.2	52.8	5.8	0.5	
Permanent bond portfolio	31,153	100.0	30.9	28.8	2.1	0.9	1.3	1.2	0.0	66.8	2.3	0.0	
Permanent equity portfolio	71,304	100.0	70.1	66.9	3.2	0.8	2.4	2.3	0.1	29.5	0.4	0.0	
Fixed assets	17,787	98.9	41.8	35.2	6.6	4.3	2.3	2.2	0.0	50.4	6.7	1.1	
Other assets	67,216	98.9	68.8	61.3	7.4	2.7	4.7	4.5	0.2	28.6	1.5	1.1	
BALANCE SHEET TOTAL	1,503,065	97.3	55.8	45.7	10.1	4.2	5.9	5.7	0.2	37.8	3.7	2.7	
LIABILITIES AND EQUITY:													
Credit institutions and Banco de España	357,558	91.7	75.7	49.3	26.4	6.5	19.9	19.5	0.3	15.2	0.8	8.3	
Creditors	810,812	99.6	44.8	39.5	5.3	3.7	1.6	1.5	0.1	49.2	5.6	0.4	
Of which:													
Resident private sector	654,816	100.0	39.4	34.0	5.5	3.8	1.6	1.6	0.0	53.9	6.7	0.0	
Current accounts	172,714	100.0	52.6	42.2	10.4	6.0	4.5	4.3	0.1	42.7	4.7	0.0	
Savings accounts	145,082	100.0	31.4	29.7	1.7	1.0	0.7	0.7	0.0	59.0	9.6	0.0	
Time deposits	247,186	99.9	29.0	26.5	2.6	2.1	0.5	0.4	0.0	62.6	8.3	0.1	
Repos	89,618	99.9	55.8	46.0	9.9	9.2	0.7	0.7	0.0	43.0	1.1	0.0	
Non-residents	121,230	97.5	70.1	64.6	5.5	3.5	2.0	1.8	0.2	26.7	0.7	2.4	
Debt securities	87,168	99.2	63.1	61.6	1.6	1.6	0.0	0.0	0.0	35.9	0.2	0.8	
Subordinated debt	48,741	99.2	60.8	58.5	2.4	2.3	0.1	0.1	0.0	38.1	0.3	0.7	
Provisions	51,783	97.8	67.8	64.1	3.7	2.5	1.2	1.0	0.2	26.9	3.1	2.2	
Capital and reserves	80,064	96.8	54.7	48.6	6.1	4.5	1.6	0.6	1.0	36.4	5.7	3.1	
Other liabilities	66,939	96.4	61.5	53.7	7.7	3.2	4.5	4.2	0.3	32.7	2.2	3.7	
MEMORANDUM ITEM:													
Variable-rate credit. DIs only	568,318	100.0	43.7	36.2	7.5	4.5	3.0	2.8	0.2	50.5	5.8	n.a.	

	2000	2001	2002	2003
Reporting institutions (number)	420	400	397	353
Exposures admitted (number)	19,006,985	20,265,305	21,538,342	23,360,635
<i>Of which:</i>				
<i>Banks</i>	7,740,929	8,114,700	8,384,623	8,990,775
<i>Savings banks</i>	8,743,234	9,402,126	10,211,426	11,017,236
<i>Credit co-operatives</i>	1,320,935	1,448,149	1,525,728	1,697,842
Amount (€ m)	1,224,434	1,354,570	1,522,023	1,761,103
<i>Of which:</i>				
<i>Banks</i>	659,958	673,076	771,657	900,420
<i>Savings banks</i>	457,289	530,501	618,785	714,325
<i>Credit co-operatives</i>	53,033	62,002	70,619	84,437
Different borrowers (number)	11,396,892	12,066,861	12,816,049	13,713,433
<i>Of which:</i>				
<i>Resident Spanish individuals</i>	10,548,269	11,142,630	11,801,966	12,567,991
<i>Resident Foreign individuals</i>	154,700	187,850	248,518	336,648
<i>Resident legal entities</i>	684,523	725,310	755,308	799,045
<i>Non-resident individuals</i>	4,395	5,297	5,975	5,305
<i>Non-resident legal entities</i>	5,005	5,774	4,282	4,444
Ineligible borrowers (number)	10,782	9,697	8,441	7,648
Suspended exposures (€ m)	485	435	463	339
Borrowers additions (number)	6,571,506	5,211,644	5,428,575	5,730,563
Borrowers deletions (number)	5,356,474	4,264,817	4,398,190	4,429,941
access and rectification rights exercised (number)	18,677	19,932	21,811	24,877
REPORTS ISSUED:				
Automatically	173,217,385	185,632,065	197,186,241	210,876,798
Requested by reporting institutions	1,321,546	1,647,409	2,156,369	2,946,685
For debtors	39,588	45,015	55,296	64,289
Data Protection Agency	77	132	53	12
Courts	695	443	317	425
Other central credit registers	3	9	37	29

ACTIVITY OF DIS AND OF THEIR CONSOLIDATED GROUPS

TABLE I.A.8

Year-end data. € m and %

	2000	2001	2002	2003 (P)	BREAKDOWN (%)			
					BUSINESS IN SPAIN		BUSINESS ABROAD	
					2002	2003	2002	2003
ASSETS:								
Cash and central banks	25,117	34,768	27,719	32,493	58.5	66.5	41.5	33.5
Financial intermediaries	181,219	178,862	181,124	178,898	83.8	84.1	16.2	15.9
Loans and credit	721,126	794,258	836,845	935,268	86.6	88.7	13.4	11.3
Securities portfolio	287,377	301,133	281,235	324,900	77.3	81.0	22.7	19.0
Government bonds	187,228	185,260	165,151	180,978	73.1	78.0	26.9	22.0
Corporate bonds	47,111	60,108	62,805	84,745	80.7	81.1	19.3	18.9
Equities	53,038	55,765	53,279	59,177	86.3	89.8	13.7	10.2
Fixed assets	36,447	37,492	39,873	39,234	64.9	65.5	35.1	34.5
Other assets	97,431	100,145	89,511	86,441	68.4	74.0	31.6	26.0
<i>Of which: Consolidated goodwill</i>	<i>19,825</i>	<i>19,375</i>	<i>18,577</i>	<i>15,663</i>	<i>36.6</i>	<i>43.0</i>	<i>63.4</i>	<i>57.0</i>
BALANCE SHEET TOTAL	1,348,717	1,446,657	1,456,307	1,597,234	82.2	84.8	17.8	15.2
LIABILITIES AND EQUITY:								
Financial intermediaries	283,849	263,373	269,596	318,002	86.8	88.7	13.2	11.3
Deposits	712,553	807,271	813,814	850,608	80.9	82.8	19.1	17.2
Debt securities	105,226	106,925	110,285	156,605	47.3	56.3	52.7	43.7
Subordinated debt	22,613	30,324	31,238	33,782	43.8	53.0	56.2	47.0
Provisions	54,382	56,404	52,658	53,417	74.2	78.4	25.8	21.6
Capital and reserves	94,930	101,789	106,532	110,755	78.2	80.0	21.8	20.0
<i>Of which: Minority interest</i>	<i>21,803</i>	<i>22,078</i>	<i>20,536</i>	<i>20,603</i>	<i>30.8</i>	<i>39.6</i>	<i>69.2</i>	<i>60.4</i>
Other liabilities	75,165	80,570	72,183	74,060	82.5	83.8	17.5	16.2
Mismatches between business areas (€ m)					-	-	-57,112	-69,050
Net asset value of managed funds	249,881	269,018	257,762	304,972	80.7	81.1	19.3	18.9
MEMORANDUM ITEM: NUMBER OF BANKS INCLUDED IN GROUPS:								
TOTAL	470	470	458	435				
Spain (b)	285	285	278	272				
Abroad	185	185	180	163				
<i>Subsidiaries</i>	<i>95</i>	<i>95</i>	<i>88</i>	<i>83</i>				
<i>Branches</i>	<i>90</i>	<i>90</i>	<i>92</i>	<i>80</i>				
Rest of European Union	79	82	85	78				
<i>Subsidiaries</i>	<i>15</i>	<i>15</i>	<i>14</i>	<i>15</i>				
<i>Branches</i>	<i>64</i>	<i>67</i>	<i>71</i>	<i>63</i>				
Latin America	39	39	34	27				
<i>Subsidiaries</i>	<i>35</i>	<i>36</i>	<i>31</i>	<i>26</i>				
<i>Branches</i>	<i>4</i>	<i>3</i>	<i>3</i>	<i>1</i>				
Other	67	64	61	58				
<i>Subsidiaries</i>	<i>45</i>	<i>44</i>	<i>43</i>	<i>42</i>				
<i>Branches</i>	<i>22</i>	<i>20</i>	<i>18</i>	<i>16</i>				

a. Institutions existing at each date.

b. Including individual institutions.

SECURITIES ISSUED BY SPANISH SECURITISATION VEHICLES

TABLE I.A.9

€ m and %

	2000	2001	2002	2003	MEMORANDUM ITEMS: 2003		
					STRUCTURE	P.P. CHANGE	Δ ANNUAL %
					%		
BREAKDOWN BY TYPE OF SECURITISED ASSET							
TOTAL SECURITISATION BY SPANISH VEHICLES	8,175	12,188	22,564	36,157	100.0	–	60.2
Assets of CIs	8,175	12,188	22,564	35,857	99.2	–0.8	58.9
MBSVs (Royal Decree 685/1982)	2,605	5,113	5,776	5,030	13.9	–11.7	–12.9
ABSVs	5,570	7,075	16,788	30,827	85.3	10.9	83.6
<i>Cédulas</i>	0	4,548	3,800	10,800	29.9	13.1	184.2
<i>Mortgage loans</i>	792	1,356	5,199	11,828	32.7	9.7	127.5
<i>SMEs</i>	1,537	550	3,110	6,253	17.3	3.5	101.1
<i>Promisory notes (ABCP) (a)</i>	868	391	1,708	–734	–2.0	–9.6	–
<i>Territorial cédulas</i>	0	0	0	1,400	3.9	3.9	–
<i>Consumer loans</i>	0	231	0	1,280	3.5	3.5	–
<i>Credit to general government</i>	1,205	0	0	0	0.0	0.0	–
<i>Other assets</i>	1,168	0	2,971	0	0.0	–13.2	–100.0
MEMORANDUM ITEMS:							
Total mortgage-basket assets (b)	3,577	6,548	12,680	20,848	57.7	1.5	64.4
Assets removed from the CI balance sheet due to securitisation	8,175	7,640	18,764	23,657	65.4	–17.8	26.1
Bonds issued on foreign stock markets	0	0	2,053	150	0.4	–8.7	–92.7
BREAKDOWN BY TYPE OF ORIGINATOR							
TOTAL SECURITISATION BY SPANISH VEHICLES	8,175	12,188	22,564	36,157	100.0	0.0	60.2
Banks	5,692	2,737	9,966	9,629	26.6	–17.6	–3.4
Saving banks	1,838	8,996	10,712	24,146	66.8	19.3	125.4
SCIs	483	455	1,886	1,404	3.9	–4.5	–25.5
Unclassified-financial institutions	163	0	0	678	1.9	1.9	–
Non-financial corporations	0	0	0	300	0.8	0.8	–
BREAKDOWN BY RATING AND YIELD							
SECURITISATIONS WITH KNOWN YIELD	6,130	11,379	17,301	33,926	93.8	17.1	96.1
Floating-rate bonds	6,130	6,831	13,790	21,876	60.5	–0.6	58.6
AAA	5,545	6,418	12,639	20,253	56.0	0.0	60.2
Fixed-rate bonds	0	4,548	3,510	12,050	33.3	17.7	243.3
Floating-rate bonds, Three month spreads, in p.b.							
AAA	20	21	22	24			
AA	40	35	43	47			
A	42	52	46	63			
BBB - BB	111	94	122	156			
Fixed-rate AAA bonds. Yield, in p.p. (c)	–	4.9	5.3	4.1			

SOURCES: Comisión Nacional del Mercado de Valores, 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 issuance of the securities of these vehicles.

b. Sum of the amount of the MBSV category, mortgage loan (ABSVs) and the mortgage-basket part of the category SMEs (ABSVs).

c. Average interest rate set on the origination date of *cédula* securitisations.

INFORMATION ON OUTSTANDING BALANCES OF SPANISH SECURITISATION VEHICLE LIABILITIES

TABLE I.A.10

€ m and %

	2000	2001	2002	2003	MEMORANDUM ITEMS: 2003			
					STRUCTURE		Δ ANNUAL %	
					%	P.P. CHANGE		
OUTSTANDING BALANCES (NOMINAL VALUE) OR ISSUED BONDS BY TYPE OF SECURITISED ASSET								
TOTAL SECURITISASTIONS BY SPANISH VEHICLES	17,810	27,448	46,552	76,628	100.0	0.0	64.6	
Assets of CIs	17,810	27,448	46,552	76,328	99.6	−0.4	64.0	
MBSVs (Royal Decree 685/1982)	11,280	14,463	18,026	20,050	26.2	−12.5	11.2	
ABSVs	6,530	12,984	28,525	56,278	73.4	12.1	97.3	
<i>Cédulas</i>	0	4,548	8,348	19,148	25.0	7.1	129.4	
<i>Mortgage loans</i>	776	2,021	6,812	17,146	22.4	7.8	151.7	
SMEs	1,458	1,810	4,552	9,759	12.7	2.9	114.4	
<i>Promissory notes (ABCP)</i>	1,984	2,374	4,082	3,349	4.4	−4.4	−18.0	
<i>Territorial cédulas</i>	0	0	0	1,400	1.8	1.8	−	
<i>Consumer loans</i>	0	188	131	1,324	1.7	1.4	910.7	
<i>Credit to general government</i>	1,205	1,110	994	868	1.1	−1.0	−12.6	
<i>Other assets</i>	1,107	933	3,607	3,283	4.3	−3.4	−9.0	
MEMORANDUM ITEMS:								
Total mortgage-backet assets (a)	12,236	16,742	26,721	42,659	55.7	−1.7	59.6	
Assets removed from the CI balance sheet due to securitisation	17,810	22,900	38,204	55,780	72.8	−9.3	46.0	
Bonds issued on foreign stock market	0	0	2,000	2,055	2.7	−1.6	2.8	
BREAKDOWN BY TYPE OF ORIGINATOR								
TOTAL SECURITISATION BY SPANISH VEHICLES	17,810	27,448	46,552	76,628	100.0	0.0	64.6	
Banks	10,882	12,268	20,551	27,730	36.2	−7.9	34.9	
Saving Banks	4,893	13,029	22,481	43,853	57.2	8.9	95.1	
SCIs	894	1,228	2,797	3,531	4.6	−1.4	26.2	
Unclassified-financial institutions	1,142	922	722	1,214	1.6	0.0	68.1	
Non-financial corporations	0	0	0	300	0.4	0.4	−	
OTHER INFORMATION ON SECURITISATION VEHICLES								
HOLDERS OF ASSET-BACKET BONDS ISSUED BY SPANISH VEHICLES (b):								
TOTAL	17,905	27,753	47,111	77,888	100.0	0.0	65.3	
Held by:								
Non-financial corporations and households	271	413	249	393	0.5	0.0	57.8	
Financial institutions	12,524	16,147	21,648	30,172	38.7	−7.3	39.4	
<i>Banks and savings banks</i>	10,843	13,805	17,466	23,048	29.6	−7.5	32.0	
<i>Money market funds</i>	201	701	1,572	2,602	3.3	0.0	65.5	
<i>Non-monetary CIUs</i>	824	723	1,472	3,319	4.3	1.2	125.5	
<i>Insurance companies</i>	656	918	1,138	1,203	1.5	−0.9	5.7	
Rest of the world	5,109	11,194	25,214	47,324	60.8	7.3	87.7	
OTHER LIABILITIES: CREDIT EXTENDED TO SPANISH SECURITISATION VEHICLES:								
TOTAL	3,450	3,363	3,380	3,350	100.0	0.0	−0.9	
Of which: By CIs	3,450	3,363	3,380	3,350	100.0	0.0	−0.9	

SOURCES: Comisión Nacional del Mercado de Valores, AIAF and Banco de España.

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

BREAKDOWN OF DI INDIVIDUAL PROFIT AND LOSS ACCOUNT (a)

TABLE I.A.11

€ m and %

	2000			2001			2002			2003		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
Financial income	54,425	5.25	21.8	64,548	5.58	18.6	57,889	4.64	-10.3	55,258	4.03	-4.5
Interest income	50,585	4.88	19.5	57,320	4.95	13.3	52,300	4.20	-8.8	50,013	3.64	-4.4
Income from equity portfolio	3,839	0.37	61.2	7,228	0.62	88.3	5,589	0.45	-22.7	5,245	0.38	-6.2
Financial cost	-31,828	-3.07	33.3	-36,324	-3.14	14.1	-29,714	-2.38	-18.2	-26,023	-1.90	-12.4
NET INTEREST INCOME	22,597	2.18	8.5	28,224	2.44	24.9	28,174	2.26	-0.2	29,236	2.13	3.8
<i>Of which: investment of own funds</i>	<i>3,697</i>	<i>0.36</i>	<i>25.8</i>	<i>4,281</i>	<i>0.37</i>	<i>15.8</i>	<i>4,071</i>	<i>0.33</i>	<i>-4.9</i>	<i>3,961</i>	<i>0.29</i>	<i>-2.7</i>
Non-interest income	8,555	0.82	14.3	8,298	0.72	-3.0	8,569	0.69	3.3	8,342	0.61	-2.6
Commissions (net)	7,355	0.71	10.7	7,604	0.66	3.4	8,077	0.65	6.2	8,715	0.63	7.9
<i>Of which:</i>												
<i>Collection and payment service</i>	<i>3,889</i>	<i>0.37</i>	<i>14.7</i>	<i>4,267</i>	<i>0.37</i>	<i>9.7</i>	<i>4,719</i>	<i>0.38</i>	<i>10.6</i>	<i>4,951</i>	<i>0.36</i>	<i>4.9</i>
<i>Securities service</i>	<i>1,201</i>	<i>0.12</i>	<i>20.8</i>	<i>1,179</i>	<i>0.10</i>	<i>-1.8</i>	<i>1,098</i>	<i>0.09</i>	<i>-6.9</i>	<i>1,071</i>	<i>0.08</i>	<i>-2.4</i>
<i>Marketing of non-banking product</i>	<i>2,068</i>	<i>0.20</i>	<i>-0.3</i>	<i>1,952</i>	<i>0.17</i>	<i>-5.6</i>	<i>2,084</i>	<i>0.17</i>	<i>6.8</i>	<i>2,316</i>	<i>0.17</i>	<i>11.1</i>
<i>Contingent liabilities</i>	<i>654</i>	<i>0.06</i>	<i>18.0</i>	<i>733</i>	<i>0.06</i>	<i>12.1</i>	<i>799</i>	<i>0.06</i>	<i>8.9</i>	<i>875</i>	<i>0.06</i>	<i>9.5</i>
<i>Exchange of foreign currency and banknotes</i>	<i>139</i>	<i>0.01</i>	<i>3.1</i>	<i>136</i>	<i>0.01</i>	<i>-1.6</i>	<i>75</i>	<i>0.01</i>	<i>-45.3</i>	<i>61</i>	<i>0.00</i>	<i>-18.9</i>
<i>Other commissions</i>	<i>908</i>	<i>0.09</i>	<i>14.6</i>	<i>999</i>	<i>0.09</i>	<i>10.1</i>	<i>1,139</i>	<i>0.09</i>	<i>14.0</i>	<i>1,350</i>	<i>0.10</i>	<i>18.5</i>
Result on financial transactions	1,200	0.12	41.8	694	0.06	-42.1	492	0.04	-29.2	-373	-0.03	-
<i>Trading book</i>	<i>-300</i>	<i>-0.03</i>	<i>39.2</i>	<i>-273</i>	<i>-0.02</i>	<i>-9.2</i>	<i>-490</i>	<i>-0.04</i>	<i>80.0</i>	<i>950</i>	<i>0.07</i>	<i>-</i>
<i>Available-for-sale bond portfolio</i>	<i>-72</i>	<i>-0.01</i>	<i>-</i>	<i>238</i>	<i>0.02</i>	<i>-</i>	<i>457</i>	<i>0.04</i>	<i>91.9</i>	<i>465</i>	<i>0.03</i>	<i>1.9</i>
<i>Exchange differences</i>	<i>782</i>	<i>0.08</i>	<i>102.8</i>	<i>281</i>	<i>0.02</i>	<i>-64.1</i>	<i>149</i>	<i>0.01</i>	<i>-46.8</i>	<i>-1,217</i>	<i>-0.09</i>	<i>-</i>
<i>Other futures transactions</i>	<i>904</i>	<i>0.09</i>	<i>-</i>	<i>327</i>	<i>0.03</i>	<i>-63.8</i>	<i>470</i>	<i>0.04</i>	<i>43.7</i>	<i>-725</i>	<i>-0.05</i>	<i>-</i>
<i>Other</i>	<i>-114</i>	<i>-0.01</i>	<i>-</i>	<i>121</i>	<i>0.01</i>	<i>-</i>	<i>-94</i>	<i>-0.01</i>	<i>-</i>	<i>154</i>	<i>0.01</i>	<i>-</i>
GROSS INCOME	31,152	3.00	10.0	36,522	3.15	17.2	36,743	2.95	0.6	37,578	2.74	2.3
Operating expenses	-19,602	-1.89	5.6	-20,852	-1.80	6.4	-21,505	-1.72	3.1	-22,118	-1.61	2.8
Personnel	-11,753	-1.13	4.6	-12,467	-1.08	6.1	-12,816	-1.03	2.8	-13,215	-0.96	3.1
General and levies	-5,990	-0.58	6.9	-6,385	-0.55	6.6	-6,610	-0.53	3.5	-6,839	-0.50	3.5
Depreciation and amortisation	-1,859	-0.18	7.9	-2,000	-0.17	7.6	-2,080	-0.17	4.0	-2,065	-0.15	-0.7
NET OPERATING INCOME	11,550	1.11	18.3	15,670	1.35	35.7	15,238	1.22	-2.8	15,460	1.13	1.5
Provisions and write-downs (net)	-3609	-0.35	59.5	-7,025	-0.61	94.7	-6,955	-0.56	-1.0	-5,499	-0.40	-20.9
Bad debts	-2,262	-0.22	81.2	-3,408	-0.29	50.7	-3,686	-0.30	8.1	-4,502	-0.33	22.1
<i>Of which:</i>												
<i>Specific coverage</i>	<i>-976</i>	<i>-0.09</i>	<i>,,,</i>	<i>-1,319</i>	<i>-0.11</i>	<i>35.2</i>	<i>-2,270</i>	<i>-0.18</i>	<i>72.1</i>	<i>-1,776</i>	<i>-0.13</i>	<i>-21.8</i>
<i>General coverage</i>	<i>-958</i>	<i>-0.09</i>	<i>,,,</i>	<i>-565</i>	<i>-0.05</i>	<i>-41.0</i>	<i>-495</i>	<i>-0.04</i>	<i>-12.5</i>	<i>-994</i>	<i>-0.07</i>	<i>101.0</i>
<i>Statistical coverage</i>	<i>-1,036</i>	<i>-0.10</i>	<i>,,,</i>	<i>-1,932</i>	<i>-0.17</i>	<i>86.6</i>	<i>-1,344</i>	<i>-0.11</i>	<i>-30.4</i>	<i>-2,156</i>	<i>-0.16</i>	<i>60.4</i>
Country risk	121	0.01	-	146	0.01	20.8	-78	-0.01	-	-3	0.00	-95.8
Security price fluctuation fund	-519	-0.05	-34.1	-3,319	-0.29	539.2	-3,398	-0.27	2.4	-387	-0.03	-88.6
Fund for general banking risk	-153	-0.01	578.0	-11	0.00	-92.8	98	0.01	-	-16	0.00	-
Other specific funds	-795	-0.08	281.0	-433	-0.04	-45.6	109	0.01	-	-591	-0.04	-
Extraordinary income (net)	2033	0.20	47.3	1,238	0.11	-39.1	1,540	0.12	24.4	1,804	0.13	17.2
PROFIT BEFORE TAX	9,977	0.96	12.2	9,898	0.86	-0.8	9,858	0.79	-0.4	11,859	0.86	20.3
Corporate incometax	-1,318	-0.13	-27.7	-1,083	-0.09	-17.8	-827	-0.07	-23.6	-2,241	-0.16	170.8
Other taxes	-255	-0.02	204.7	-134	-0.01	-47.5	-121	-0.01	-9.8	-37	0.00	-69.0
NET INCOME	8,404	0.81	20.3	8,682	0.75	3.3	8,910	0.71	2.6	9,581	0.70	7.5
MEMORANDUM ITEMS:												
Average total assets	1,037,267	100	9.4	1,157,654	100	11.6	1,246,686	100	7.7	1,372,644	100	10.1
Average own funds (b)	63,235	6.1	17.4	73,803	6.4	16.7	78,226	6.3	6.0	83,605	6.1	6.9
Efficiency ratio		62.9			57.1			58.5			58.9	
Return on average equity		13.3			11.8			11.4			11.5	

a. The data in this table refer to the institutions active at sometime during 2003.

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 less interim divided..

MAIN MARGINS OF THE INDIVIDUAL PROFIT AND LOSS ACCOUNT

TABLE I.A.12

Breakdown by grouping (a) (€ m and %)

	2000			2001			2002			2003 (p)		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	IMPORTE	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
NET INTEREST MARGIN:												
Banks	11,314	1.82	8.6	15,470	2.26	36.7	14,702	2.06	-5.0	14,947	1.91	1.7
Savings banks	10,031	2.65	8.2	11,317	2.63	12.8	11,928	2.46	5.4	12,692	2.36	6.4
Co-operatives	1,252	3.41	9.9	1,437	3.42	14.8	1,543	3.24	7.4	1,597	3.02	3.5
GROSS MARGIN:												
Banks	17,046	2.74	12.2	20,669	3.02	21.3	20,018	2.80	-3.2	19,465	2.49	-2.8
Savings Banks	12,621	3.33	7.4	14,161	3.29	12.2	14,915	3.07	5.3	16,160	3.01	8.3
Co-operatives	1,484	4.04	7.9	1,691	4.02	14.0	1,810	3.80	7.0	1,953	3.69	7.9
NET OPERATING INCOME:												
Banks	6,443	1.04	27.0	9,615	1.40	49.2	9,017	1.26	-6.2	8,424	1.08	-6.6
Savings banks	4,516	1.19	8.9	5,370	1.25	18.9	5,518	1.14	2.8	6,279	1.17	13.8
Co-operatives	591	1.61	8.8	686	1.63	16.1	703	1.47	2.5	757	1.43	7.8
PROFIT BEFORE TAX:												
Banks	5,510	0.89	19.9	5,351	0.78	-2.9	5,701	0.80	6.5	6,794	0.87	19.2
Savings banks	4,005	1.06	4.4	4,078	0.95	1.8	3,698	0.76	-9.3	4,555	0.85	23.2
Co-operatives	462	1.26	0.6	469	1.12	1.5	459	0.96	-2.3	510	0.96	11.2
NET INCOME:												
Banks	4,712	0.76	30.4	4,780	0.70	1.4	4,824	0.68	0.9	5,375	0.69	11.4
Savings banks	3,298	0.87	10.5	3,497	0.81	6.1	3,677	0.76	5.1	3,767	0.70	2.4
Co-operatives	394	1.07	2.2	405	0.96	2.7	409	0.86	1.0	439	0.83	7.5

a. The data in this table refer to the institutions active at some time during 2003.

MAIN MARGINS OF THE CONSOLIDATED PROFIT AND LOSS ACCOUNT

TABLE I.A.13

Breakdown by grouping (a) (€ m and %)

	2000			2001			2002			2003 (p)		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
NET INTEREST MARGIN:												
Banks	19,130	2.52	19.9	23,805	2.65	24.4	22,273	2.52	-6.4	20,251	2.25	-9.1
Savings banks	10,288	2.58	8.5	11,645	2.58	13.2	12,563	2.50	7.9	13,167	2.38	4.8
Co-operatives	1,255	3.41	9.8	1,440	3.39	14.7	1,542	3.22	7.1	1,597	3.02	3.5
GROSS MARGIN:												
Banks	30,342	3.99	24.5	36,073	4.01	18.9	33,643	3.81	-6.7	31,923	3.55	-5.1
Savings banks	13,415	3.37	7.4	15,062	3.34	12.3	16,000	3.18	6.2	17,125	3.09	7.0
Co-operatives	1,491	4.05	8.0	1,698	4.00	13.9	1,813	3.79	6.8	1,945	3.67	7.2
NET OPERATING INCOME:												
Banks	11,028	1.45	35.2	14,062	1.56	27.5	13,793	1.56	-1.9	13,921	1.55	0.9
Savings banks	4,747	1.19	10.0	5,685	1.26	19.8	5,975	1.19	5.1	6,555	1.18	9.7
Co-operatives	585	1.59	8.4	672	1.58	14.8	671	1.40	-0.2	729	1.38	8.7
PROFIT BEFORE TAX:												
Banks	9,738	1.28	30.8	10,053	1.12	3.2	8,982	1.02	-10.7	10,826	1.20	20.5
Savings banks	5,086	1.28	8.1	5,287	1.17	3.9	4,493	0.89	-15.0	5,939	1.07	32.2
Co-operatives	466	1.27	0.3	475	1.12	1.9	463	0.97	-2.5	523	0.99	13.0
NET INCOME:												
Banks	7,460	0.98	34.0	7,842	0.87	5.1	6,863	0.78	-12.5	8,038	0.89	17.1
Savings banks	4,062	1.02	14.8	4,434	0.98	9.2	4,367	0.87	-1.5	4,843	0.87	10.9
Co-operatives	396	1.08	1.8	408	0.96	2.9	411	0.86	0.7	451	0.85	9.7

a. The data in this table refer to the institutions active at some time during 2003.

BREAKDOWN OF DI CONSOLIDATED PROFIT AND LOSS ACCOUNT (a)

TABLE I.A.14

€ m and %

	2000			2001			2002			2003 (p)		
	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ	AMOUNT	% OF ATA	% ANNUAL Δ
Financial income	80,801	6.76	34.4	88,782	6.37	9.9	77,821	5.43	-12.3	66,864	4.44	-14.1
Interest income	79,027	6.61	34.5	86,735	6.23	9.8	75,912	5.30	-12.5	64,700	4.29	-14.8
Income from equity portfolio	1,774	0.15	30.0	2,047	0.15	15.4	1,909	0.13	-6.8	2,164	0.14	13.4
Financial cost	-50,128	-4.19	49.5	-51,893	-3.73	3.5	-41,442	-2.89	-20.1	-31,849	-2.11	-23.1
NET INTEREST INCOME	30,673	2.57	15.4	36,889	2.65	20.3	36,378	2.54	-1.4	35,015	2.32	-3.7
<i>Of which: Investment of own income</i>	<i>5,238</i>	<i>0.44</i>	<i>33.0</i>	<i>5,698</i>	<i>0.41</i>	<i>8.8</i>	<i>4,927</i>	<i>0.34</i>	<i>-13.5</i>	<i>4,441</i>	<i>0.29</i>	<i>-9.9</i>
Non-interest income	14,575	1.22	25.0	15,945	1.14	9.4	15,078	1.05	-5.4	15,995	1.06	6.1
Commissions (net)	12,684	1.06	20.5	14,117	1.01	11.3	13,626	0.95	-3.5	13,635	0.91	0.1
<i>Of which:</i>												
<i>Collection and payment service</i>	<i>5,545</i>	<i>0.46</i>	<i>26.1</i>	<i>6,944</i>	<i>0.50</i>	<i>25.2</i>	<i>7,197</i>	<i>0.50</i>	<i>3.6</i>	<i>7,168</i>	<i>0.48</i>	<i>-0.4</i>
<i>Securities service</i>	<i>3,938</i>	<i>0.33</i>	<i>40.8</i>	<i>3,879</i>	<i>0.28</i>	<i>-1.5</i>	<i>3,365</i>	<i>0.23</i>	<i>-13.3</i>	<i>3,193</i>	<i>0.21</i>	<i>-5.1</i>
<i>Marketing of non-banking products</i>	<i>2,962</i>	<i>0.25</i>	<i>2.8</i>	<i>3,116</i>	<i>0.22</i>	<i>5.2</i>	<i>2,886</i>	<i>0.20</i>	<i>-7.4</i>	<i>3,076</i>	<i>0.20</i>	<i>6.6</i>
<i>Contingent liabilities</i>	<i>726</i>	<i>0.06</i>	<i>13.0</i>	<i>817</i>	<i>0.06</i>	<i>12.5</i>	<i>863</i>	<i>0.06</i>	<i>5.7</i>	<i>939</i>	<i>0.06</i>	<i>8.9</i>
<i>Exchange of foreign currency and banknotes</i>	<i>188</i>	<i>0.02</i>	<i>16.5</i>	<i>232</i>	<i>0.02</i>	<i>23.1</i>	<i>131</i>	<i>0.01</i>	<i>-43.6</i>	<i>106</i>	<i>0.01</i>	<i>-18.6</i>
<i>Other commissions</i>	<i>1,738</i>	<i>0.15</i>	<i>6.0</i>	<i>1,974</i>	<i>0.14</i>	<i>13.6</i>	<i>1,969</i>	<i>0.14</i>	<i>-0.3</i>	<i>2,036</i>	<i>0.14</i>	<i>3.4</i>
Result on financial transactions	1,891	0.16	67.8	1,827	0.13	-3.4	1,452	0.10	-20.5	2,360	0.16	62.5
Trading book	-928	-0.08	263.7	-137	-0.01	-85.2	-639	-0.04	364.7	1,248	0.08	-
Available-for-sale bond portfolio	721	0.06	-13.4	235	0.02	-67.4	379	0.03	61.5	517	0.03	36.4
Exchange differences	856	0.07	96.3	390	0.03	-54.5	1,084	0.08	178.1	646	0.04	-40.4
Other futures transactions	1,392	0.12	-	1,201	0.09	-13.7	705	0.05	-41.4	-281	-0.02	-
Other	-150	-0.01	-	139	0.01	-	-77	-0.01	-	229	0.02	-
GROSS INCOME	45,248	3.79	18.3	52,834	3.79	16.8	51,456	3.59	-2.6	51,010	3.39	-0.9
Operating expenses	-28,888	-2.42	14.5	-32,415	-2.33	12.2	-31,018	-2.16	-4.3	-29,778	-1.98	-4.0
Personnel	-16,331	-1.37	12.0	-18,348	-1.32	12.4	-17,568	-1.23	-4.3	-17,158	-1.14	-2.3
General and levies	-9,607	-0.80	18.7	-10,867	-0.78	13.1	-10,365	-0.72	-4.6	-9,736	-0.65	-6.1
Depreciation and amortisation	-2,950	-0.25	16.0	-3,200	-0.23	8.5	-3,085	-0.22	-3.6	-2,884	-0.19	-6.5
NET OPERATING INCOME	16,360	1.37	25.7	20,419	1.47	24.8	20,439	1.43	0.1	21,231	1.41	3.9
Provisions and write-downs (net)	-4,962	-0.42	58.6	-9,658	-0.69	94.7	-7,444	-0.52	-22.9	-6,258	-0.42	-15.9
Bad debts	-3,826	-0.32	47.8	-5,963	-0.43	55.9	-5,939	-0.41	-0.4	-5,681	-0.38	-4.4
<i>Of which:</i>												
<i>Specific coverage</i>	<i>-1679.0</i>	<i>-0.1</i>	<i>...</i>	<i>-3,457</i>	<i>-0.25</i>	<i>105.9</i>	<i>-4,058</i>	<i>-0.28</i>	<i>17.4</i>	<i>-2,369</i>	<i>-0.16</i>	<i>-41.6</i>
<i>General coverage</i>	<i>-1057.0</i>	<i>-0.1</i>	<i>...</i>	<i>-588</i>	<i>-0.04</i>	<i>-44.4</i>	<i>-597</i>	<i>-0.04</i>	<i>1.5</i>	<i>-1,112</i>	<i>-0.07</i>	<i>86.3</i>
<i>Statistical coverage</i>	<i>-1109.0</i>	<i>-0.1</i>	<i>...</i>	<i>-1,930</i>	<i>-0.14</i>	<i>73.9</i>	<i>-1,300</i>	<i>-0.09</i>	<i>-32.6</i>	<i>-2,203</i>	<i>-0.15</i>	<i>69.5</i>
Country risk	148	0.01	863.5	92	0.01	-38.1	-156	-0.01	-	-348	-0.02	122.9
Security price fluctuation fund	-113	-0.01	-43.2	-116	-0.01	2.1	-460	-0.03	297.8	-32	0.00	-93.0
Fund for general banking risks	-154	-0.01	551.9	-13	0.00	-91.8	98	0.01	-	68	0.00	-30.7
Other specific funds	-1,017	-0.09	193.4	-3,658	-0.26	259.8	-986	-0.07	-73.0	-265	-0.02	-73.2
Income no group transaction (net)	2,998	0.25	89.0	1,663	0.12	-44.5	273	0.02	-83.6	278	0.02	1.8
Gains on group transactions	6,325	0.53	42.1	6,736	0.48	6.5	6,054	0.42	-10.1	5,686	0.38	-6.1
Losses on group transactions	-3,327	-0.28	16.1	-5,073	-0.36	52.5	-5,781	-0.40	14.0	-5,408	-0.36	-6.4
Of which: amortisation of goodwill	-1,765	-0.15	7.4	-3,004	-0.22	70.2	-2,645	-0.18	-12.0	-3,440	-0.23	30.0
Extraordinary income (net)	640	0.05	-30.7	3,171	0.23	395.8	388	0.03	-87.8	1,674	0.11	331.8
Sundry income (net)	253	0.02	15.8	219	0.02	-13.2	284	0.02	29.2	363	0.02	27.9
PROFIT BEFORE TAX	15,290	1.28	21.2	15,815	1.14	3.4	13,939	0.97	-11.9	17,288	1.15	24.0
Corporate income tax	-2,474	-0.21	-13.8	-2,377	-0.17	-3.9	-1,388	-0.10	-41.6	-3,009	-0.20	116.8
Other taxes	-898	-0.08	260.8	-754	-0.05	-16.0	-909	-0.06	20.7	-946	-0.06	4.1
NET INCOME	11,919	1.00	25.5	12,684	0.91	6.4	11,641	0.81	-8.2	13,332	0.88	14.5
<i>Of which:</i>												
<i>Group</i>	<i>10,041</i>	<i>0.84</i>	<i>21.6</i>	<i>10,713</i>	<i>0.77</i>	<i>6.7</i>	<i>9,839</i>	<i>0.69</i>	<i>-8.2</i>	<i>11,527</i>	<i>0.77</i>	<i>17.2</i>
<i>Minority interests</i>	<i>1,877</i>	<i>0.16</i>	<i>51.6</i>	<i>1,971</i>	<i>0.14</i>	<i>5.0</i>	<i>1,802</i>	<i>0.13</i>	<i>-8.6</i>	<i>1,805</i>	<i>0.12</i>	<i>0.1</i>
MEMORANDUM ITEMS:												
AVERAGE TOTAL ASSETS (ATA)	1,195,166	100	15.7	1,392,896	100	16.5	1,433,229	100	2.9	1,506,469	100	5.1
AVERAGE OWN FUNDS OF THE GROUP (b)	66,589	5.6	21.3	80,353	5.8	20.7	82,951	5.8	3.2	85,992	5.7	3.7
Efficiency Ratio		63.8			61.4			60.3			58.4	
Return on average equity of the group (b)		15.1			13.3			11.9			13.4	

a. The data in this table refer to the institutions active at sometime during 2003.

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.

SOLVENCY RATIO OF CONSOLIDATED GROUPS OF CIs

TABLE I.A.15

€ m and %

	2000			2001			2002			2003 (p)		
	AMOUNT	COMPO-SITION %	Δ ANNUAL %	AMOUNT	COMPO-SITION %	Δ ANNUAL %	AMOUNT	COMPO-SITION %	Δ ANNUAL %	AMOUNT	COMPO-SITION %	Δ ANNUAL %
Own funds	88,266	100.0	18.2	101,141	100.0	14.6	103,461	100.0	2.3	113,516	100.0	9.7
Tier 1 capital	73,432	83.2	20.0	80,045	79.1	9.0	80,127	77.4	0.1	86,364	76.1	7.8
<i>Capital stock, reserves and assimilated items (a)</i>	<i>57,545</i>	<i>65.2</i>	<i>16.3</i>	<i>62,670</i>	<i>62.0</i>	<i>8.9</i>	<i>63,574</i>	<i>61.4</i>	<i>1.4</i>	<i>70,123</i>	<i>61.8</i>	<i>10.3</i>
<i>Preference shares</i>	<i>15,887</i>	<i>18.0</i>	<i>35.2</i>	<i>17,375</i>	<i>17.2</i>	<i>9.4</i>	<i>16,553</i>	<i>16.0</i>	<i>-4.7</i>	<i>16,241</i>	<i>14.3</i>	<i>-1.9</i>
Tier 2 capital	20,724	23.5	24.4	27,104	26.8	30.8	27,265	26.4	0.6	31,082	27.4	14.0
Deductions	-5,891	-6.7	85.0	-6,007	-5.9	2.0	-3,931	-3.8	-34.6	-3,930	-3.5	0.0
Requirements	67,015	100.0	24.5	73,116	100.0	9.1	74,749	100.0	2.2	82,000	100.0	9.7
Standard methods	66,115	98.7	24.5	72,334	98.9	9.4	73,998	99.0	2.3	81,395	99.3	10.0
<i>Credit risk</i>	<i>63,079</i>	<i>94.1</i>	<i>25.0</i>	<i>68,838</i>	<i>94.1</i>	<i>9.1</i>	<i>70,901</i>	<i>94.9</i>	<i>3.0</i>	<i>78,080</i>	<i>95.2</i>	<i>10.1</i>
<i>Market risk</i>	<i>1,680</i>	<i>2.5</i>	<i>3.2</i>	<i>2,052</i>	<i>2.8</i>	<i>22.1</i>	<i>2,248</i>	<i>3.0</i>	<i>9.6</i>	<i>2,753</i>	<i>3.4</i>	<i>22.5</i>
<i>Foreign exchange risk and gold</i>	<i>1,356</i>	<i>2.0</i>	<i>28.8</i>	<i>1,444</i>	<i>2.0</i>	<i>6.4</i>	<i>849</i>	<i>1.1</i>	<i>-41.2</i>	<i>561</i>	<i>0.7</i>	<i>-33.9</i>
<i>Commodity risk</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>0</i>	<i>0.0</i>	<i>-</i>
Internal models	-	-	-	-	-	-	-	-	-	0	0.0	-
Additional and deduction under offset agreements	900	1.3	27.4	782	1.1	-13.1	751	1.0	-4.0	605	0.7	-19.4
Average weight of credit risk (%)	58.1			60.1			61.8			62.9		
<i>Of which: On-balance-sheet exposure (%)</i>	<i>56.7</i>			<i>58.3</i>			<i>60.1</i>			<i>61.4</i>		
Solvency ratio (%)	10.5			11.1			11.1			11.1		
Tier 1 (%)	8.8			8.8			8.6			8.4		
Core capital ratio (%) (b)	6.9			6.9			6.8			6.8		
MEMORANDUM ITEM: SOLVENCY RATIO:												
1988 basel Capital accord (%)	12.5			12.9			12.6			12.6		
<i>Of which: Tier 1 (%)</i>	<i>9.1</i>			<i>9.1</i>			<i>8.7</i>			<i>8.6</i>		
UE regulation (%)	11.6			12.3			12.3			12.2		
<i>Of which: Tier 1 (%)</i>	<i>8.9</i>			<i>8.8</i>			<i>8.6</i>			<i>8.4</i>		

a. Specific deductions of Tier 1 capital are included (negative results, intangible assets, losses of consolidated companies, etc.) as it is obtained as the difference between Tier 1 capital and preference shares.

b. Ratio obtained using as the numerator capital stock and assimilated items.

	2000		2001		2002		2003 (p)	
	No. CGs	% OF ASSETS	No. CGs	% OF ASSETS	No. CGs	% OF ASSETS	No. CGs	% OF ASSETS
OVERALL SOLVENCY RATIO:								
< 8%	1	0.2	3	0.1	0	0.0	1	0.0
> = 8% y < 9%	22	3.1	21	2.6	12	1.9	12	3.8
> = 9% y < 10%	34	58.3	24	7.6	37	29.4	34	10.7
> = 10% y < 11%	23	10.2	39	63.4	29	37.8	31	44.6
> = 11% y < 12%	28	8.7	20	5.7	22	7.7	34	23.4
> 12%	123	16.4	117	17.0	118	18.9	104	12.0
Institutions not subject (a)	45	3.0	51	3.6	53	4.3	52	5.4
TIER I SOLVENCY RATIO:								
< 5%	0	0.0	0	0.0	0	0.0	1	0.0
> = 5% y < 6%	0	0.0	2	0.3	2	0.2	2	0.5
> = 6% y < 8%	31	63.3	29	61.6	24	57.5	26	60.4
> = 8% y < 10%	46	12.4	48	17.3	57	28.1	62	25.0
> = 10% y < 11%	19	6.1	17	7.3	16	1.7	20	1.7
> 11%	135	15.1	128	9.9	119	8.1	105	6.9
Institutions not subject (a)	45	3.0	51	3.6	53	4.3	52	5.4
MEMORANDUM ITEM:								
Number of report by CGs	231		224		218		216	

a. The CIs not subject to comply with the solvency ratio in Spain are branches of community institutions and branches of institutions of third countries with equivalent regulations.

DISTRIBUTION OF CAPITAL REQUIREMENTS BY ON-BALANCE-SHEET EXPOSURES IN CONSOLIDATED GROUPS OF CIs AS AT DECEMBER 2003 (%) AND YEAR-ON-YEAR CHANGES (p.p.) THEREIN

TABLE I.A.17

	0%		10%		20%		50%		100%		AVERAGE WEIGHT		WEIGHT IN TOTAL ACTIVITY (a)	
	%	p.p. Δ	%	p.p. Δ	%	p.p. Δ	%	p.p. Δ	%	p.p. Δ	%	p.p. Δ	%	p.p. Δ
DISTRIBUTION OF EXPOSURES BY WEIGHT														
CIs	46.3	3.1	0.0	0.0	52.3	-3.9	0.0	0.0	1.5	0.7	11.9	0.0	10.6	-1.7
Credit to general government	17.9	-10.7	0.0	0.0	76.4	12.3	0.0	0.0	5.7	-1.6	21.0	0.8	3.3	-0.5
Fixed-income portfolio	71.8	-1.8	0.5	0.2	7.0	-0.2	7.7	1.8	12.9	-0.1	18.3	0.8	14.0	-0.2
Mortgage credit to other private sectors	0.2	0.1	0.0	0.0	0.1	0.0	59.1	-1.5	40.5	1.3	70.1	0.6	31.6	2.8
Other credit to other private sectors	5.8	0.0	0.0	0.0	2.8	0.0	0.6	0.2	90.8	-0.2	91.7	-0.1	29.6	0.0
Other assets	24.8	2.6	0.0	0.0	5.4	-1.1	1.2	0.5	68.6	-1.9	70.3	-1.9	10.8	-0.5
Total assets	20.1	-1.1	0.1	0.0	10.5	-1.4	20.1	1.6	49.3	0.9	61.4	1.4	100.0	-
DISTRIBUTION OF WEIGHTING BY TYPE OF EXPOSURE														
CIs	24.5	-0.6	0.0	0.0	52.8	-5.0	0.0	0.0	0.3	0.1				
Credit to general government	2.9	-2.2	0.0	0.0	23.9	3.7	0.0	0.0	0.4	-0.2				
Fixed-income portfolio	50.3	0.7	98.6	-0.4	9.4	0.8	5.4	0.9	3.7	-0.1				
Mortgage credit to other private sectors	0.3	0.2	0.0	0.0	0.3	0.2	93.1	-1.3	26.0	2.7				
Other credit to other private sectors	8.5	0.4	0.0	0.0	8.0	1.0	0.8	0.3	54.5	-1.1				
Other assets	13.4	1.5	1.4	0.4	5.6	-0.6	0.6	0.2	15.1	-1.4				
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.

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

TABLE I.A.18

€ m and %

	2000			2001			2002			2003 (p)		
	AMOUNT	COMPO- SITION %	Δ ANNUAL %	AMOUNT	COMPO- SITION %	Δ ANNUAL %	AMOUNT	COMPO- SITION %	Δ ANNUAL %	AMOUNT	COMPO- SITION %	Δ ANNUAL %
Effective own funds	68,653	100.0	8.6	76,113	100.0	10.9	75,144	100.0	-1.3	83,128	100.0	10.6
Credit institutions or groups	67,578	98.4	8.8	74,737	98.2	10.6	73,714	98.1	-1.4	82,165	98.8	11.5
Insurance undertaking or groups	3,732	5.4	15.0	3,744	4.9	0.3	3,857	5.1	3.0	4,248	5.1	10.2
Deductions	-2,657	-3.9	22.5	-2,367	-3.1	-10.9	-2,427	-3.2	2.5	-3,284	-4.0	35.3
Capital requirements	54,028	100.0	14.6	56,900	100.0	5.3	56,056	100.0	-1.5	61,777	100.0	10.2
Credit institutions or groups	52,683	97.5	15.1	55,349	97.3	5.1	54,506	97.2	-1.5	60,254	97.5	10.5
Insurance undertaking or groups	1,633	3.0	1.5	1,845	3.2	12.9	1,879	3.4	1.9	1,908	3.1	1.6
Deductions	-288	-0.5	28.2	-294	-0.5	2.3	-330	-0.6	12.1	-385	-0.6	16.9
Surplus or deficit of mixed groups	14,624	-	-8.9	19,214	-	31.4	19,089	-	-0.7	21,352	-	11.9
Surplus or deficit of CGs	14,896	-	-9.0	19,387	-	30.2	19,208	-	-0.9	21,911	-	14.1
MEMORANDUM ITEM:												
Number of non-consolidated mixed group	35			34			33			34		

€ m and %

	2000	2001	2002	2003	MEMORANDUM ITEMS: 2003			
					STRUCTURE	P.P. CHANGE	Δ ANNUAL %	(b)
					%			
BALANCE SHEET OF TOTAL BUSINESS								
ASSETS:								
Cash and central banks	28	40	28	40	0.1	0.0	43.0	42.4
Fiancial intermediaries	1,094	1,284	1,593	1,181	3.0	-1.8	-25.9	-27.9
Loans ans credit	24,776	29,371	30,524	36,815	92.3	1.8	20.6	5.0
Government	867	1,138	1,132	2,245	5.6	2.3	98.3	79.1
Resident private sector	23,396	27,610	28,479	33,316	83.5	-0.9	17.0	1.4
Facturing	3,967	5,875	6,555	7,163	18.0	-1.5	9.3	-9.6
Secured loans	3,194	3,385	3,688	5,241	13.1	2.2	42.1	38.6
Term loans	8,862	10,081	9,561	11,284	28.3	0.0	18.0	17.8
Financial leases	6,657	7,458	7,790	8,518	21.4	-1.7	9.3	-20.2
Other	716	812	885	1,110	2.8	0.2	25.4	22.8
Non-resident	513	623	913	1,254	3.1	0.4	37.3	34.3
Doubtful assets	656	811	701	795	2.0	-0.1	13.4	8.0
Securities portfolio	26	51	58	97	0.2	0.1	66.7	66.5
Fixed assets	243	260	171	218	0.5	0.0	27.2	0.5
Other assets	627	599	662	742	1.9	-0.1	12.1	0.9
BALANCE SHEET TOTAL	27,450	32,417	33,738	39,887	100.0	0.0	18.2	3.7
Total balance sheet of the sector at each date	30,896	36,831	38,460	39,887	100.0	0.0	3.7	
LIABILITIES AND EQUITY:								
Credit institutions and Banco de España	20,719	22,987	24,435	29,565	74.1	1.7	21.0	3.3
Creditors and debt securities	2,458	4,211	3,714	3,847	9.6	-1.4	3.6	3.5
Of which:								
Deposits of the group or shareholders	2,010	2,602	1,957	2,045	5.1	-0.7	4.5	4.5
Resident private sector	275	406	259	259	0.6	-0.1	0.1	-0.5
Non- resident	1,773	3,182	2,828	2,928	7.3	-1.0	3.5	3.5
Subordinated debt	249	323	334	361	0.9	-0.1	8.0	-1.7
Provisions	666	807	936	1,143	2.9	0.1	22.2	11.2
Capital and reserves	1,631	1,914	2,130	2,512	6.3	0.0	17.9	9.7
Other liabilities	1,727	2,174	2,189	2,460	6.2	-0.3	12.4	0.8
OFF-BALANCE SHEET ACCOUNTS:								
Tranferred credit	1,644	1,966	3,452	4,065	10.2	0.0	17.8	15.4
Of which: Mortgage-backed securities	1,335	1,527	1,802	2,558	6.4	1.1	41.9	41.9
					IN TERM OF ATA		Δ	(b)
					%	PP CHANGE	ANNUAL %	
PROFIT AND LOSS ACCOUNT								
Fiancial income	1,643	2,028	2,022	2,005	5.74	-0.48	-0.8	-10.2
Financial cost	-923	-1,187	-1,062	-930	-2.66	0.60	-12.4	-23.6
Net interest income	719	841	960	1,075	3.08	0.12	11.9	5.8
Non-interest income	23	16	24	41	0.12	0.04	71.3	43.6
Gross income	742	857	984	1,116	3.20	0.17	13.4	6.9
Operating expenses	-422	-457	-486	-541	-1.55	-0.06	11.5	6.7
Of which: Personnel	-183	-188	-202	-225	-0.64	-0.02	11.4	8.4
Net operating income	321	400	499	575	1.65	0.11	15.3	7.0
Write-downs and bad debts	-154	-222	-225	-249	-0.71	-0.02	10.7	0.5
Other	60	85	57	93	0.27	0.09	62.9	29.5
Profix before tax	228	263	331	419	1.20	0.18	26.6	16.0
Profix after tax	155	182	219	266	0.76	0.09	21.4	11.2
Total profix after tax of the sector at each date	167	197	239	266	0.76	0.12	11.2	
MEMORANDUM ITEMS:								
Average total assets (ATA)	25,042	29,992	32,499	34,933			7.5	
Average own funds	1,470	1,686	1,956	2,228			13.9	
Number of employees	4,639	4,891	5,142	5,635			9.6	
Efficiency ratio	56.77	53.31	49.32	48.48		0.84		
Return on equity	10.55	10.78	11.20	11.95		0.75		
Return on ATA	0.62	0.61	0.67	0.76		0.09		

a. The data in this table refer to the institutions existing at the latest.

b. Percentage change calculated with respect to the total institutions existing as at the previous december.

	2000	2001	2002	2003	Δ ANUAL %
Operational appraisal companies (number)	75	71	65	67	3.0
DI appraisal services (number)	3	3	3	3	–
Number of appraisers	7,275	7,503	8,070	8,627	6.9
Of which: associate appraisers	588	560	501	554	10.6
Number of appraisals performed (thousands)	935	1,001	1,203	1,411	17.3
Of which:					
Complete buildings (b)	62	66	74	83	12.2
Dwellings (c)	719	788	953	1,151	20.8
Commercial premises	60	60	64	69	7.8
Commissioned by banks	346	354	406	485	19.5
Commissioned by savings banks	438	478	562	679	20.8
For provision of mortgage guarantee	849	920	1,111	1,321	18.9
Amount of appraisals performed (€ m)	224,821	276,036	345,005	444,508	28.8
Of which:					
Complete buildings (b)	91,369	107,000	124,948	151,210	21.0
Housing units (c)	82,791	100,974	141,304	198,076	40.2
Commercial premises	11,194	12,200	15,104	17,035	12.8
Commissioned by banks	74,215	81,207	103,938	132,850	27.8
Commissioned by saving banks	102,413	124,533	153,609	208,281	35.6
For provision of mortgage guarantee	191,927	233,118	292,376	387,492	32.5
Appraisal companies					
Total assets (€ m)	87.2	100.9	133.3	171.5	28.7
Of which: Result (€ m)	9.1	15.0	31.3	32.3	3.2
ROE (%)	23.5	35.9	68.9	52.5	–

a. Data refer to the institutions existing as at end december each year.

b. Including residential, tertiary and industrial buildings either finished or under construction for the expected completion value.

c. The term «dwelling» is used to refer to individual elements of buildings, including single-family buildings.

	2000	2001	2002	2003	Δ ANUAL %
Operational entities (number) (a)	21	21	21	22	4.8
Patron and participating members (number)	58,598	61,341	64,491	69,679	8.0
<i>Of which: Participating members</i>	<i>57,913</i>	<i>60,648</i>	<i>63,793</i>	<i>68,953</i>	<i>8.1</i>
BALANCE (€ m):					
Balance sheet total	338	362	404	448	10.9
Outstanding risk on guarantees	2,012	2,231	2,493	2,852	14.4
<i>Non-reguaranteed risk</i>	<i>1,077</i>	<i>1,206</i>	<i>1,375</i>	<i>1,610</i>	<i>17.1</i>
<i>Reguaranteed risk (assigned)</i>	<i>935</i>	<i>1,025</i>	<i>1,118</i>	<i>1,242</i>	<i>11.1</i>
Of which: By sector					
<i>Primary</i>	<i>61</i>	<i>60</i>	<i>67</i>	<i>77</i>	<i>14.9</i>
<i>Industrial</i>	<i>674</i>	<i>730</i>	<i>798</i>	<i>858</i>	<i>7.5</i>
<i>Construction</i>	<i>319</i>	<i>356</i>	<i>397</i>	<i>453</i>	<i>14.1</i>
<i>Tertiary</i>	<i>935</i>	<i>1,064</i>	<i>1,206</i>	<i>1,441</i>	<i>19.5</i>
Doubtful assets and guarantees (b)	91	101	124	135	8.9
<i>Of which: Net of reguarantees</i>	<i>35</i>	<i>40</i>	<i>49</i>	<i>54</i>	<i>10.2</i>
Own funds	126	136	145	163	12.4
Net fund for technical provisions	107	130	150	176	17.3
Fund for bad debts	27	27	29	29	0.0
GUARANTEE TRANSACTIONS AMOUNT IN THE YEAR (€ m):					
For	1,157	1,208	1,406	1,772	26.0
Provided	913	959	1,066	1,342	25.9
Formalised	855	950	1,027	1,256	22.3
RATIOS (%):					Δ pp
Weight of members participating in capital	52.8	55.5	57.2	55.8	-1.4
Doubtful assets and guarantees/risk	4.5	4.5	5.0	4.7	-0.3
Guarantee commissions/risk	1.1	1.0	1.0	1.0	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 risk.

**CURRENCY EXCHANGE BUREAUX AND MONEY TRANSFER AGENCIES:
KEY DATA**

TABLE I.A.22

	DECEMBER			SEPTEMBER	
	2000	2001	2002	2002	2003
Licensed proprietors (number)	2,974	2,911	2,726	2,766	2,695
Currency purchasing	2,932	2,865	2,672	2,715	2,640
Currency buying and selling (FX trading)	15	14	15	14	15
FX trading and transfers by immigrants or for living expenses	24	28	34	33	35
FX trading and transfers of all types	3	4	5	4	5
Currency transactions (€ m)					
Purchases from customers	4,595	4,609	1,843	1,496	1,234
Sales to customers	37	0	215	188	69
Purchases from other currency exchange bureaux or from CIs	106	147	147	138	32
Sales to other currency exchange bureaux or to CIs	4,661	4,752	1,792	1,459	1,202
Transfers dispatched	...	...	2,296	1,656	2,022
Transfers received	...	...	241	180	175
Balance sheet and profit and loss account (€ m)					
Capital y reserves	...	...	55	51	64
Income from main activity	...	...	132	65	72
Other information					
Number of branches	...	...	186	178	177
Number of salaried employees	...	...	1,295	1,145	1,347
Number of agents	...	...	4,025	3,137	4,779
Of which: Individuals	...	...	1,935	1,561	2,644
Number of premises on which agents conduct business	...	...	5,783	4,907	6,658

NOTE: The balance sheet profit and loss account and «other information» data in the last two columns relate to 30 June of the respective year.

II BANKING SUPERVISION IN 2003

II Banking supervision in 2003

According to the analysis in Chapter I of this Report, the Spanish banking system had sound levels of solvency, profitability and efficiency at the end of 2003. Indeed, to mention just the most significant indicators, the aggregate solvency ratio of the system was 11.1% (12.6% in terms of the BCBS rules, which serve as an international benchmark), comfortably exceeding the minimum 8% requirement; the quality of assets was satisfactory, with a non-performing loan ratio at a historical low of 0.81% (individual balance sheets) and a provision coverage of 257%; profitability was at high levels, with an ROE of 13.4%; and the consolidated efficiency ratio had improved slightly, to stand at 58.9%. These sound economic and financial data help to underpin the stability of the Spanish system, which is also favoured by the large number of credit institutions (350) operating therein. These are capable of competing effectively with one another, have increasingly well developed management systems and rules of good governance and a strategic vocation oriented towards commercial banking, which protects them from the risks of the most volatile businesses.

Against this background, however, a significant event occurred in 2003 which had far-reaching media repercussions: the adoption by the BE of one of the precautionary measures provided for in Spanish legislation (intervention) in relation to the Spanish credit institution Eurobank del Mediterráneo, SA, which at the time of the intervention had €209 million of customer deposits. According to the order of the judge hearing the suspension of payments of 16 February 2004, following the report of the administrators, the institution's net assets were positive in the amount of €8,425,800. Notwithstanding, the situation that Eurobank has been through is an occasional and isolated episode, which has not affected or jeopardised the stability of the Spanish banking system.

However, the intervention in the institution by the BE, its subsequent filing for suspension of payments and the rapid action of the Deposit Guarantee Fund, which compensated the depositors in accordance with the law, naturally aroused the interest of those affected, of consumers' associations and of users, parliament and the general public.

The BE, aware of the public concern generated, of the importance of every situation of crisis in a credit institution, however small, to which depositors have entrusted their savings and of the existence of a debate regarding the causes and responsibilities for banking crises, has reported extensively on the situation, with a twofold aim:

- To explain the main aspects of the situation and of developments at Eurobank del Mediterráneo, SA, during the months leading up to intervention, and the reasons that made the adoption of this precautionary measure necessary, provided for in the LDI.
- To explain, generally, the content, scope and limits of the function performed by the BE in its capacity as the supervisory authority for credit institutions, in accordance with its legal mandate.

As a result of the Eurobank crisis, the Governor of the BE asked to appear before the Parliamentary Committee on Economy and Finance to explain recent developments at this credit institution and the actions of the BE in relation thereto, and to reflect on the functions of the latter as the supervisory authority concerned. The text of his speech, delivered on 17 September 2003, is available to the public at the BE's website: www.bde.es.

Likewise available at this website is the *Report on Banking Supervision in Spain, 2001*, which contains a detailed explanation of the legal framework for, the objectives and the scope of the BE's supervisory functions. It should be recalled that the LBE entrusts the BE to "*supervise, in accordance with existing regulations, the solvency, activities and compliance with specific regulations of credit institutions*", with the main objective being to safeguard the stability of the financial system. For this purpose, the BE has various supervisory mechanisms at its disposal, based on an effective and prudent regulatory framework (referring to the rules for taking up and pursuing the business of banking and to the accounting rules) and a continuous risk-focused supervision system that derives reliability from a programme of frequent on-site inspections, which has proved, in accordance with international experience, to be the most efficient system (see Box II.1).

Yet, as in other areas, no public system of vigilance can completely eliminate the possibility that a credit institution may become non-viable as a result of poor management, inefficiency or other reasons. Nor does it modify the general principle that the responsibility for the performance of a business lies with its own directors. Diligent supervision may reduce the probability of a crisis situation occurring and may also mitigate the negative effects if one does arise. Thus, the BE devotes its resources and efforts to achieving these objectives, contributing to the Spanish banking system's sound overall solvency, profitability and efficiency (referred to above) and helping to mitigate the possible risks incurred by depositors in their capacity as creditors of the institutions.

In order to minimise the destabilising effects of the banking crises that may arise and to provide depositors with concrete protection, a legal framework of guarantees has been established in advanced financial systems, such as the Spanish one, whereby it is mandatory for all credit institutions to belong to Deposit Guarantee Funds. These currently guarantee up to €20,000 of deposits for each depositor of a Spanish credit institution.

At the present time, credit institutions are confronting a number of important challenges, with significant changes taking place in their business strategies, competitive environment, management systems and regulatory environment. It is worth mentioning here, the entry into force during the next two years (already stipulated in one case and planned in the other) of the new conceptual accounting framework, based on international accounting standards for the consolidated accounts of listed companies, and of Basel II, for the determination of capital requirements. To ensure that they are sufficiently prepared for this new environment, the BE expects institutions to be completing and refining their impact studies for these changes. And the BE also expects that the regulatory changes will help to modernise the institutions, to perfect their management systems and to improve their informational transparency, with the sound levels of solvency and asset quality already achieved being maintained or increased, through the constant application by their governing bodies of prudent management, asset valuation and equity policies, within the new regulatory framework.

The BE has, in the performance of its supervision functions, continued to collaborate closely with other national and international supervisory authorities, in accordance with legal provisions. In particular, on 12 March 2004 an agreement was signed for "*collaboration between the Banco de España and the Directorate General for Insurance and Pension Funds of the Ministry of Economy within the scope of their respective supervision functions*". Inter alia, this includes the reasons for the agreement, the principles on which collaboration should be based, the limits of the respective responsibilities and functions, the general regime for the exchange of information and the systems for technical co-operation between these two institutions.

The methodology of the risk-based approach to supervision has continued to be implemented and entrenched during 2003.

As mentioned in the 2001 and 2002 reports, the efforts of the BE to develop this methodology were focused, first, on the definition of a conceptual framework that enables the foundations of the system to be laid and, subsequently, on the development of tools that facilitate putting it into practice. The year 2003 was characterised by the entrenchment and extension of the risk-based approach to both the on-site and the off-site supervision of a growing number of credit institutions and, as a result, by the systematisation of the supervisory planning process.

This planning process hinges on two basic documents: the Supervision Plan and the Annual Action Plan.

The first of these, the Supervision Plan, which was introduced for the first time at the end of 2000, is a document that is updated at the end of each year and which contains, for each supervised institution, four sections. These summarise the knowledge of the nature and activity of the institution, its risk profile, which depends on the level of exposure to various banking risks and the efficacy of their management and control, the supervision strategy and the degree of attention required. These four sections are:

- Institutional Profile
- Risk Profile
- Supervision Strategy
- Priority

The Institutional Profile section briefly summarises both the institutional aspects of institutions (shareholders, directors, organisation, type of activity, areas of business, investees, etc.) and other information of a quantitative or qualitative nature that enables the institution to be classified in terms of its size, the geographical scope of its operations, level of net worth, profitability, etc.

The Risk Profile summarises the so-called risk matrix (see the 2002 Supervision Report) with comments, providing a quick overview of the level of risk assumed by each institution as well as the degree of supervisory concern that it represents. It also highlights those areas which require most attention from the supervisory point of view.

The Supervision Strategy is, perhaps, the most qualitative section of the supervision plan, since it details key aspects of the type of supervision that is going to be carried out: what the medium-term supervision objectives are, which areas of activity require special attention, which type of supervisory tools should be used (inspections, monitoring, meetings, internal or external audit work), and the frequency or cycle in accordance with which the selected actions should be carried out, etc.

Finally, the Priority is a simple numerical indication of the degree of supervisory attention required by institutions, which ranges from 1 to 4. It may be summarised as follows:

- Priority 1 Institutions or areas of activity of an institution that merit maximum and constant supervisory attention, so that inspection visits need to be made every year.
- Priority 2 Institutions or areas of activity of an institution which, though not giving rise to concern, are considered to require special monitoring and need frequent inspection visits, albeit not necessarily every year.
- Priority 3 Institutions or areas of activity of an institution that display no particular problem and that may be inspected with the normal frequency (generally, once every three years).
- Priority 4 Institutions or areas of activity of an institution without particular problems which do not need inspection visits or which can be visited with less than normal frequency, because their activity is limited or non-existent, they are subsidiaries of other institutions and inspection visits to the latter provide sufficient information on them, or for any other reason.

The sections of the Supervision Plan, in particular the last three, must be internally logical or consistent, since the content (characteristics, valuations, identification of weaknesses) of some determines the type of actions that need to be taken. On the other hand, the Priority, which gives rise to the preferences when assigning supervisory resources and establishing the general timetable for supervisory activities, should result from the combined assessment of the other three sections.

The Annual Action Plan, also introduced at the end of 2000, had a precedent in the Annual Inspection Plan, a list of institutions that had to be inspected every year, which was traditionally prepared by the Directorate General of Supervision. Today, the Annual Action Plan sets out the annual implementation of the supervision strategy and the priorities established in the Supervision Plan. It sets out the actions to be taken in far more detail, especially in the case of institutions for which such detail is necessary, owing to the extent and diversity of their activities, the existence of specific weaknesses, or any other reason that makes it desirable for the annual scope of supervisory actions to be defined.

In this respect, the end of 2003 and, consequently, the Supervision Plan and Annual Action Plan for 2004 were characterised by the drive made to promote the establishment of even more detailed specific supervision strategies. The aim of the latter is to reduce the risk profiles of the institutions by means of actions to improve inherent risk or controls, or to ensure that knowledge of the situation of the institution is constantly updated.

Another change, which we expect to raise the efficiency with which our supervisory resources are used, has been an increase in supervision strategies based on the establishment of processes to improve shortcomings and weaknesses, with action commitments and compliance timetables. These would form the basis for off-site monitoring and meetings with the institutions' management, with on-site actions being limited to visits to check that the improvements have actually been implemented.

Finally, it should be noted that this chapter of the Report contains a summary of the supervision activities carried out by the Banco de España during 2003.

Section II.1 gives a statistical summary of the recommendation and requirement letters sent by the BE to the supervised institutions in 2003 and an analysis of their content. Section II.2 reports on the disciplinary proceedings conducted during the same year and the sanctions imposed.

Note that in 2003, apart from the intervention in Eurobank del Mediterráneo, SA, already referred to in this introduction, the BE did not need to adopt any other extraordinary measure of those provided for in the legislation (intervention, replacement of directors, approval of restructuring plans).

Section II.3 covers the BE's activity of monitoring certain aspects of credit institutions other than prudential supervision. Section II.4 includes a discussion of credit institutions' mortgage risk policy, exclusively from the viewpoint of the need to ensure prudent and professional risk management. The chapter closes with Section II.5, devoted to a discussion of the supervision of the activities of Spanish banking groups located in off-shore centres.

II.1 Recommendation and requirement letters sent to supervised institutions in 2003

The priority of mortgage, covered and territorial bonds in insolvency proceedings is spelled out

The Banco de España sent 127 requirement and recommendation letters

Under article 23 of the LABE, the Executive Commission of the BE 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 BE"*. Consequently, the sending of recommendation and requirement letters is a legally established procedure, and a privileged means, which enables the BE to approach the supervised institutions directly in order to require or recommend modifications of different aspects of their activities.

In 2003, 127 requirement and recommendation letters were sent to supervised institutions, mostly as a consequence of on-site inspections. On occasions, the requirements and recommendations are addressed to institutions in their capacity as the parent companies of consolidated groups and, therefore, their content may not be strictly limited to the institution in question, but may refer to overall aspects of the management of such groups. The addressees, by type of supervised institution, were as follows:

- 29 banks
- 26 savings banks
- 3 branches of EU credit institutions
- 2 branches of non-EU credit institutions
- 29 credit co-operatives
- 16 specialised credit institutions
- 3 mutual guarantee companies
- 10 currency-exchange bureaux
- 9 appraisal companies

II.1.1 SUMMARY OF THE SUBJECT-MATTER OF THE REQUIREMENTS AND RECOMMENDATIONS

The 127 letters contained 596 varied requirements of the institutions concerned. Of these, as usual, the most significant group (a total of 231) related to the various aspects of the valuation, management and control of credit risk. Specifically, these 231 recommendations can be broken down as follows:

The 127 letters included 596 different requirements and recommendations, of which 231 related to credit risk

- 1 In 56 cases *reclassifications of ordinary investment as doubtful investment* were required.
- 2 On 60 occasions *increases in accounting provisions for bad debts* were required.
- 3 In 55 cases *special vigilance with respect to certain risks* was recommended.
- 4 47 letters urged the institution addressed to *improve its systems for granting, monitoring and, in general, managing credit risk*, and, where applicable, to improve the quality of the documentation of its transactions.
- 5 Finally, on 13 occasions it was considered appropriate to urge institutions to *reflect on the volume of finance extended to property development activities* since, in the current phase of expansion, the risk profile of transactions is significantly higher until sales to end-customers are completed.

43 recommendations related to capital market activity

52 recommendations related to institutions' capital market and treasury activities, either for their own account or for third parties. This category includes:

- 1 On two occasions improvements were required in relation to book-entry public debt.
- 2 Six letters contained recommendations in relation to the activity of institutions in their capacity as custodians of the securities of third parties.
- 3 22 letters urged the remedy of shortcomings or recommended improvements in relation to treasury activity, the aspects covered including liquidity contingency plans and management systems for market or interest risk.
- 4 On 22 occasions recommendations were made regarding specific internal-control weaknesses in the treasury and capital markets area. For example, recommendations included greater involvement by the internal auditors, the development or improvement of procedures manuals and improvements in measurement systems.

73 requirements related to the financial situation for reasons

On 73 occasions requirements were made involving capital adjustments or pointing out the financial situation of the institution concerned. These were in addition to those already mentioned when discussing credit risk. Specifically, 37 letters required the establishment of accounting provisions to cover diverse risks and contingencies, other than bad debts, and in 36 others either adjustments were required with an impact on equity or the institution was urged to strengthen its level of solvency.

121 letters urged proper compliance with various standards. Of these, 31 related to customer relations

On 121 occasions, requirements were made in relation to compliance failures, of varied scope, in relation to the various standards which supervised institutions are required to observe

- 1 31 letters required proper compliance with the law for the protection of consumers and users and, more generally, with the standards of transparency in customer transactions.
- 2 On 34 occasions institutions were urged to remedy shortcomings in the data supplied to the Central Credit Register.
- 3 Nine recommendations related to the compulsory declaration of transactions between institutions and their directors and senior executives or persons connected thereto.

- 4 On 18 occasions compliance was required with the various limits in force, in relation to the proportion of transactions with the institution's own group or with other groups, or in the concentration of risk in property and in the equity portfolio.
- 5 9 letters urged the proper compliance with the requirements for the certification of appraisal companies, and another 10 urged likewise with respect to currency-exchange bureaux.
- 6 Finally, in another 10 cases compliance was required with various standards relating to the completion of statements, the registration of directors and senior executives, the minimum reserve ratio and compliance with the obligation to send the Banco de España information that had been specifically requested from the supervised institution.

23 recommendations and requirements related to various accounting standards

As regards compliance with various accounting standards other than those already mentioned, on 19 occasions corrections were required or recommendations made in relation to the attribution of revenues or expenses to the profit and loss account, and in 4 letters the attention of the supervised institution was drawn to the inadequate determination of the consolidation perimeter.

96 letters referred to general questions regarding activities, quality and control, etc

Finally, 96 recommendations related to general aspects of supervised institutions, their activities and their controls. Specifically:

- 1 On 12 occasions recommendations were made to institutions regarding the level of their overheads and their relative position in the relevant sub-sector in terms of margins or rates of return.
- 2 In 83 cases recommendations were made, of varied scope, regarding internal-control shortcomings. These related to administrative or accounting controls over the quality, sufficiency and security of information systems or over the scope of the internal audit function, this latter aspect being of utmost interest to the Banco de España.
- 3 On one occasion a recommendation was made to a supervised institution regarding the speed of its expansion and the need to adjust the same to its financial and management capacity.

II.1.2 COMPLIANCE BY SUPERVISED INSTITUTIONS WITH THE MEASURES INCLUDED IN THE LETTERS SENT BY THE EXECUTIVE COMMISSION

Normally, the addressee institutions proceed to remedy the shortcomings indicated, or to heed the recommendations. In fact, on numerous occasions, the institutions proceeded of their own accord to remedy weaknesses identified during on-site inspections, without even waiting for the existence of a formal requirement, so that, when the latter is made, the appropriate measures have already been taken.

The letters are addressed to the chairman of the board of directors, or the equivalent body of the supervised institution, and require that they be read out at a session of such body. Also, the institution is requested to acknowledge receipt.

Normally, the supervised institutions, in turn, produce a *written reply* in which:

- They state that the requirement to present the letter to the relevant collegiate body has been complied with, giving details of the session. In general, the secretary issues a certificate of the resolutions passed.
- They describe the measures adopted or in the course of being adopted to comply with the requirements made.

- If the institution has any comment to make it can be included in this written reply.

Subsequently, the *monitoring* of compliance with the recommendations can be carried out through two channels, which are clearly not mutually exclusive:

- By virtue of a request in the requirement letter itself, or voluntarily, the supervised institution can report on the implementation of the measures adopted. In the event that the requirement letter has laid down a timetable for the adoption of such measures, new contacts between the institution concerned and the Banco de España usually take place as the deadlines arrive.
- Subsequent inspection visits are used to check that the requirements and recommendations have been appropriately heeded.

II.2 Exercise of the sanctioning power during 2003

The last resort sanctions assigned to the BE are the final instrument that completes its supervisory function under Spanish law. Their basic purpose is to correct by disciplinary means, not only the conduct and actions of institutions subject to supervision, but also those of their directors and executives, which amount to non-compliance with organisational and disciplinary rules. These should be classified as infringements, according to the rules of application.

Under Article 18 of the Law of discipline and intervention of credit institutions, the Banco de España is responsible for the conduct of sanctioning proceedings 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 is responsible for imposing sanctions for very serious infringements, following a proposal from the BE, 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 BE.

It should also be noted that the scope of the sanctioning power under Spanish sectoral law extends beyond credit institutions and their directors to other types of institution subject to supervision and to their directors (including mutual guarantee companies, appraisal companies and currency-exchange bureaux). It also applies to any individual or company who, without having obtained the necessary authorisation and without being officially registered, engages in activities restricted by law to credit institutions or uses a name whose use is restricted to credit institutions on Spanish territory. The scope of this sanctioning power has been further extended with the amendment of paragraph four of article 178 of Law 13/1996 of 30 December 1996, on fiscal, administrative and social measures, by article 36 of Law 44/2002 of 22 November 2002, on measures to reform the financial system. As a result of this amendment, any individual or company other than a credit institution who, without having obtained the necessary authorisation and without being registered in the relevant Banco de España registers, carries out or offers to carry out with the public, on a professional basis, foreign currency exchange transactions, may be sanctioned and be the subject of requirements by the Banco de España, according to the provisions of Article 29 of Law 26/1988 of 29 July 1988 on the discipline and intervention of credit institutions, with additional provision ten of that Law being applicable. As regards the exercise of this new power in 2003, three proceedings were initiated and resolved against companies who were carrying out such currency exchange activity without the necessary authorisation.

Proceedings initiated during 2003

As regards proceedings opened in 2003, the Banco de España initiated 24 proceedings against supervised institutions. The BE also conducted, jointly with the foregoing, 56 proceedings against directors or executives of these institutions. The distribution by type of supervised

institutions subject to sanctioning proceedings is similar to that in previous years. Three proceedings were initiated against banks, one against the holders of significant holdings in credit institutions, two against specialised credit institutions, three against appraisal companies, eight against currency-exchange bureaux and three against unauthorised currency-exchange bureaux. Finally, four proceedings were conducted for non-compliance with the European Central Bank's minimum reserves requirements.

These figures show that correction by disciplinary means in 2003 was not just limited to those types of institution that have traditionally been subject to supervision, such as credit institutions, but was also significant in the case of other institutions, such as appraisal companies and specialised credit institutions, which have only recently been subject to a specific supervision regime.

With regard to the proceedings conducted and resolved during 2003, the Banco de España resolved or completed (making the appropriate resolution proposal) a total of 20 sanctioning proceedings against supervised institutions and a total of 42 proceedings against their directors or executives, conducted jointly with the former.

Highly notable among the aforesaid was the resolution of the proceeding brought against a credit institution and nineteen directors and executives thereof. This proceeding was complex, not only on account of the importance of the infringements being sanctioned, but also of the number of persons responsible for them and the existence of a number of prior criminal judicial orders in relation to the infringing conduct, which meant that the BE's administrative proceeding was stayed for ten years.

As for the type of infringements found to have been committed in the proceedings conducted and resolved in this period, the competent authorities have imposed sanctions, on one hand, on supervised institutions for the commission of 9 very serious infringements, 35 serious ones and 5 minor ones and, on the other hand, on directors and executives of the same for the commission of 59 very serious infringements and 131 serious ones. In addition, as mentioned above, 3 sanctions were imposed as a consequence of the unauthorised use of restricted names, 3 sanctions were imposed for engaging in currency-exchange activities without authorisation and 4 sanctions arose from non-compliance with minimum reserve requirements.

Proceedings resolved in 2003

The subject matter of the proceedings resolved in 2003, 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 such an infringement was only found to have been committed in the proceeding conducted against one credit institution and nineteen of its directors, and in proceedings against three appraisal companies and their respective boards of directors.

Credit institution's infringements

In the proceeding against the aforementioned credit institution and its directors and senior executives, three *very serious infringements* were found to have been committed: (i) *failure to hold sufficient reserves to comply with the minimum reserve requirements*, these having stood below 80% of the compulsory minimum for a period of at least six months; (ii) *fundamental accounting irregularities* that obscured the financial and net-worth position of the institution, arising from the need for accounting adjustments in relation to a significant number of accounting operations (inter alia, security price fluctuation fund deficit, property depreciation deficit, overvaluation of assigned properties, insufficient coverage of the institution's pension

supplement commitments, recognised adjustments arising from previous inspections, adjustments relating to treasury operations, improper capitalisation of expenses and shortfall in the compulsory provisions for bad debts); (iii) *obstruction of the inspection*, as during the inspection of the institution, the Banco de España inspectors encountered numerous difficulties obtaining the necessary information to be able to assess the economic content of certain transactions affecting the net-worth situation of the institution or its group, there being a failure to respond to repeated requests for information and a late or partial supply of the documentation requested. For these three very serious infringements, sanctions were imposed on the institution, the chairman of the board of directors and on those persons who successively occupied the post of managing director during the period in which this conduct took place. In turn, for the first two very serious infringements, sanctions were imposed on the four members of the executive committee of the board of directors, thirteen directors and a general manager of the institution. In view of their particular responsibility in the various acts of infringement and the extreme gravity of the conduct found to have been committed in this proceeding, the maximum sanctions provided for in Spanish law for such misdemeanours were imposed on the chairman and some members of the board of directors of the institution.

Appraisal companies' infringements

In the case of the proceedings brought against three *appraisal companies* and their directors *very serious infringements* were found to have been committed basically relating to non-compliance with the requirements in the applicable legislation for authorisation to engage in appraisal activities. Specifically, these very serious infringements consisted of *non-compliance with the requirement for authorisation involving the need to have a minimum amount of capital fully subscribed and paid up*, of *non-compliance with the requirement involving the need to have an appropriate organisation, resources and internal control systems* to ensure sufficient knowledge of the property market situation and conditions and the consistent observance of valuation rules and legal obligations and legal incompatibilities, and of *non-compliance with the requirement involving the need to be insured for any third party liability that may arise from appraisal activities* by means of an insurance policy underwritten by an insurance company. Finally, there is another very serious infringement consisting of *non-compliance by the persons signing the appraisal reports and certificates with professional qualification requirements established in regulations*. In a proceeding against one of these appraisal companies and four of its directors sanctions were imposed thereon for the commission of the four very serious infringements described above. On account of the importance and extraordinary significance of the conduct committed in this case, the maximum sanction provided for in Spanish law was imposed on the company concerned, consisting of the loss of its authorisation to engage in appraisal activities. In the proceedings against another of these appraisal companies and three members of its board of directors sanctions were imposed on all of them for the commission of the first three very serious infringements mentioned above. Finally, in the proceeding brought against the last of these entities and four members of its board of directors, sanctions were imposed on all of them for the commission of the second and third of the very serious infringements mentioned above.

Serious infringements

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 up into four major 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 the

proceeding against a *credit institution* and its directors and executives, which concluded with the imposition of sanctions for the commission of two infringements of this type. The first one consisted of the *recognition of insufficient bad-debt provisions*. Sanctions were imposed for this infringement on the institution concerned, on the chairman and the members of its board of directors and on its senior executives. The second infringement consisted of *non-compliance with the rules limiting exposures*, sanctions being imposed on the institution concerned, on the members of its board of directors and on senior executives.

This category of serious infringements that affect institutions' solvency also includes one found to have been committed in proceedings brought against a *currency-exchange and cross-border money-transfer bureau* and its directors and management, consisting of *non-compliance with the rules regulating the minimum capital* of such establishments; it was established that the amount of its own funds was well below the minimum necessary to retain authorisation. For this infringement sanctions were imposed on the company authorised to carry on the activity, the chairman of its board of directors, the managing director and two board members.

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.

We find here, in the first place, a serious infringement, consisting of a *shortfall in contributions to the Deposit Guarantee Fund*, in breach of the provisions of Royal Decree-Law 4/1980 and Royal Decree-Law 18/1982, for the commission of which sanctions were imposed on a *credit institution*.

In the proceedings brought against various *appraisal companies* and their directors and executives the following serious infringements were found to have been committed: the *issuance of appraisal certificates that do not agree or accord with the appraisal report* (sanctions imposed on two companies and the four directors of one of them and three of the other); 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, or which departed, without saying so expressly, from the principles, procedures, checks and instructions provided for in the applicable legislation* (sanctions on one company and its four directors); *non-compliance with other rules applicable to the preparation of valuation reports and certificates* (sanctions on one company and 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: *non-compliance with rules on the documentation and recording of cross-border money transfers or on customer identification* (sanctions imposed on four bureaux and eleven directors); *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, on the three members of the board of directors of one of them, on the four directors of another and on the sole director of the third); *non-compliance with the rules regulating insurance against liability arising from the ordinary activities of the establishment* (sanctions imposed on three bureaux, the three members of the boards of directors of the first two and the sole director of the third one); the *performance of activities coming outside the scope of the exclusive corporate objects of this type of establish-*

ment (sanctions imposed on one bureau and its three directors); *non-compliance with rules regulating the agents and correspondents of establishments and, in particular, on the formalities for agreements with such agents*, non-compliance with some of the requirements set out in the regulations being found (sanctions imposed on three bureaux and ten directors); the *making of domestic transfers, i.e. non-cross-border transfers* (sanctions imposed on one bureau) and three members of its board of directors); and, finally, *non-compliance with the rules on the exclusive use of the accounts through which the transferred funds are channelled* (sanctions imposed on one bureau and its five directors).

Transparency related infringements

The third major group into which serious infringements have been divided consists of failure by supervised institutions to comply with transparency requirements in their relations with customers.

This category includes, first, a *serious infringement* consisting of the *performance of acts or operations prohibited by Circular of the Banco de España 8/1990 of 7 September 1990 on transparency of transactions and the protection of customers of credit institutions*. The institution sanctioned for this serious infringement took the value date of transactions as the relevant date for all accounting and settlement purposes, contravening the provisions of the regulations which establish that overdraft charges should be calculated in accordance with the effective date of the transaction that gives rise to the overdraft. This conduct led to the improper charging of overdraft charges to various customers.

Second, the *serious infringement* consisting of failure to comply with customer transparency and protection obligations was found to have been committed in proceedings conducted in 2003 against *currency-exchange and cross-border money-transfer bureaux* and their directors. This infringement was the result of some very diverse violations of the requirements in this area, basically contained in the Circular of the Banco de España 6/2001 of 29 October 2001 on the owners of currency-exchange bureaux. 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 2003 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 of its supervision duties, requiring an increasingly close and diligent collaboration by the supervised institutions in their compliance with the various information requirements provided for in the sectoral legislation, as a first step prior to the subsequent processing and analysis by the supervisory bodies of the data supplied. It should be noted that three of the five minor infringements referred to below also relate to non-compliance with obligations to report to the Banco de España. These were classified as minor owing to their unimportance and their limited significance for the purposes of the subsequent supervision tasks.

Thus, sanctions were imposed on a *currency-exchange and cross-border money-transfer bureau* and its sole director, for the commission of a serious infringement consisting of a *failure to deliver certain documents to the inspection department of the Banco de España*; and also, sanctions were imposed on two other *currency-exchange and cross-border money-transfer bureaux*, and on their respective directors, for the *serious infringement* consisting of *inaccuracies in the data or documentation that must be submitted to or which is requested by the*

competent administrative body in the performance of its duties. Finally, in the proceeding against an *appraisal company* and four of its directors two *serious infringements* were found to have been committed that come within this category.

Minor infringements

Lastly, in 2003, five sanctions were imposed for infringements classified as minor. According to the disciplinary rules, these can only be committed by the 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.

Minor unauthorised names and operations

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*, sanctions were imposed on three companies in 2003 for this infringement. It was established in the relevant proceedings that two of these companies had unlawfully used the word “bank”, and the third the word “caja” (savings bank).

As mentioned above, a significant occurrence in 2003 was that for the first time, in three separate cases, proceedings were conducted and resolved against *establishments that, without having the necessary authorisation and without being registered in the special registers kept by the Banco de España, had carried out on a professional and regular basis foreign currency exchange transactions*. The sanctions provided for by law were imposed on the establishments concerned.

Two proceedings were opened in 2003 for infringement of the rules on qualifying holdings in Title VI of Law 26/1988 of 29 July 1988 of the discipline and intervention of credit institutions.

Minimum reserve infringements

Finally, 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.

As stated in previous years, it is worth stressing the importance, within the scope of supervision under this sectoral law, of the correction of conduct contrary to organisational and disciplinary rules committed by directors and executives of supervised institutions. In this respect, the need to correct, by disciplinary means, with the severity appropriate to the established circumstances, the conduct of the directors and managers of institutions subject to supervision, especially of deposit institutions, in view of the special diligence and responsibility that should be required of persons who not only carry out the functions of a director or manager of a commercial company or similar entity, but also the functions of a director or manager of an institution that raises funds from third parties, with an obligation to repay them.

II.3 Other supervisory activities of the Banco de España

In addition to the powers and activities of the BE relating mainly to the prudential supervision of CIs, the BE is also entrusted with overseeing other aspects of the activity of such institutions.

A brief review of these functions is set out below, with comments on certain aspects of their performance in 2003.

II.3.1 COMMISSION CHARGES

Brochures of charges may be viewed on the BE's website

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 should be available at all times to customers and, since 2001, it has also been possible to consult it on the BE website. The inclusion of charges in the brochure is, in the case of habitual services, a necessary condition for their applicability to the product or operation concerned.

The BE 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 BE has also been rejecting those charges which either did not relate to the actual provision of a service 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 the commercial practice of the bank, thereby distorting the basis for the publication of the charges.

The adaptation of brochures of charges to provisions on transfers and cross-border electronic payments has been completed

The main activity in this area in 2003 revolved around three main areas:

- Completion during the first half of the year of the lengthy process of adaptation of brochures to rules on cross-border transfers arising from the implementing provisions of *Law 9/1999 of 12 April 1999 on the legal system for transfers between EU Member States* and from other provisions relating to transfers (the implications of this process were detailed in the *Report on Banking Supervision in Spain 2002*).
- 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 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.
- The adaptation of brochures to the limits placed on mortgage prepayment and renewal fees by *Royal Decree-Law 2/2003 of 26 April 2003 on economic reform measures*. Prepayment fees for floating rate mortgages granted since the coming into force of the aforementioned Royal Decree-Law shall be no more than 0.50% of the outstanding capital. The fees charged by lending institutions for mortgage novations made under *Law 2/1994 of 30 March 1994 on the subrogation and modification of mortgage loans*, to extend the mortgage term, shall not exceed 0.1% of outstanding capital.

The limits placed on certain fees relating to floating rate mortgage loans have also been reflected

In addition to these areas, arising from the legislative changes mentioned, the continual adaptation to changes in the institutions' commercial policies have been equally numerous (closely linked to the changes in the prices of certain services) and to changes in interbank rates, particularly in relation to transactions with cards, cash and transfers of funds.

COMMISSION CHARGES

TABLE II.1

Number

	TOTAL				BANKS				SAVINGS BANKS			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
Cases examined	1,068	855	860	1,384	522	396	371	573	227	234	243	424
Decisions (a)	779	659	790	987	373	281	349	372	181	193	233	301
Approvals	420	307	201	287	194	122	98	85	100	79	53	97
With objections	359	352	589	700	179	159	251	287	81	114	180	204
Objections formulated	2,184	1,857	2,294	3,183	1,282	823	937	1,293	306	692	708	1,055
	CREDIT CO-OPERATIVES				SCIs				SECURITIES-DEALER COMPANIES AND CEB			
	1999	2000	2001	2003	2000	2001	2002	2003	2000	2001	2002	2003
Cases examined	247	149	128	257	55	57	67	55	17	19	51	75
Decisions (a)	167	121	103	204	46	48	54	52	12	16	51	58
Approvals	93	71	21	54	27	26	14	20	6	9	15	31
With objections	74	50	82	150	19	22	40	32	6	7	36	27
Objections formulated	527	247	371	614	61	78	88	130	8	17	190	91

a. A single decision may correspond to several cases.

Cases examined increased by 61%

All these changes, together with the completion of the process of introduction by institutions of the electronic procedure for amending brochures of charges introduced in 2001, explain the significant growth of 61% in the number of cases examined (Table II.1). Meanwhile the difficulty involved in making such adaptations, which are sometimes particularly complex, given the specific features of cross-border transactions, explains the further increase in the number of decisions with objections (700 as against 589), although their rate of growth moderated. However, as regards the total number of objections, the rate of increase continued to rise (39% in 2003, as against 24% in 2002). Notwithstanding, there was a significant recovery in the decisions of the BE without any (even partial) objection to the changes proposed by the institutions. Such decisions increased by 43%, although in both absolute and relative terms they are still far below the levels prior to the changes mentioned above.

During the period as a whole the number of cases presented by all the groups of institutions increased significantly, except for specialised credit institutions, which were barely affected by the changes mentioned. Credit co-operatives were the group recording the highest relative growth; the number of their cases doubled, accounting for 19% of the total as against 15% in 2002.

Consultations of brochures of charges via Internet increased by 21%

Another aspect that should be highlighted is the increase in the number of visits to the sections of the BE website containing credit institutions' brochures of charges. As seen in Table II.4, there were 64,245 consultations, 11,052 more than a year earlier.

II.3.2 ADVERTISING

The function assigned to the BE in this area is the authorisation, prior to publication, of CI advertising projects that refer to the cost or return to the public of the services or products offered.

The number of advertising projects submitted for authorisation increased by 11%

Said 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

The pricing freedom that, with certain legal exceptions, is established by the law regulating credit institutions' charges comes with a number of obligations the object of which is to serve various legitimate interests of customers.

This protection of customer interests is essentially based on promoting full knowledge of the conditions on which banking products and transactions are offered, agreed and executed, i.e. on making the markets on which these services are purchased transparent.

The basic sectoral law is largely to be found in the Order of 12 December 1989 and in the Circular of the Banco de España 8/1990, which has been subject to many amendments since its publication.

This legislation requires the preparation of a brochure of charges setting out the maximum charges the institution intends to apply to the services it provides regularly to its customers. This brochure shall be available to the public once it has been checked and registered by the Banco de España.

With these same objectives, the legislation also requires that the brochure and its amendments comply with a number of requirements which are basically as follows:

- That the content be clear, specific and easy to understand.
- That the content be generally informative, so that transactions, services or prices that are not regularly provided should not be included.
- That the charges relate to services actually provided to customers.

And, obviously, where charges are subject to legal limits, these shall not be exceeded.

When the Banco de España checks the credit institutions' proposals prior to their registration, those that do not comply with the above requirements are rejected. Some representative examples of this are set out below, in the same order in which the requirements in question are referred to above. This is not a comprehensive list of the criteria applied by the Banco de España in this task, which must also take into account the continuous evolution of banking business and practices.

- a) The basic principle of clarity is deemed to be broken by the practice of charging, for a single service, various fees that do not relate to different items, since it is considered to make the comprehension and comparison of the cost of the service difficult. An example of this practice would be the charging of higher fees for executing transfer orders with incomplete or insufficient data

and, at the same time, charging an additional fee for locating the data necessary to execute them.

For the same reason, objections have been raised to the practice of charging specific fees for performing each of the elements that make up the provision of a general service. For example, it is not permitted to charge separately for the resolution of incidents resulting from transactions for which a fee has already been received, or to establish a fee for the payment of a banker's cheque at the institution that issued the cheque, since a fee has already been charged for its issue.

- b) When it is clear that institutions do not intend to apply a particular charge included in the brochure to a significant set of customers, owing to its disproportionate amount or for some other reason, then the brochure should be rejected on the grounds that its content is not generally informative. The institution's intention may be to dissuade certain categories of customer from approaching it, or there may be some other reason that is not part of a lawful commercial policy. An example of this would be charging a fee for inactivity in a current account. Such a fee would, moreover, not relate to the provision of any service.
- c) Finally, many cases could be mentioned where charges do not correspond to the provision of an actual service to the customer. For example, charges for the issue of loan receipts, for the risk arising on pre-guarantees or commitments that do not involve any commitment by the institution to issue the guarantee and for sorting large amounts of notes and coins paid in. From the same reason, expenses of handling and preparing documentation which has been sent to customers cannot be charged to the latter.

Also, in this same connection, and linked to the requirement that, besides corresponding to an actual service, a charge can only be made when the customer has requested such service, charges for early cancellation of a loan at the initiative of the lending institution or the issue of a banker's cheque to make a withdrawal, owing to a lack of sufficient cash, have been rejected.

This latter point illustrates the limits of this task of checking brochures which, in itself, does not ensure the correctness of the institution's whole pricing policy; even if this policy appears to be applied to the letter of the brochure it may still depart from good practice.

Indeed, the enormous number of different cases in a business that produces an infinite number of diverse transactions every day, and in which millions of people with their own particular characteristics participate, requires additional elements to protect customers in this area. Notable, in this respect, is the Banco de España Claims Service, whose reports often assess good banking practices in the application of institutions' charging policy.

ADVERTISING PROJECTS

TABLE II.2

Number

	TOTAL				BANKS				SAVINGS BANKS				CREDIT CO-OPERATIVES				SPECIALISED CREDIT INSTITUTIONS			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
Cases processed	2032	2784	3185	3539	1197	1555	1805	1997	367	566	462	520	170	220	180	166	298	443	738	856
BY TYPE OF DECISION:																				
Authorised	1540	2225	2555	2797	866	1220	1395	1515	287	474	400	448	130	188	157	148	257	343	603	686
Rejected	27	26	33	5	21	20	22	3	5	4	4	—	—	—	—	—	1	2	7	2
Modified (a)	248	354	383	478	180	206	258	340	33	63	32	31	7	14	12	10	28	71	81	97
Returned (b)	217	179	214	259	130	109	130	139	42	25	26	41	33	18	11	8	12	27	47	71
BY TYPE OF OPERATION (c):																				
Lending transactions	930	1107	1382	1907	464	468	577	945	132	219	162	228	68	78	54	50	266	343	603	686
Deposit transactions	685	970	932	810	454	639	623	505	156	246	217	217	75	85	92	86	—	—	—	—
Other	169	148	241	80	99	113	195	65	46	9	21	3	20	25	11	12	4	—	—	—
BY TYPE OF MEAN (c):																				
Press	548	870	789	732	328	545	442	295	43	58	53	49	17	23	24	18	160	244	270	370
Radio	26	60	100	143	13	35	54	89	2	—	—	—	—	1	—	—	11	24	46	54
Television	101	94	112	158	79	56	62	97	4	4	—	5	4	3	—	—	14	31	50	56
Other	1109	1201	1554	1764	597	584	837	1034	285	412	347	394	142	161	133	130	85	44	237	206

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. Up to 2000, this includes projects authorised, rejected and returned. From 2001, only projects authorised feature.

annual percentage rate (APR) formula. This measure seeks to harmonise calculations to ensure the comparability of different offers.

Confirming the trend of previous years, the increase in the number of advertising projects submitted for authorisation: 3,539, with an annual growth of 11.11%, as against just over 2,000 three years previously (Table II.2).

As in 2002, the increase in 2003 stemmed mainly from lending product campaigns and, more specifically, offers made by banks (which increased by 64%) and by SCIs, which accounted for 36% of this type of campaign.

The increases have arisen on the lending side

In percentage terms, the products most advertised by CIs were, on the lending side, small loans, electronic means of payment and mortgage loans. As for the deposit side, double deposits, in which part of the deposit takes the form of a fixed-rate deposit, the rest being linked to the performance of certain indices or products, were the product most widely offered. The advertising activity of SCIs continued to be centred on specific-purpose loans and small loans at a high cost.

The number of rejections, as in previous years, was a tiny percentage of all applications (only 0.14%), being offset by a growing number of projects dropped by the institution itself before reaching fruition.

Projects for the press continued to decline in relative weight: from 31% to 26% of the total

As regards the media used, the number of projects for the press continued to decline, particularly sharply in the case of banks, from 31% in 2002 to 26% in 2003, although it still remained the most used media. At the same time, the growth in projects disseminated in other media was sustained, in particular those for radio and the Internet.

REPORTING OF INTEREST RATES ON LENDING TRANSACTIONS

Number filed

	2000	2001	2002	2003
Reports processed	531	505	405	277
Banks	302	282	237	166
Savings banks	118	115	91	60
Credit co-operatives	111	108	77	51

However, with respect to the latter media it should be noted that, in accordance with current law, not all the information that appears in institutions' websites concerning the specific characteristics of their products or services should be classified as advertising (subject, where applicable, to prior authorisation by the BE), since, insofar as such information is not in the main section of the institution's website, access thereto will have necessarily to be at the customer's initiative and, consequently, making such information available thereto cannot be considered an act of advertising.

Finally, in terms of the number of institutions, banks account for 56% of the cases processed, followed by SCIs with 24%, savings banks with 15% and, at an even greater distance, by credit co-operatives with 5%. This structure, which has not undergone any major changes in recent years, is explained, partly by the greater or lesser number of institutions, and partly by the fact that the advertising of savings banks is usually subject, like that of credit co-operatives, to control by regional governments. Only campaigns with a wider than regional scope are submitted to the BE's scrutiny.

II.3.3 REPORTING OF INTEREST RATES ON LENDING OPERATIONS

The BE publishes the interest rates reported by CIs on its website

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: their prime rate, the respective rates on current-account and credit-account overdrafts, both of which are 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 BE, indicating the dates from which they will be applicable. The BE has been publishing these rates on its website so that they may be freely consulted by analysts and customers.

Consultations of reported interest rates fell by 9%

To gauge the public usefulness of these data, Table II.4 draws together the replies made in writing to CIs and to individuals, and to consultations by the courts channelled through the BE'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 approved by the BE. Also, it gives the number of consultations of the database of interest rates reported by CIs on the BE website.

II.3.4 OFFICIAL REGISTERS OF SUPERVISED INSTITUTIONS

So as to give legal force to and publicise the "vetted access" principle (on which licences to operate are conditional) governing the presence of various institutions operating on our financial markets, and in order to publicise the fact that institutions are subject to supervision by the BE, the latter is also responsible for keeping the public records in which, prior to engaging in their activity, the following institutions must be registered:

Number

	2000	2001	2002	2003
Consultations	545	403	355	267
By institutions	383	319	312	208
<i>Banks</i>	238	193	179	100
<i>Savings banks</i>	92	82	84	75
<i>Credit co-operatives</i>	13	9	13	7
<i>Other</i>	40	35	36	26
By individuals	24	24	13	23
By corporations	28	11	11	15
By the courts	110	49	19	21
Internet consultations	14,642	15,830	67,749	77,535
Interest rates (a)	14,462	15,839	14,556	13,290
Commission charges			53,193	64,245

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

The register of institutions is not limited to those of a credit nature, but includes other financial intermediaries and auxiliaries: currency-exchange and/or cross-border money-transfer bureaux, appraisal companies and MGCs and reguarantee companies

- 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 in Spain 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 banks licensed to buy and sell foreign banknotes or make transfers abroad.
- Appraisal companies, to which this activity is confined when it involves movable goods or rights in the mortgage market or goods and rights suitable for setting up the assets of real estate investment or pension funds, and insurance companies.
- Mutual guarantee and reguarantee companies.

The number of registered institutions with establishments has fallen to 553, while those providing services without an establishment have increased to 309

The existence of these registers¹ 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 II.5 lists the number of institutions subject to supervision by the BE 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 and of Article 11 of Royal Decree 1245/1995 of 14 July 1995.

1. They are published in the Supervision section of the BE website.

	2000	2001	2002	2003
Institutions with an establishment	579	576	566	553
Credit institutions	371	369	361	350
Credit institutions	62	60	62	57
Representative office	23	23	22	23
Mutual guarantee companies	1	1	1	1
Currency-exchange bureaux and money transfer agencies (b)	42	49	53	55
Appraisal companies	80	74	67	67
Credit institutions operating without establishment	248	276	292	309
Of which:				
<i>EU credit institutions operating without an establishment</i>	244	272	288	305
<i>Of which: financial subsidiaries of EU credit institutions</i>	2	2	2	2

a. The number of institutions also includes those that are no-operational and in the process of deregistering.

b. Does not include foreign currency purchasing establishments.

The largest decline was in CIs (11 institutions)

The 15 additions to the registers in 2003 included 7 CIs (4 branches of foreign credit institutions and 3 SCIs), 1 MGC, 3 ACs, 2 owners of currency-exchange and/or cross-border money-transfer bureaux and 2 representative offices. These additions were more than offset by 28 deletions in the same period: 18 CIs (4 banks, 1 credit co-operative, 5 branches of foreign CIs and 8 SCIs) 3 ACs and 7 representative offices, largely as a consequence of mergers.

In net terms, during 2003, 17 new foreign CIs, all of them from the EU, notified their intention of providing services in Spain without a permanent establishment.

II.3.5 OTHER INFORMATION FILED WITH THE BANCO DE ESPAÑA: DIRECTORS AND SENIOR EXECUTIVES, SHAREHOLDERS, AGENTS AND ARTICLES OF ASSOCIATION

a. Register of Directors and Senior Executives

The BE keeps the Register of
Directors and Senior
Executives

It also checks the
incompatibilities of directors
and senior executives of
banks and credit co-
operatives. Regional
governments are responsible

The BE 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 members of the board of directors, or the equivalent body, of the company in question and its senior managers.

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 BE; throughout the EU, and as provided for under harmonised Community law, those in 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 BE is responsible for this checking, while in that of savings banks the regional governments have this responsibility. The fact that inscription in the BE Register precedes that

REGISTER OF DIRECTORS AND SENIOR EXECUTIVES

TABLE II.6

Number

	2000	2001	2002	2003
Director and senior executives registered	5,030	4,946	4,866	4,845
Additions or deletions institutions	3,513	2,832	3,283	2,862
<i>First time additions</i>	767	570	702	632
<i>Reinstatements</i>	296	260	109	106
Inquires as to integrity of directors and senior executives	904	757	504	38
Average number of people listed per document	6	5	5	4

for checking those of savings banks

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.

The number of registered directors and senior executives fell by 1%

In 2003, the total number of directors and senior executives of supervised institutions included in the Register fell by 1%, extending the mild downtrend of previous years, mainly as a result of the reduction in the number of institutions. Also, there was a slight decrease in the number of persons included for the first time in this Register, while the number of those who, having been included previously on account of positions held in the past, are considered reinstated remained unchanged.

However, the number of women holding management or senior management posts increased by 10%

Of the total, less than 8% were legal persons, mostly belonging to the boards of directors of MGCs (73%). The number of women holding management or senior management posts increased by 10% in 2003, although they only represented 8% of all the individuals included in the Register. Of the 331 women in the Register, 234 hold positions in credit institutions, of whom 34 are in banks, savings banks having the highest percentage of women on their governing bodies (13%).

Also noted in the Register 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. These, however, decreased significantly during 2003.

b. Information on shareholders

The BE 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 institution 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 BE, 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 BE the ownership share of these institutions, once it exceeds certain thresholds.

The number of individual shareholders reported fell by 11% in banks, while it rose by 25% in credit co-operatives

The number of shareholders included in banks' reports continued to decline in relation to previous years. Of particular importance was the 11% reduction in the number of individual shareholders. By contrast, the number of reported members of credit co-operatives increased by 7%, owing to the considerable increase in individual members (25%). The reported sharehold-

REGISTER OF SHAREHOLDERS

TABLE II.7

Number

	BANKS				CREDIT CO-OPERATIVES				SPECIALISED CREDIT INSTITUTIONS			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
Registered shareholders	756	687	640	618	422	417	336	359	199	181	181	179
Individuals	209	166	141	126	218	200	137	171	45	37	37	38
Legal persons	547	521	499	492	204	217	199	188	154	144	144	141
<i>Credit institutions (a)</i>	<i>123</i>	<i>113</i>	<i>115</i>	<i>115</i>	<i>91</i>	<i>75</i>	<i>67</i>	<i>67</i>	<i>63</i>	<i>67</i>	<i>66</i>	<i>60</i>
<i>Other</i>	<i>424</i>	<i>408</i>	<i>384</i>	<i>377</i>	<i>113</i>	<i>142</i>	<i>132</i>	<i>121</i>	<i>91</i>	<i>77</i>	<i>78</i>	<i>81</i>
MEMORANDUM ITEM:												
Spanish	554	483	440	411	421	416	335	358	179	162	161	155
Foreign	202	204	200	207	1	1	1	1	20	19	20	24

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

ers of SCIs continued to show greater stability, owing to the greater presence of legal persons among their significant shareholders.

c. Reporting of agents

CIs and currency-exchange bureaux licensed to make cross-border money transfers shall report information to the BE on certain agents and agency agreements

CIs operating in Spain and, since the beginning of 2002, the currency-exchange bureaux licensed to make cross-border money transfers, are obliged to report to the BE some 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 the trading or execution of 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 execute transactions or agents' representatives, attorneys or employees.

In turn, Spanish CIs must report to the BE the list of foreign CIs with which they have entered into agency agreements or agreements to provide financial services to customers².

4,863 agents were reported by currency-exchange bureaux licensed to make transfers

As regards the owners of currency-exchange bureaux licensed to make transfers, as at 31 December 2003, 4,863 agents were included in the Register, reported by the 26 owners of the 41 bureaux authorised to perform this activity. 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.

CBE 6/2002 defines what an agent of a credit institution is and specifies the public nature of the information received thereon

As regards 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 new CBE 6/2002 (which entered into force in April 2003 replacing CBE 5/1995) established, in the terms set out above, a more precise definition of what, for the purposes of reporting to the BE, should be understood by "agent" and "agreement". In addition, following the criterion in CBE 6/2001 on owners of currency-exchange bureaux, it spelt out the public nature of the information received. These changes reflect the importance that this new channel for the provision of services has acquired, as well as the desirability of increasing the protection of customers, who should at all times be able to know if the agents serving them are authorised to do so. This supplements the publicity given to the data on agents in institutions' annual reports, and the situation of CIs

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

CHARACTERISTICS OF THE DIRECTORS

As at the end of period

	SAMPLE					TOTAL
	1970	2000	2001	2002	2003	2003
Banks						
Average number of board members	22.3	15.3	15.3	13.3	12.5	8.4
Age of board members	61.0	59.6	60.0	60.4	60.0	54.3
Length of service on the board		10.9	11.3	10.9	10.0	5.5
Period on current post	12.9	7.8	8.0	7.3	7.0	5.2
Average number of directorships		3.5	3.5	3.6	3.5	3.3
<i>Average number of directorships in other CIs</i>		0.4	0.4	0.4	0.4	0.6
<i>Average number of directorships in companies</i>		2.1	2.1	2.1	2.2	1.7
Savings banks						
Average number of board members		18.9	18.9	19.1	19.1	16.9
Age of board members		52.8	52.9	51.8	52.0	51.4
Length of service on the board		4.6	4.8	4.8	5.0	3.9
Period on current post		3.8	4.0	3.9	4.0	3.3
Average number of directorships		2.8	2.7	2.7	2.7	2.1
<i>Average number of directorships in other CIs</i>		0.2	0.2	0.1	0.1	0.1
<i>Average number of directorships in companies</i>		1.6	1.6	1.6	1.6	1.0

The table shows certain characteristics of the boards of directors and their members for a sample of banks and savings banks¹ (between 1970 and 2003) and for the aggregates of these categories in 2003. The number of directors on the boards of banks is not regulated, so that the decline is not related to legal requirements, but to mergers and takeovers among the former "big seven banks". This group of banks had the highest number of directors, so that, following their mergers, it was necessary to reduce them. In the case of savings

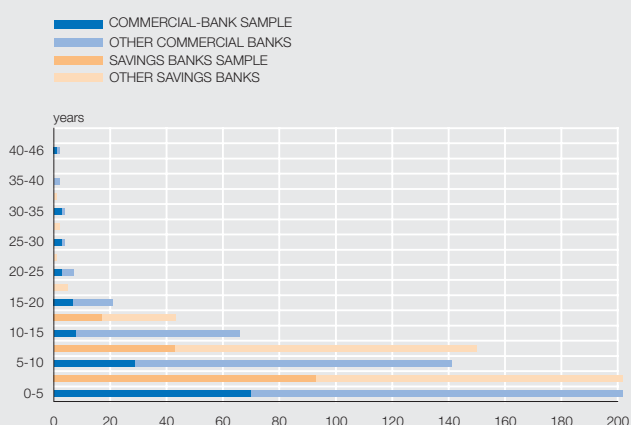
banks, the LORCA² established that the number of board members should be higher than 13 and lower than 17, although this provision is not basic law, so the regional (autonomous) governments with regulatory powers may modify these limits. Taking into account chairmen and vice-chairmen, the number of members of the boards of savings banks is in the range 10 to 30 (17-21 in the sample), while in banks it is between 5 and 21 (8 and 21 in the sample).

At the end of 2003, 10% of the directors of commercial banks were legal persons, while in savings banks all the directors were individuals. There were also differences between the directors of commercial banks and savings banks in terms of sex and nationality. While all the directors of savings banks were Spanish, the directors of commercial banks included 120 foreigners (only 10 of them in the sample selected), of which 95 belonged to the boards of subsidiaries of foreign banks. Savings banks, by contrast, had a larger number of women, 95 out of a total of 120 (in the sample there were 12 women in the savings banks and 4 in the commercial banks).

The law also has a bearing on the differences between commercial banks and savings banks with regard to the age of their directors, length of service on the board and period in current post. In the case of the commercial banks, neither the composition of the board nor the length of time directors may hold office is regulated. However, the boards of savings banks are required to have representatives of regional governments, local governments, depositors, founders and employees, who shall serve terms of four to six years, with the possibility of reappointment up to an absolute maximum term of twelve years (this period having been extended by four years by Law 44/2002). Having served the maximum period, directors may only be reappointed again after eight years have elapsed.

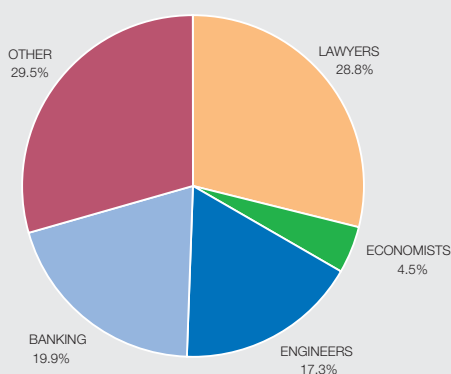
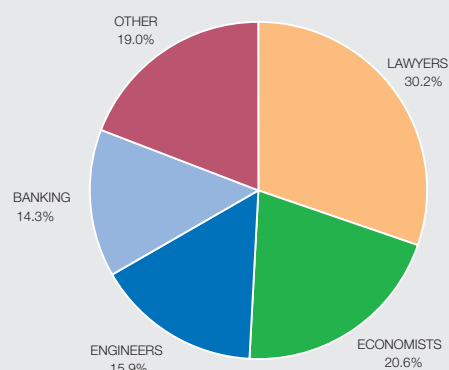
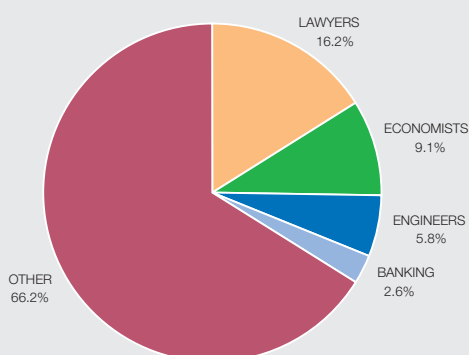
2. Law 31/1985 of 2 August 1985 on the regulation of the basic rules on governing bodies of savings banks.

LENGTH OF SERVICE ON THE BOARD



1. The group of banks is made up of SCH, BBVA, Popular, Banesto, Sabadell, Pastor, Bankinter, March, Guipuzcoano and Zaragozano. In 1970, it consists of the "big seven": Banco de Bilbao, Banco de Vizcaya, Banco Español de Crédito, Banco Central, Banco Hispanoamericano, Banco Santander and Banco Popular. The group of savings banks is composed of eight major savings banks, whose registered offices are situated in different regions: La Caixa, Madrid, Galicia, BBK, Ibercaja, Unicaja, Bancaja and Castilla-La Mancha.

PROFESSIONS OF DIRECTORS OF COMMERCIAL BANKS AND SAVINGS BANKS

PROFESSIONS OF THE DIRECTORS OF COMMERCIAL BANKS IN 1970
(SAMPLE)PROFESSIONS OF THE DIRECTORS OF COMMERCIAL BANKS IN 2003
(SAMPLE)PROFESSIONS OF THE DIRECTORS OF SAVINGS BANKS IN 2003
(SAMPLE)

The different law is reflected in the difference in average ages between commercial banks and savings banks, and also in the distribution of the length of service of the directors. The average age of the directors of commercial banks (60 years in the sample and 54 in the aggregate) is greater than that of the directors of savings banks (52 and 51, respectively). The chart on the previous page shows that most of the directors have been on the board for less than five years; 68% of the directors of commercial banks (60% for the sample) come within this bracket and 79% of those of savings banks. Service of more than 15 years is of marginal significance in the case of savings banks and somewhat more important in that of commercial bank. The greater length of service of the directors of commercial banks corresponds to an average period of five years in the post of director, vice-chairman or chairman, which is much higher than the three years in savings banks.

Some directors are, concurrently, members of other boards of directors, either at other credit institutions, or else other types of companies. Both the directors of commercial banks and those of savings banks are subject to restrictions as regards the total number of directorships they may hold in credit institutions and in public limited companies (*sociedades anónimas*)³; the general rule is that the number of directorships

should not exceed four, although there are cases provided for in which this number may be higher, but never more than eight. In 2003, the directors of commercial banks held a total of 377 posts on the boards of other credit institutions and 1,149 on those of other public limited companies, while these figures were 48 and 268, respectively, for savings banks. The directors of the sample institutions accounted for most of the posts on the boards of other public limited companies, in line with the importance of the financial groups of which they are directors.

Finally, the different regulations for the boards of commercial banks and savings banks are also reflected in the distribution of directors according to their professions or qualifications. The final chart (referring to the sample), in which each director appears as many times as the number of professions declared, shows that more than 30% of the directors of commercial banks in 2003 have a degree in law, and one fifth, in economics. Other professions of note are engineering (20 directors) and banking (18). In relation to 1970, the most striking development is the growth in the proportion of economists (from 4.5% to 20%). The professional profile of the directors of savings banks, given the procedure for election of their directors, is quite different. The four professions that include 81% of the directors of commercial banks only account for 34% of those of savings banks, while the other 66% include other highly diverse university qualifications, without any profession standing out from the others.

3. Law 31/1968 of 27 July 1968, on incompatibilities and restrictions for the chairmen, directors and senior executives of private banks, and LORCA.

	2000	2001	2002	2003
TOTAL	551	465	544	105
Banks	160	160	169	1
Savings banks	37	34	35	42
Credit co-operatives	–	–	–	–
Specialised credit institutions	354	269	337	62
Branches of EU credit institutions	–	2	2	–
Branches of non-EU credit institutions	–	–	1	–

is brought more into line with that of securities-dealer companies and securities agencies, whose agents must be entered in the Mercantile Register.

This definition has reduced the number of agents to around 5,700 and of agreements with foreign CIs to 105

The more precise definitions of “agent” and “agreement” have led to a considerable reduction in the numbers registered. At the end of 2003, there were only 66 reporting CIs, who had at least 5,700 agency contracts (see Table I.A1 of the annex) for the negotiation and execution of transactions with customers (the numbers being 85 and 9,500, respectively, prior to the change in the law). However, the agency contracts continue to be concentrated among three banks (with around 1,000 agents each) and among a second group of five institutions (three banks and two savings banks, with an average of 170 agents each).

As for agency agreements with foreign institutions, these have also declined significantly as a result of the aforementioned legal clarification, from 544 to 105.

d. Special Registers of Articles of Association

BE 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 made to their public deed of incorporation.

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

CIs' articles of association have been adapted to the changes in the State and regional law and to the recommendations on good governance

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 auditors' committee, as well as to amendments in the regulation of their boards of directors, largely arising 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.

II.3.6 ELIGIBILITY OF HYBRID CAPITAL INSTRUMENTS AS OWN FUNDS IN THE SOLVENCY RATIO

Included among the capital instruments that are eligible 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

Number

	2000	2001	2002	2003
Amendments registered	328	290	275	232
Cases processed	42	39	57	62
BY TYPE OF INSTITUTION:				
Banks	21	13	14	27
Savings banks	–	–	–	4
Credit co-operatives	17	12	38	24
SCIs	4	6	5	5
MGCs	4	8	–	2
PROCESSING CHANNEL:				
Reported to Directorate General of the Treasury and Financial policy	40	36	44	49
Reported to regional government	2	3	13	13

cases the returns on them depend on the existence of sufficient profits. These instruments are known as hybrid capital instruments.

Law 19/2003 of 4 July 2003 may affect where preference shares are issued

The instruments in question are 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 any case, the BE 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 consolidated group³.

Most of these instruments are traded on organised markets between institutional investors, yet issues are increasingly distributed to customers through institutions' branch networks (in 2003, around 42% of their total amount). In this latter case, the BE places special emphasis on the need for customers to be clearly informed about the nature of such securities, which constitute venture capital in the strict sense. And, when the interest rates applied do not realistically reflect this nature, the BE warns issuers of the reputational risk they may be incurring.

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 2003, only two issues of this nature were placed outside Spain.

As part of the efforts to attract preference share issues to Spain, Law 19/2003, referred to above, clarified their fiscal arrangements and permitted CIs themselves or their Spanish sub-

3. See Article 8 of CBE 5/1993 of 23 March 1993 on the determination and monitoring of minimum own funds.

ISSUANCE OF ELIGIBLE INSTRUMENTS BY SPANISH CREDIT INSTITUTIONS

TABLE II.10

€ millions

	2000		2001		2002		2003	
	No.	AMOUNT	No.	AMOUNT	No.	AMOUNT	No.	AMOUNT
TOTAL	71	9,497.5	72	8,947.9	56	5,945.0	56	6,372.0
Subordinated debt	65	5,771.8	60	7,178.8	50	4,487.0	49	4,810.0
Traditional	48	5,721.0	58	6,853.6	50	4,487.0	47	4,532.0
Banks	18	4,403.2	22	4,287.3	12	1,720.0	15	2,668.0
Savings banks	17	1,175.5	17	2,382.6	29	2,737.0	26	1,814.0
Credit co-operatives	5	87.0	2	72.0	—	—	1	20.0
SCIs	8	55.2	17	111.7	9	30.0	5	30.0
<i>Of which:</i>								
<i>In pesetas/ecus/euros</i>	44	3,535.0	58	6,853.6	50	4,487.0	49	4,810.0
<i>In US dollar</i>	2	1,758.7	—	—	—	—	—	—
<i>Of foreign subsidiaries</i>	11	4,151.0	12	2,626.0	9	2,375.0	1	200.0
<i>Loans</i>	14	202.4	24	161.0	12	180.0	9	303.0
Undated	17	50.8	2	325.3	—	—	2	278.0
Banks	—	—	1	322.6	—	—	2	278.0
Credit co-operatives	15	1.7	—	0.0	—	—	—	—
SCIs	2	49.1	1	2.7	—	—	—	—
<i>Of which: in pesetas/ecus/euros</i>	17	50.8	1	2.7	—	—	2	278.0
Preference shares	6	3,725.7	12	1,769.1	6	1,458.0	7	1,562.0
Banks	3	1,325.7	3	729.1	3	1,138.0	3	1,100.0
Savings banks	3	2,400.0	9	1,040.0	3	320.0	4	462.0
<i>Of which:</i>								
<i>In US dollar</i>	1	324.7	1	269.1	—	—	—	—
<i>In pesetas/ecus/euros</i>	4	2,580.0	11	1,500.0	5	1,298.0	7	1,562.0

subsidiaries to issue them, in the latter case without the limits that apply to bond issuance. In addition, it provided that at the time of issuance the amount of outstanding preference shares, including those of the new issue, shall not exceed 30% of the tier 1 capital of the consolidated group or sub-group to which the issuer belongs, a provision that is in line with what the BE has been recommending.

The amount of funds raised through the issuance of subordinated debt and preference shares rose by 7%

In 2003, the amount of funds raised by the institutions through these instruments increased by 7%, both in the case of subordinated debt and that of preference shares. The same number of issues were classified as eligible as last year (56). Savings banks accounted for most issues; they continued to make numerous issues of subordinated debt, which were generally small in amount.

Like last year, all issues, including loans, were denominated in euro. All of them, except for one loan, were at a variable rate of interest 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 6 to 20 years.

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

II.4 Credit institutions' mortgage risk policy

The granting of mortgage loans for house purchase or for residential property development is one of the most extensive areas of business

Factors that have contributed to the expansion of the residential mortgage market

Principles on which the mortgage lending policies of credit institutions should be based

II.4.1 THE SENIOR ADMINISTRATIVE BODY SHOULD ADOPT A POLICY FOR THE ASSUMPTION AND MANAGEMENT OF MORTGAGE RISKS THAT IS EXPLICIT, ACTIVE, EFFECTIVE AND SEGMENTED

Direct involvement by the board

A clear, explicit, active and effective mortgage risk policy

II.4.2 A MORTGAGE RISK POLICY CONSISTENT WITH THE GENERAL STRATEGIES OF THE INSTITUTION

Within the model of commercial banking, which is followed by most Spanish credit institutions, the granting of mortgage loans for house purchase or for residential property development is one of the most extensive areas of business. Historically, this is an activity on which savings banks, in particular, have concentrated. However in recent years other institutions in the banking sector have increased their presence in this market, thereby increasing the level of competition and widening the range of products offered and the marketing strategies of the institutions offering them.

Over the last decade, a number of factors have contributed to the expansion of the residential mortgage market: demographic and sociological factors (population movements, changes in the family structure and in the types of housing required, rising demand for second homes by both residents and non-residents); market factors (rising land prices and construction costs, declining interest rates); quality factors (housing stock renovation and improvements); factors associated with saving (housing as an investment alternative).

The BE has in recent years offered its reflections in this area through the dissemination of various studies and analyses. Now it also wishes to offer some ideas on the risks incurred by credit institutions when granting mortgages (also applicable in many cases to other operations linked to the property sector), from the perspective of its supervisory responsibilities. For this purpose, a set of principles for institutions' policies in this area of business is outlined below.

Good governance requires that the board and its specialised committees be directly involved in defining the risk assumption policies for the main areas of business. As is well known in the sector, the BE has for many years been arguing for this principle to be applied. Putting it into practice requires resolution and a high degree of professionalism and dedication on the part of directors. The BE views favourably all the efforts that banks have been and are currently making, because it considers that they are a consequence of the responsibility assumed by administrative bodies in relation to the progress and continuity of the banks concerned.

The policy has to be notified to all interested parties and must be monitored by the administrative bodies themselves. Hence the need for it to be clear and explicit, in writing and well documented with the relevant reports and opinions. It should also be sufficiently specific, to avoid the ambiguity of general ideas, having a real link with the business.

An active policy involves the directors adopting a specific position on the levels and characteristics of desired exposures, without accepting that such levels merely reflect the external factor of the demand situation.

The definition of an effective policy ensures that it can be specified in detailed plans of action to guide decision making. Regular monitoring of its results and regular updating of its content will maintain its validity over time.

Finally, adequate segmentation will allow the different requirements of each type of transaction (credit to developers, financing of first homes, financing of second homes, subrogations, land financing, joint projects with developers, etc.) to be appropriately recognised.

A solid bank is a complex structure of diverse elements (strategies, policies, organisation, resources, management and control systems, products, customers, etc.) that do not exist in isolation, but as a harmonious whole in which well meshed parts ensure efficiency and viability.

A solid bank is a complex and harmonious structure

The mortgage risk policy should be consistent with:

- the banking model

Hence the importance of the mortgage risk policy being consistent with the institution's banking model, with its general growth and expansion objectives, with the own-funds policy applied and the level of own funds, with the risk-adjusted return assumptions and with the medium and long-term financial strategy.

The banking model of each institution will shape its size, organisation, resources and the type of training of its managers. As is natural, the policies of the institution will have to fit in with such model, and every significant change will be preceded by a co-ordinated adaptation of the set of factors which make it up.

- the growth and expansion objectives and the own-funds policy

Other factors relating to the risk-assumption policy are the institution's growth and expansion objectives and own-funds policy. The growth of a company is affected by exogeneous variables (such as competition and demand for the products supplied), but it is not a variable that is independent of the decisions of management. On the contrary, it is a key element in the strategy of the institution, so that the factors mentioned will be taken into account in the design of the risk-assumption policies.

- risk-adjusted return targets

The mortgage risk policy is also framed by the risk-adjusted return objectives of the institution. As a result, one of its elements is the realistic setting of prices, so that they incorporate the risk premium on transactions and are compatible with the objectives referred to.

- the financial strategy

And, finally, it is essential for it to be consistent with the institution's financial strategy and its medium and long-term financing model. Mortgage transactions are characterised by their long average maturity, which has, moreover, increased in recent years for commercial reasons. They are therefore financial instruments that have a considerable impact on the institution's interest rate and liquidity risks. Interest rate risk will be present in fixed-rate transactions, but also, to a lesser extent, in floating-rate transactions, for the following reasons: first, the interest periods of lending transactions do not usually coincide with those of the financing, which tend to be shorter; and, second, because if the transactions must be refinanced in future (as is frequently the case), the maintenance of margins between the lending and borrowing rates prevailing at the time the transaction was originally agreed is not guaranteed, since the spreads over the reference rates at which the institutions are refinanced may have widened.

Sustained very high rates of mortgage lending growth may make it necessary for the institution to resort increasingly to the issuance of securities on the markets, thereby exposing it to the risks arising therefrom

Sustained very high rates of growth of mortgage lending may alter the conditions for the institution's structural financial equilibrium, making it necessary for the institution to resort increasingly to issuing securities on the market and exposing the institution to the risks arising from changing conditions (liquidity and prices) on securities markets over a lengthy time horizon. Accordingly, the administrative bodies of each institution should consider what mechanisms are needed to monitor changes in these risks, to control them and to limit them. These may include placing operating limits on the total level of market indebtedness and limits on the amount of debt maturing each year.

II.4.3 WHEN DEFINING MORTGAGE-RISK POLICIES THE PRINCIPLE OF DIVERSIFICATION WILL HELP REDUCE OR MODULATE THE TOTAL AMOUNT OF RISK ASSUMED

Diversification is understood, first, from a general or sectoral viewpoint. The administrative bodies are responsible for analysing the risk incurred from the sectoral viewpoint and for monitoring those areas of economic activity in which the exposures are greatest. They are also responsible for assessing the business risk involved in excessive specialisation in a limited number of sectors.

Sectoral diversification

Second, diversification is conceived of from an individual viewpoint. Besides complying with the legal limits, it is desirable for institutions to carry out their own process of internal reflection in order to put limits on the positions, in respect of all items (loans, credits, guarantees for

Diversification in terms of customers, economic groups or groups of customers with financial and trade relations

Diversification of the risk assumed with the property sector

Other aspects: volume of land financing and assumption of business risks

II.4.4 THE EXISTENCE OF MORTGAGE SECURITY IS NO SUBSTITUTE FOR ANALYSIS OF THE COUNTERPARTY OR FOR INFORMATION THAT MAY BE LACKING

A solid lending policy is based on the borrower's capacity to repay, and not on the collateral

Permissiveness in relation to the loan-to-value ratio may significantly increase expected losses

II.4.5 THE PRICE OF MORTGAGES IS A VARIABLE RELATED TO THE LEVEL OF RISK ASSUMED IN EACH TRANSACTION

purchasers' on account, shareholdings, etc.), that they are prepared to assume with each customer, economic group or group of customers with financial and trade relations.

And third, the policy defined will be more effective if it also takes into account the specific internal composition and distribution of the credit risk assumed with the property sector, considering aspects such as the nature of the property that forms the basis of the transaction (land, first home, second home, commercial premises, offices, etc.), the geographical situation, the type of product offered, etc.

A particular aspect is the volume of land financing, especially when there are town planning issues outstanding. It also needs to be decided whether the assumption of risks should be limited to the financing of projects of third parties or whether, through various means (incorporation of specialised subsidiaries, formation of multi-group companies with property developers, minority holdings in property companies), the institution wishes to participate in the actual execution of projects, assuming a portion of the business risks, including reputational risks.

As the BE has traditionally argued, a solid lending policy relates approval of the loan to the borrower's capacity to repay. The additional requirement for collateral aims to provide a sufficient level of defence against the eventuality that the customer has difficulty meeting its repayment obligations with the resources generated by its activity and its liquid assets. However, the collateral should not be the basis for the decision to approve or refuse the loan; the existence of mortgage security is no substitute for analysing the borrower or for information that may be lacking.

With regard to the financing of developments, it is important to assess the solvency of the developer and, since these transactions consist essentially of business projects, appropriate analytical techniques for project assessment need to be applied. Special consideration also needs to be given to the record and experience of the entrepreneur.

In the case of mortgage loans for house purchase, analysis of the transaction involves assessing the amount and the degree of certainty of current and expected household income (having particular regard to the employment situation), within the framework of an appropriate policy on the *income-to-payment* ratio. This is not merely a question of prudence, it also enables customers to be advised of the maximum financial burden it is reasonable for them to assume when making their purchase decision and on the product that best suits their profile.

Another important factor is the ratio of the amount of the loan to the appraisal value. Sometimes criteria in this respect are set in accordance with marketing policies, so it needs to be borne in mind that permissive policies in this area may significantly increase the expected losses in a mortgage loan portfolio.

In short, the application of appropriate criteria when transactions are studied and approved is a key factor in moderating the residual risk assumed by the institutions in this area of business.

Bank supervisors have for many years been promoting the development by institutions of advanced credit risk management systems, not only through specific imperative requirements for adequate control measures in all areas of business, but also by establishing incentives in accounting and solvency rules. Among them, those contained in the statistical provision regulation and in the New Basel Capital Accord (Basel II) are worth mentioning.

Indeed, one of the challenges for the current banking system is to appreciate that the benefits of the development of advanced credit risk management models will not be fully harnessed until such models are co-ordinated or, rather, integrated into the institutions' own commercial practices. In short, the setting of the price of transactions is a factor directly related to effective risk premiums.

II.4.6 APPROPRIATE SYSTEMS FOR MONITORING THE MORTGAGE PORTFOLIO, BOTH FROM AN INDIVIDUAL (CUSTOMER) AND OVERALL (SECTOR) PERSPECTIVE

Monitoring of the debtor, business projects and collateral

Putting into practice good systems for monitoring transactions, with the management and administrative bodies involved in their definition and oversight, helps to modulate the residual risk assumed in each area of business.

The monitoring of transactions naturally involves analysing events of default, but also, depending on the nature and importance of the various transactions, analysing the solvency and financial situation of debtors, monitoring business projects and monitoring the state and market value of the collateral.

And, from a global perspective, it involves the analysis of developments in the property sector. The preparation or commissioning from third parties of specialised reports, and analysis of the impact on the institution of different hypothetical situations may be very useful in this respect.

It is also worth mentioning that it is not appropriate to abandon the monitoring of mortgage risks transferred under securitisation transactions if residual risks (subordinated bonds, other financing of this nature, ordinary bonds, creditenhancements, lines of credit or liquidity, etc.) are retained.

II.4.7 FULL TRANSPARENCY IN CUSTOMER RELATIONS AND STRICT OBSERVANCE OF RULES TO PROTECT USERS

The financing of the purchase of a first home is an area of particular social sensitivity

The financing of the purchase of a first home is an area of particular sensitivity from the social viewpoint, owing to the economic burden involved for households, to the time period over which the obligations incurred extend and to the fact that it often involves a customer relationship between the institution and the purchaser that extends to other products. Accordingly, it is important to follow a policy of particular transparency and to observe strictly the rules for the protection of users.

Moreover, the ombudsman of each credit institution must perform an active role not only in equitably resolving the cases brought before him, but also in identifying practices capable of being improved or areas in which greater training is needed within the company. This is also a matter of priority concern for the Legal Compliance Officer and the administrative bodies themselves, since the institution's reputational risk may be affected.

II.4.8 CONCLUSION

In conclusion, it is in the interest of credit institutions not to relax their criteria for granting mortgages (as regards the repayment capacity required, the level of collateral required, or the price) at times, like the present, of growing competition and increasing business volumes. Also, it is very encouraging that their senior administrative bodies are involving themselves in the adoption of risk assumption and management policies that are clear, active, effective and segmented; consistent with the general strategies of the institution; that take into account the current and expected situation of the capital available, monitoring the effects that the growth rates of activity may have in the medium and long term on the conditions for the institution's structural financial equilibrium and on the levels of interest, liquidity and business risk; that promote an appropriate diversification of risk by sector, customer and product; that ensure that collateral never replaces analysis of the borrower's repayment capacity and that the price is directly related to the effective risk incurred in each transaction; and that foster complete customer transparency.

II.5 Credit institutions' policy on international expansion through off-shore establishments

In 2001, the BE published a framework of good practice for international expansion

This framework is now completed with reflections on the possible reputational risks institutions may incur

Spanish institutions have preferred to pursue a commercial banking model

The strategy of Spanish institutions does not extend to the performance of activities in off-shore centres

II.5.1 MAXIMUM INVOLVEMENT OF THE PARENT BANK'S ADMINISTRATION BODIES

In the recent past, the international expansion of Spanish banking groups has become very important in quantitative terms. In this process, the principles and criteria included in the framework of good practice published by the Banco de España in the Report on Banking Supervision in Spain, 2001 have been implemented.

This framework addressed the need to establish a group culture, to apply prudent criteria in relation to consolidation and the amortisation of goodwill, to distribute own funds so that they are in proportion to the risk in each location, and for each subsidiary to have the capacity and autonomy to manage its own risks and to obtain on the market the necessary financing to carry on its activity.

Now is an opportune moment to complete this framework with some reflections on the possible reputational risks that institutions may incur when strategically defining the content, location and form of their activities. Reputational risk is not a watertight concept that depends only on the nature of the operations; rather it evolves over time in step with market perceptions and with the demands and expectations of citizens.

The banking model that Spanish credit institutions have preferred to adopt, both in Spain and, in the case of groups that have undertaken a process of international expansion, in other countries, is that of commercial banking. The experience of Spanish institutions in this area, their capacity to compete and the application of professional and prudent criteria for managing this business model, is the basis of the good health of the Spanish banking system, which is characterised by its favourable levels of solvency, profitability and efficiency, as confirmed by the analysis in Chapter I of this Report.

In accordance with this model, the strategy of Spanish credit institutions does not generally extend to the performance of activities in off-shore centres, but in some cases they have branches or subsidiaries in these territories, with various objectives: to perform private banking activities (mostly with non-residents in the country), to carry out securities issuance or in the odd case to carry out commercial banking activities. In many cases these are situations inherited by Spanish institutions when purchasing banking subsidiaries abroad which themselves have subsidiaries or branches in off-shore territories. However, in relative terms, only securities issuance in these territories represents a significant percentage of the total activity of the sector.

The term "off-shore financial centre" is not easy to define precisely, but it basically refers to territories that attract a significant volume of activity from non-residents by reason of the fact that some of the following circumstances obtain: banking licences can be readily obtained, supervision is less developed, it is possible to operate either without any or with a minimal physical presence, there are special bank secrecy rules, tax advantages exist, special purpose vehicles can be easily established and the legal treatment of residents and non-residents is different.

In order to minimise the legal and reputational risks that may be incurred by off-shore establishments, to guarantee effective and prudent management thereof by the group, to ensure effective supervision and to anticipate possible damage to Spanish credit institutions that may arise even if their management is orthodox, the Banco de España considers that groups of Spanish credit institutions with off-shore establishments should comply with the following principles:

The board of directors of the parent institution shall constantly assess the need to operate in the various geographical areas in which the group carries on activity (including off-shore centres), identify and measure the legal and reputational risks incurred (which are not eliminated

merely by the existence of orthodox banking management and good customer knowledge procedures), and continuously assess whether the return to the group from its activities justifies the level of risk assumed.

The board of directors of the parent institution should identify and measure the legal and reputational risks of the activities performed in different geographical areas

The board of directors shall also expressly assume the responsibility of maintaining each establishment abroad. For this purpose it shall define specific policies for investment in these centres, the type of activities that are to be carried out, the limits applicable, the measures that must be adopted to mitigate reputational and legal risks, the checks to be made on the various risks incurred and the information that must be available. Its involvement should extend to special monitoring of the activities performed, for which purpose it should obtain regular and detailed information on such activities, and their associated problems and risks.

Responsibilities or the audit committee of the parent institution

The audit committee of the parent institution shall be required to supervise the internal control of off-shore activities and to prepare an annual report for the board thereon.

II.5.2 CLEAR IDENTIFICATION OF THE ACTIVITIES OF EACH OFF-SHORE ESTABLISHMENT

The objects of the establishment and the activities that can be carried out in an off-shore centre must be clearly identified and defined.

Where the activity of the off-shore establishment consists of serving as a special vehicle for a specific purpose (securities issuance, etc.), use of the same vehicle for different activities should be avoided and the funds raised should not be accumulated at the off-shore establishment itself, but should be located at the on-shore entities of the group that issue the guarantee to enable them to be raised.

The board of directors shall define criteria for the investment of customer funds in assets issued by the group

If the activity pursued is private banking, the board of directors shall include in the definition of its corresponding policies specific criteria on direct or indirect investment of customer funds in assets eligible as own funds or other assets issued by the group. Also, off-shore establishments that may constitute fiduciary deposits in Spanish institutions shall supply to the parent institution precise and documented identification of the end customer, which must be kept available for the Spanish authorities.

II.5.3 EFFECTIVE CONTROL BY THE PARENT OF THE BANKING GROUP OVER OFF-SHORE ACTIVITIES

For the purposes of effective control by the group and to enable management decisions to be taken, the central offices of the parent institution should have regular and detailed information on the activities of the establishment and its risks. And this information should be available to the BE for supervisory purposes.

The parent institution's internal control systems should extend to off-shore centres

The parent institution's internal control systems should extend to the activity of off-shore establishments. In particular, the internal audit department should draw up definite plans for inspection visits and issue reports at least once a year. Their work programmes shall include, inter alia, checking that the operations carried out come within the establishment's objects, reviewing the application of the policy for the prevention of money laundering, the requirements relating to customer knowledge, Spanish law applicable to transfers of funds between Spain and other countries, and the accuracy of the information sent to the parent institution. The reports shall analyse and assess the reputational and legal risks of the activity, including that with customers resident in Spain. All the information relating to the procedures and controls established shall be available to the Banco de España.

The group shall have a legal compliance officer, whose responsibilities shall extend to the activities carried out in all countries, and who shall prepare, at least once a year, a report to the board, setting out conclusions on the degree of compliance with legal provisions and the internal rules of each external establishment, and on the level of the legal and reputational risks incurred.

Strict application of the policies for the prevention of money laundering and customer knowledge at off-shore establishments

Same external auditors

II.5.4 TRANSPARENCY IN THE ANNUAL ACCOUNTS

In order to avoid the Spanish banking system being used to channel illegal transactions, it is essential that the group's overall policy for the prevention of money laundering and for compliance with customer-knowledge requirements be applied in off-shore centres as strictly as in Spain.

Finally, it must be ensured, insofar as this is possible, that the firm of external auditors of the off-shore establishment is the same as that of the Spanish parent institution and the consolidated accounts of the banking group.

Groups shall give detailed information in their annual reports on the activities carried out by each off-shore establishment, including their nature, their volume, their risks and the mechanisms established to control them.

Institutions that substantiate the need for subsidiaries or branches in off-shore centres shall have a clearly defined strategy with respect to the establishment and its activities, and ensure that the principles set out above are complied with at all times.

III REGULATORY CHANGES IN PRUDENTIAL SUPERVISION

III Regulatory changes in prudential supervision

III.1 National provisions

This section sets forth what are considered to be 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 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.

III.1.1 MORTGAGE MARKET

Law 22/2003 of 9 July on insolvency¹

As far as the mortgage market is concerned, the most significant part of this Law is its nineteenth final provision, which amends Law 2/1981 of 25 March 1981 on mortgage market regulation and Law 44/2002 of 22 November on financial system reform.

The priority of mortgage, covered and territorial bonds in insolvency proceedings is spelled out

This provision stipulates that, in the event of insolvency, the holders of covered bonds (*cédulas hipotecarias*) and mortgage bonds (*bonos hipotecarios*) shall be afforded the special priority attaching to credits secured by a voluntary or legal mortgage over real or personal property, or by a charge over assets that are not transferred to the lender. Also, without prejudice to the foregoing, the provision further specifies that in insolvency proceedings they shall be treated as claims against the debtor's assets and, accordingly, shall be paid upon their respective maturities. This will be done by deducting from the debtor's assets those required to pay the capital and interest of the covered and mortgage bonds issued and pending redemption at the date of application for insolvency proceedings, up to the amount of the proceeds collected by the insolvent entity on the mortgage loans underlying those covered and mortgage bonds².

The same applies to the territorial bonds (*cédulas territoriales*) introduced by Law 44/2002 of 22 November 2002 on financial system reform.

Royal Decree Law 2/2003 of 25 April 2003 on economic reform³

This extensive Royal Decree Law contains measures to support small and medium-sized enterprises, measures to promote house rental and the activity of self-employed workers, incentives to encourage investment, judicious energy usage and access to information society services, and measures to foster competition in the mortgage market. The latter measures include some that specifically affect CIs.

More convenient subrogation in variable-rate mortgage loans and measures to hedge interest-rate exposure in these loans

Thus Article 17 of Royal Decree Law 2/2003 amends Law 2/1994 of 30 March 1994 on subrogation and modification of mortgage loans so as to permit the initially agreed term, and not just the interest rate, to be changed in subrogations made pursuant to that Law. It also speci-

1. BOE (Spanish Official State Gazette) of 10 July 2003. 2. In this respect, account should be taken of Section III.1.6 below on when the insolvency proceedings of CIs and other financial intermediaries will be subject to the special provisions for insolvency situations established in their specific legislation. 3. BOE of 26 April 2003. Parliamentary support provided by Law 36/2003 of 11 November (BOE of 12 November).

fies the related tax concessions and lowers the notary and registration fees applicable to the public deeds for those changes.

Furthermore, it reduces from 1% to 0.5% the maximum commission that can be charged for early repayment, in the case of subrogations of variable-rate mortgage loans taken out after Royal Decree Law 2/2003 came into force. The 1% maximum commission on those taken out before then remains in place.

Finally, it obliges CIs to offer anyone requesting a variable-rate mortgage loan at least one instrument for hedging the risk of rate increases, and to inform their variable-rate mortgage debtors about the interest-rate hedging instruments that are available to them, the use of which shall not constitute a modification of the original loan agreement. The cost of these instruments may be included, for personal income tax purposes, in the items comprising the maximum base to which the deduction for purchase or refurbishment of habitual dwelling is applied.

Ministerial Order ECO/805/2003 of 27 March 2003 on rules for the appraisal of real estate and of certain rights for financial purposes⁴

Enhanced quality in appraisal activity

This extensive, predominantly technical Ministerial Order replaces and updates the previous regulation dating from 1994. Its main purpose is to enhance the quality of appraisals by increasing their transparency, adapting the calculation of appraisal value to various alternatives and fostering the responsibility of appraisal companies in identifying and applying the most important technical parameters for appraisal. Observance of the rules of this Ministerial Order is compulsory in appraisals for the purposes listed in the Order: mortgage collateral for loans or credits that will form part of a portfolio used to back mortgage securities, coverage of the technical provisions of insurance firms, determination of the assets of real estate collective investment undertakings and determination of the real estate assets of pension funds.

It also sets forth the principles to be observed by approved appraisal companies and by CIs' appraisal services when they carry out appraisals for any of the above-mentioned purposes, and regulates in detail the main requirements to be met in the appraisal process, particularly the minimum checks to be made, the preliminary documentation that has to be obtained and the structure of the report, as well as the appraisal methods to be applied depending on the purpose of the appraisal (cost, comparison, present value of income or residual value), setting the maximum parameters that can be used in the various calculation methods.

It also provides that, to ensure suitability for certain of the aforementioned purposes, the appraisal value as stated must not be subject to any conditions (this concept is clearly defined in the Ministerial Order), although general or specific cautions are permitted, the effect of which on the appraisal must be stated.

Definition of mortgage value or value for mortgage loan purposes

The most notable feature regarding market regulation is that if an appraisal is to have effect in the mortgage market, it must be the "mortgage value or value for mortgage loan purposes", which is defined as the value of the real estate determined by prudent appraisal of the future potential for commercially exploiting the real estate, taking into account its long-lasting aspects, normal and local market conditions, its use at the time of appraisal and its alternative uses, setting aside any speculative elements of the market price.

4. BOE of 9 April 2003.

Banco de España Circular 5/2003 of 19 December 2003 (BOE of 8 January 2004) on approved appraisal companies and services

This Circular, which amends Circular 3/1998 of 27 January 1998 on the same subject, regulates the mandatory remittance of information to the Banco de España by these companies, as provided by the third additional provision of the aforementioned Ministerial Order ECO/805/2003 of 27 March 2003.

Five new statements complete the information to be sent to the Banco de España on appraisal activities

In this connection, along with other relatively minor changes to those already in place, five new statements were introduced to provide information on the distribution of the largest appraisals, on the capital structure of appraisal companies (particularly co-holders and indirect holdings), on the technical parameters applied and on singular buildings.

III.1.2 REGULATION OF THE SOLVENCY OF CREDIT INSTITUTIONS

Regime governing preferential equity holdings for the purposes of eligibility as own funds

Law 19/2003 of 4 July on the legal regime governing capital movements and cross-border transactions and on specific measures for the prevention of money laundering⁵

Although the primary aim of this Law is to regulate matters not directly relating to prudential supervision of the CIs overseen by the Banco de España⁶, its third additional provision does address important aspects of it, since it adds a new second additional provision to Law 13/1985 on investment ratios, own funds and reporting requirements of financial intermediaries which specifies the conditions to be met by preferential equity holdings issued in Spain or the EU in order to qualify as own funds of a consolidated group or sub-group of CIs. The tax regime applicable to preferential equity holdings is also clarified.

These conditions include:

The issuer must be resident in Spain or the EU, excluding tax havens

1. Preferential equity holdings must be issued by a CI or by a direct or indirect full subsidiary of the controlling company of a consolidated group or sub-group of CIs, provided that it is resident in Spain or in EU territory that does not have tax-haven status and provided that its exclusive corporate purpose is the issuance of preferential equity holdings.

The securities must be listed and non-redeemable

2. Preferential equity holdings have to be listed on organised secondary markets, they shall be non-redeemable, although redemption will be permitted as from the fifth year after the share payment date if so authorised by the Banco de España, and they shall not carry voting rights of any type, except in exceptional circumstances, or pre-emptive rights in respect of future new issues. For the purposes of seniority of debt, these instruments will rank immediately behind all creditors, including subordinated debt-holders, of the issuing credit institution or of the controlling credit institution of the consolidated group or sub-group, and in front of ordinary shareholders and any equity unit holders. They shall carry entitlement to a pre-set non-cumulative return. The accrual of this return will be conditional upon the existence of sufficient distributable profits at the controlling credit institution or at the consolidated group or sub-group.

Issues may not exceed 30% of core capital

3. If preferential equity holdings are issued by a subsidiary, the securities must have the joint and irrevocable guarantee of the controlling credit institution and the funds obtained must be

⁵ BOE of 5 July 2003. ⁶ This Law has two basic aims. First, to improve and update the legal regime governing capital movements and cross-border transactions (Law 40/1979 of 10 December 1979, now partially repealed), with regard to which, without changing the general principle of freedom of capital movements, refinements were made to the reporting and penalty systems and certain anachronisms were eliminated. Second, amendments were made to Law 19/1993 of 28 December 1993 on certain measures to prevent money laundering so as to include therein the provisions of Directive 2001/97/EC and improve the mechanisms in place to control cash and other payment instruments.

deposited permanently and in their entirety at the latter or at another entity in the consolidated group or sub-group, which may also guarantee the issue instead of the controlling company. If the depository institution or its consolidated group or sub-group is liquidated or restructured, the deposit may be used to offset losses if its capital and reserves are insufficient for this purpose. As an additional requirement, and formalising a condition already imposed by the supervisor in practice, the nominal amount of outstanding preferential equity holdings, including the new issue, may not exceed 30% of the core capital of the consolidated group or sub-group on the issue date.

Special tax regime

The Law also establishes the tax regime applicable to issues of preferential equity holdings under the conditions mentioned above and further stipulates that it also applies to issues of debt instruments by entities referred to in point 1 above whose sole corporate purpose is the issuance of preferential equity holdings and/or other financial instruments, provided that the securities issued are listed on organised markets and, where required, are guaranteed and deposited as indicated in point 2 above.

Law 62/2003 of 30 December on fiscal, administrative and social measures⁷

This Law affects the regulation of CIs in many respects, including their solvency and other regulatory matters⁸. The key features of the provisions directly or indirectly concerning the solvency of CIs are as follows:

- They complete the regulation of preferential equity holdings reviewed in the preceding section. To this end, they remove the limitations that the Public Limited Companies Law (Article 100) imposed on the issuers of preferential equity holdings for capital-related reasons.
- In regard to the definition of consolidated group and within the framework of the required adaptation of Spanish legislation to Community accounting rules for groups with listed securities, various changes involving multiple provisions were made, the most notable being as follows:

New regulatory framework for compilation of the consolidated financial statements of issuers of listed securities

- Article 8.8 of Law 13/1985 of 25 May 1985 on own funds of CIs was redrafted to take account of the different regulatory framework applicable to the compilation of the consolidated financial statements of the issuers of securities listed on regulated markets. According to the new wording, the Banco de España will only have the power to establish the rules for consolidated financial statements of groups of CIs if those groups do not apply the accounting standards approved by the European Commission regulations for issuers of listed securities (these regulations will be governed by international accounting standards).

It is also clearly established who is responsible for preparing prudential consolidated financial statements. The Banco de España may require them to be audited if they do not coincide with those of the corporate group prepared as specified by the Commercial Code (Article 100).

- A new definition of consolidated group is to be included in corporate law (Articles 106.2 and 106.3 amending paragraphs 1 and 2 and repealing paragraph 3,

⁷. BOE of 31 December 2003. ⁸. The effect of this Law is discussed in the pertinent sections of this chapter, following the subject-matter classification scheme.

Consolidated financial statements will have to be compiled in accordance with Community regulations as from 2005

all in Article 42 of the Commercial Code). This new definition will be in line with that introduced by Directive 2003/51/EC and basically the same as that previously in place and that contained in Securities Market Law 24/1988 of 28 July 1988. The new definition will be necessary for preparing the consolidated annual accounts and management report conforming to the international accounting standards approved by EU Commission regulations.

- According to the eleventh and twelfth final provisions, for the years beginning after January 2005, the consolidated annual accounts to be prepared in accordance with the aforementioned Community rules will be those of groups in which one or more firms has listed securities and those of groups which, although not meeting this condition, have opted to follow the Community rules as an alternative to those of the Commercial Code, in which case they must be prepared on a continuous basis in this way. If the only securities listed are fixed-income securities, then, except in the case of CIs, mandatory application of the new accounting regulations is postponed until 2007.
- In preparing consolidated annual accounts under international standards, fair value accounting as defined in Directive 2001/65/EC (Article 106.4, giving rise to a new Rule 9 in Article 46 of the Commercial Code) shall be applied to the assets and liabilities that form part of a trading book or that are derivatives.

The use of this method must be reflected in the notes to consolidated and individual annual accounts and management report (Article 106.5, giving rise to the addition of two new instructions (14 and 15) in Article 48 and to a paragraph 3 in Article 49, both in the Commercial Code). Also, a broad scope is defined for the consolidated management report (Article 106.6, amending Article 49.1 of the Commercial Code) and for the notes to annual accounts of firms with listed securities that only publish individual annual accounts (Article 107.2 amending Article 200 of the Public Limited Companies Law).

- Other matters addressed include the establishment of a legal framework for the synthetic securitisation of loans and of other claims by CIs and investment service firms, via the asset securitisation vehicles regulated by Royal Decree 926/1998 of 14 May 1998 (Article 97).

Banco de España Circular 3/2003 of 24 June 2003, amending Circular 5/1993 of 26 March 1993 on determination and control of minimum own funds⁹

Capital requirements for positions in gold and commodities

This Circular, which forms part of the process of transposition to Spanish legislation of the precepts contained in Directives 98/31/EC and 98/33/EC of the European Parliament and of the Council, both of 22 June 1998, establishes, in application of the powers provided for in Ministerial Order ECO/3451/2002 of 27 December 2002¹⁰, the capital requirements for positions in commodities (basic raw materials, excluding gold) and determines the minimum conditions that the in-house risk management and internal control models must satisfy so that they can be used for the calculation of capital requirements to cover market risk in the trading-book, exchange-rate risk and risk in commodity and gold positions.

9. BOE of 7 July 2003. 10. BOE of 17 January 2003.

Supplementarily, the Circular defines the concept of net position in gold and in commodities and establishes the method of calculating both these positions.

Changes in risk weights and in the limits on currency positions

Additionally, in connection with higher ranking regulations, it specifies the weight to be applied to certain risk exposures and, along with other minor changes, eliminates the individual limits established earlier for foreign exchange positions, in view of the changeover to the euro and the proven adequacy of the exchange risk assessment systems of Spanish institutions. This has meant that, for their part, the institutions have to make available to the Banco de España all the documentation relating to the internal control systems in place in their gold and foreign exchange operations, as well as that relating to the functioning and compliance of those systems.

III.1.3 TRANSPARENCY OF OPERATIONS AND PROTECTION OF BANK CUSTOMERS
For the purposes of consumer law, whether contracts are deemed to be free of cost does not now depend only on the cost for the borrower

***Law 62/2003 of 30 December on fiscal, administrative and social measures*¹¹**

The provisions of this Law that are of interest for the purposes of this section are those in Article 134 amending Law 7/1995 of 23 March 1995 on consumer credit.

First, the ceiling above which contracts are deemed to fall partially outside the scope of Law 7/1995 (now contracts exceeding €20,000, previously those exceeding Ptas. 3 million) has been raised slightly. Second, slight changes have been made to the regime established in Law 7/1995 regarding certain contracts in which the services to the consumer are linked to financing. In this connection, they are not considered to be free of cost and, consequently, the scope of the Law is now deemed to include credit relating to successive and continuous services if, although their annual percentage rate is zero, they involve some kind of compensation by the service supplier to the lender.

Also, for those cases in which the consumer can take the same actions vis-à-vis both the service provider and the financier of that service (related parties), it is specified that, if successive and continuous services are provided, it is sufficient that there be a prior agreement (it need no longer be an exclusive one) between the entity that grants the loan financing the service and the service provider.

Finally the Law permits consumers to arrange the loan with a lender other than the one to which the supplier is related.

***Ministerial Order PRE/1019/2003 of 24 April on price transparency in bank services provided through ATMs*¹²**

Obligation to give prior notice of commissions for cash withdrawals and account balance inquiries at ATMs

This Ministerial Order stipulates that ATMs owned by Spanish or foreign credit institutions or by a branch in Spain of the latter, must indicate clearly, before the transaction is executed, the exact value of the commission and any additional charges for cash withdrawals, whether debit or credit, or for balance inquiries by a customer. However, if the institution issuing the means of payment is not the owner of the ATM, this information may be replaced by the maximum value of the commission and other additional charges applicable to the requested transaction. For this purpose the financial institutions issuing means of payment marketed in Spain must furnish the CIs owning ATMs with the information required to comply with this obligation.

11. BOE of 31 December 2003. 12. BOE of 30 April 2003.

The Ministerial Order also provides that, if the institution issuing the means of payment is also the owner of the ATM, the aforementioned information may be provided on a notice located on the ATM in a clearly visible place.

In any event, before a transaction is requested, the ATM must inform the user, via a message on its screen, of the commercial network to which it belongs. Then, once the transaction has been requested and the aforementioned information provided, it must offer the user the option of aborting the transaction at no charge.

Finally, the Banco de España is authorised to extend the aforementioned information obligations to any other transactions, besides cash withdrawal and balance enquiry, that may be executed via ATMs, should they attain a significant volume.

III.1.4 REGULATORY FRAMEWORK OF SAVINGS BANKS

Law 26/2003 of 17 July 2003 amending Securities Market Law 24/1988 of 28 July 1988 and the consolidated text of the Public Limited Companies Law, approved by Royal Legislative Decree 1564/1989 of 22 December 1989, in order to strengthen the transparency of listed public limited companies (Transparency Law)¹³

This Law, which particularly affects the legislation governing listed companies, contains, in its provisions referring specifically to savings banks, certain precepts which have a substantial impact on their corporate regime.

These precepts notably include, along with provisions intended to increase and improve the information disseminated by savings banks that issue listed securities¹⁴, the amendment to Law 31/1985 on governing bodies of savings banks (LORCA) through the addition of two new articles, namely Articles 20 bis and 20 ter, whereby all savings banks are obliged to set up a compensation committee and an investment committee.

The formation of
compensation and investment
committees as compulsory
delegated bodies in savings
banks

The compensation committee, which like the investment committee is a sub-group within the Board of Directors, is entrusted with reporting on the general compensation of and incentives policy for Board members and managers. The investment committee informs the Board about any investments and divestments of a strategic and stable nature (which in all cases shall include the acquisition or sale of significant holdings and the ownership interests in business projects) that may be carried out directly or indirectly by the savings bank. The report shall cover the appropriateness and viability of investments.

Law 62/2003 of 30 December 2003 on fiscal, administrative and social measures¹⁵

Changes in the representation
of municipal corporations and
of depositors in the general
assembly

The main new feature introduced by this Law in the corporate regime of savings banks is the change (Article 101.1) it makes to how collective interests are represented in the general assembly, regulated by Article 2.3 of Law 31/1985 on governing bodies of savings banks (LORCA). Under the new wording of this Article, if a savings bank has branches in more than one Regional (Autonomous) Community, the municipal corporations and depositor groups must, in accordance with the principle of equality, be represented in the general assembly in proportion to the distribution of deposits among the various Regional (Autonomous) Communities in which there are branches. The implementing legislation shall be in line with the provisions of this article.

¹³. BOE of 18 July 2003. ¹⁴. This provisions, which make it compulsory to prepare an annual report on corporate governance, are discussed in greater detail in point III.1.6 below. ¹⁵. BOE of 31 December 2003.

Additionally, together with other minor changes to the annual report on corporate governance (Article 99), Law 62/2003 modifies specific points (Articles 101.2 and 101.3) in the provisions on the compensation committee and the investment committee. In order to develop a body of operating rules and procedures for these two committees, it looks to the articles of association and internal rules of savings banks, in preference to the use of implementing provisions.

Law 62/2003 also provides (in Article 98.3) that in savings banks that issue listed securities, the duties of the audit committee, which under Article 98.3 is now compulsory in any entity issuing listed securities, may be taken on by the control committee.

Finally, it brings the non-voting equity units of savings banks under the tax regime envisaged – in all instances and for all taxes – for the shares and other ownership interests in institutions' capital stock or equity capital (fifth additional provision).

III.1.5 OTHER REGULATORY CHANGES RELATING TO CREDIT INSTITUTIONS AND OTHER ENTITIES SUPERVISED BY THE BANCO DE ESPAÑA

Contributions to the credit co-operative deposit guarantee fund have been reduced to 0.8‰

Changes in the maintenance period for minimum reserves

Ministerial Order ECO/2801/2003 of 3 October 2003, which reduces the contributions to the credit co-operative deposit guarantee fund¹⁶

In view of the financial position reached by the credit co-operative deposit guarantee fund, this Ministerial Order reduces the contributions of credit co-operatives to this fund from 1‰ to 0.8‰ of the deposits covered by it.

Regulation 1745/2003 of the European Central Bank of 12 September 2003 (ECB/2003/9) on the application of minimum reserves

The purpose of this new Regulation, which came into force in January 2004, replacing Regulation ECB/1998/15 and subsequent amendments, is to keep abreast of changes in the framework of monetary policy transactions.

The changes with respect to the previous regulation are eminently technical. Among others of less significance, the most notable changes are to the period for which the minimum reserve base is determined, which will now generally be calculated on the basis of the data relating to the month two months prior to the month within which the maintenance period starts, and to the maintenance period, which will now start on the settlement day of the main refinancing operation following the meeting of the ECB Governing Council at which the monthly assessment of the monetary policy stance is pre-scheduled (normally the first meeting of the month) and not that on the 24th of each month, as has been the practice to date.

Banco de España Circular 6/2002 of 20 December 2002 (BOE of 23 January 2003) relating to information on agents of credit institutions and agreements for regular provision of financial services

Definition of agents of credit institutions, and the public nature of information on them and on agreements with foreign CIs

This Circular replaces and repeals CBE 5/1995 of 31 October 1995 and updates and refines the content and scope of communication obligations in respect of CIs' agents and agreements with foreign CIs for the provision of financial services in accordance with the provisions of Article 22 of Royal Decree 1245/1995 of 14 July 1995.

The new Circular, based on the concept of agent laid down in the aforementioned Royal Decree (individuals or legal entities to which an institution has granted powers of attorney so that

¹⁶ BOE of 14 October 2003.

they may regularly act on its behalf, vis-à-vis customers, in the negotiation and execution of operations that are typical of the business of credit institutions), expressly excludes the following from the reporting obligation: correspondents; agents with power of attorney for a single specific operation; persons tied to the institution by an employment relationship; agents that only have powers to attract customers but not to negotiate or execute transactions; and representatives, attorneys-in-fact or employees of agents.

As regards agreements with foreign institutions, whether they be for the regular provision in Spain of financial services to the foreign institutions' customers or for mutual provision of financial services, the information to be reported to the Banco de España does not include correspondent agreements that are only to make deposits and payments.

Additionally, the Circular expressly provides that the information received in accordance with the foregoing shall be publicly available.

III.1.6 OTHER REGULATORY CHANGES

Special insolvency regime applicable to CIs and other financial institutions

Law 22/2003 of 9 July on insolvency¹⁷

In terms of its effect on the prudential supervision regulations referred to in this report, the most notable aspect of this Law, apart from that already discussed in Section III.1 above with regard to mortgage market regulation, is its second additional provision¹⁸, which stipulates that the insolvency proceedings of the CIs and other financial intermediaries listed therein shall be subject to the special provisions for insolvency situations established in their specific legislation, except for those relating to the composition, appointment and workings of the insolvency administration body.

Law 26/2003 of 17 July 2003 amending Securities Market Law 24/1988 of 28 July 1988 and the consolidated text of the Public Limited Companies Law, approved by Royal Legislative Decree 1564/1989 of 22 December 1989, in order to strengthen the transparency of listed public limited companies (Transparency Law)¹⁹

Notable among the regulations not specifically addressing CIs, owing to its impact on many of these institutions, is Law 26/2003, commonly known as the Transparency Law.

Pursuant to this Law, public limited companies whose shares are traded on an official securities market, among them a significant number of banks, are required to:

Transparency in the management of listed companies and information on the matters that may affect it. Annual publication of a report on corporate governance

- Communicate to the firm itself and to the CNMV (Spanish National Securities Market Commission) the entering into, extension or amendment of shareholders' agreements for the exercise of voting rights in general shareholders' meetings or that restrict the free transferability of shares or of securities convertible into them. These agreements must also be lodged with the Mercantile Registry and communicated to the market as a material event.
- Approve specific rules for the general meeting and establish rules on the internal regime and workings of the Board of Directors. These rules shall be notified to the CNMV and registered with the Mercantile Registry.

¹⁷. BOE of 10 July 2003. ¹⁸. The third additional provision of Law 36/2003 of 11 November 2003 on economic reform measures introduced a third in this provision to specify its scope. ¹⁹. BOE of 18 July 2003.

- Publish, as a material event, a yearly corporate governance report and communicate it to the CNMV and hence through this body to the relevant supervisory authorities²⁰.
- The Transparency Law also regulates the duties of a firm's directors in regard to the exercise of any proxy votes that may have been granted to them and to the use of inside information, and establishes the formal obligation to have a web page as a means of catering for the right of shareholders to be informed and as a medium for disseminating key information²¹.

Additionally, the Law regulates, for all public limited companies (not just listed ones), the delegation or exercise of remote voting rights, shareholders' rights to information and the fulfilment of directors' duties.

Extension to other entities of the obligations established for listed public limited companies

Finally, it extends to savings banks²² and other entities that issue securities the requirement to make public the corporate governance report, which must be communicated to the CNMV (and hence through this body to the Banco de España or the relevant supervisory authority and to the competent bodies of the regional governments) and published as a material event²³.

Law 35/2003 of 4 November on portfolio investment institutions²⁴

New custody and oversight obligations for the depositories of portfolio investment institutions

The only significant point for the purposes of this report is the further regulation introduced by this Law of activity classed as that of a depository, which continues to be confined to CIs and to securities-dealer companies.

In particular, the Law strengthens the obligation of custody of assets of portfolio investment institutions and that of oversight of the operations of management companies (and of the directors of portfolio investment institutions with corporate status). To be able to commence activities, portfolio investment institutions must obtain the authorisation of the CNMV and be registered in the related register. In addition, they must be members of clearing, settlement and registration systems of the markets in which they intend to operate.

Depositories, insofar as they are acting as such, are subject to the supervision and inspection regime provided by Law 35/2003 (administered by the CNMV) and to the related penalties.

Law 62/2003 of 30 December 2003 on fiscal, administrative and social measures²⁵

Abolition of the limits on note issuance by listed companies

Apart from the provisions discussed above specifically relating to the field of prudential supervision, this Law contains some others which, while not falling entirely under this heading, particularly affect the legal framework to which, like any other entity and depending on their nature, CIs and other financial intermediaries or auxiliaries are subject.

20. The content of this report is described by Ministerial Order ECO/3722/2003 of 26 December 2003 on the annual corporate governance report and other information channels of listed public limited companies and other entities (BOE of 8 January 2004). 21. The information to be provided is specified in Ministerial Order ECO/3722/2003, to which the previous footnote refers. 22. For the other changes made by this Law to the corporate regime of savings banks, see point III.1.4 above. 23. The content of this report insofar as savings banks are concerned is specified by Ministerial Order ECO/354/2004 of 17 February 2004 on the annual corporate governance report and other information of savings banks issuing securities listed on official securities markets (BOE of 18 February). Other institutions are governed by Ministerial Order ECO/3722/2003 of 26 December 2003 mentioned in Footnote 20 above. 24. BOE of 5 November 2003. 25. BOE of 31 December 2003.

Further advances were made in the unification of European Union accounting regulations in 2003, as a result of the publication of Regulation 1606/2002, which makes it compulsory to use the rules of the International Accounting Standards Board for groups with securities listed in the European Union.

The main manifestation of this progress is the European Commission's decision to approve, practically in their entirety, the International Accounting Standards in force in July 2003 through Regulation 1725/2003, except for IAS 32 and 39 and the interpretations relating to financial instruments. These exceptions were due to the substantial changes to IAS 32 and 39 under way at that very time.

The IASB set in train those changes in response to the numerous queries and criticisms regarding IAS 32 and 39 received from diverse sources: securities market regulators, accounting professionals and other interested parties. These queries and criticisms covered a large portion of the proposed rules. The final text was published in December 2003 and the European Financial Reporting Advisory Group recommended its adoption in the first quarter of 2004, in accordance with the process of adoption of standards established by the European Union.

Regarding the changes to the rules on financial instruments, the final texts were also published at the end of 2003, except for two important matters which were left pending and dealt with separately: the hedging of interest rate risk in financial instrument portfolios and the fair value option. Finally, other rules were addressed relating to diverse matters (business combinations, insurance policies, etc.), the final texts of which were made known in the first quarter of 2004.

Once the framework of the IASB rules had been completed, the Banco de España, as the accounting regulatory body of Spanish CIs, decided to revise in depth the current accounting regulations contained in Banco de España Circular CBE 4/1991, in order to harmonise them with the new environment and put them into force on the same date as that from which the IAS are to be applied. When the IAS offer different options, the future accounting circular of the Banco de España will opt for the most prudent rules.

The main features of the *future accounting circular of the Banco de España*, which were communicated to CIs at the beginning of 2004, will be as follows:

- *Credit risk coverage*: the Banco de España considers that the current level of provisioning, in terms of both periodic additions and accumulated levels, is appropriate for the level of credit risk in the system. The future circular will be compatible with the proposals included in IAS 39.
- *Accounting treatment of associated companies*: the currently existing qualitative criteria will become the determining factors in assessing the existence of significant influence. In the future circular, this approach will be supplemented with a list of the various situations that signal the existence of significant influence: presence on Boards, active participation in policies, etc.
- *Recognition of revaluation of operating fixed assets*: it will not be generally possible to value fixed assets periodically at fair value, since this would introduce considerable volatility into an institution's own funds. In principle, institutions will not be permitted to revalue their fixed assets when the new accounting circular enters into force.
- *Pension funds*: the alternative treatment of the fluctuation band for recognition of deviations from actuarial assumptions will not be permitted. Also, during the transition period, institutions will be required to write off in full any accumulated shortfall derived from pension commitments to employees.
- *Classification of financial assets*: the change with respect to the current classification will not be drastic, although there will be differences in the definition of certain portfolios, particularly the trading book. It is intended to adopt the fair value option in a very limited way and in accordance with the most recent developments in this area.
- *Asset transfers*: in accordance with IAS, the accounting treatment of financial asset transfers will take into account both the obligations assumed by the assignor institution following the transfer transaction and the level of retention of the return and risk associated with the assigned assets and the continued effective control or not of those same assets once the transfer has been made.
- *Scope of consolidation*: the exception consisting of non-consolidation due to activity will be eliminated and the consolidated group must, for financial information purposes, include all non-financial and insurance companies within the decision-making unit, in conformity with the corporate legislation reform at the end of 2003.
- *Goodwill*: in all probability the amortisation of goodwill will cease to be compulsory, with a yearly check of any impairment in value being required. This new accounting method may give rise to a requirement to charge all goodwill to the profit and loss account for the year if its value is determined to be zero, without any possibility of subsequently capitalising it.
- *New public information reporting requirements*: the information furnished to the market will be improved to make it easier to understand financial risk management by banks. This information will range from the objectives of financial risk management to the nature of the hedges used and their effectiveness, including interest rate risk exposure and its impact on the financial position and results of institutions. Reporting will also include the most significant credit risk concentrations and the most significant methods and assumptions used to estimate the fair value when it has not been obtained from a sufficiently active market.

In conclusion, the Banco de España considers that the change in accounting regulations will be assimilable by the industry, although efforts and resources will have to be marshalled by every institution if the transition is to be faced with an assurance of success.

Among the provisions of Law 62/2003, mention may be made of Article 98.2 which, through an amendment of the Securities Market Law (new Article 111 bis), stipulates that listed companies are not subject to the limit on note issuance established in the Public Limited Companies Law, which had already ceased to apply to CIs in 1986 (Article 98.2).

New entities required to have an audit committee

Law 62/2003 also amends the eighteenth additional provision of the Securities Market Law so as to extend the requirement to have an audit committee to all entities that issue traded securities. Previously this requirement only applied to firms issuing listed shares and notes.

III.2 Community provisions

As regards prudential supervision, 2003 was a year of little activity. Apart from the aforementioned amendment of Regulation ECB/1998/15, discussed in the changes to domestic regulations because of its direct applicability, and from the fact that the new accounting rules accepted by the European Union have started to be transposed to Spanish legislation, mention need only be made of Directive 2003/6/EC of the European Parliament and of the Council of 28 January 2003 on insider dealing and market manipulation (market abuse). Here just a passing reference suffices, since it is only important insofar as it affects the operations of CIs that are active in regulated markets.

Definition and treatment of market abuse

In addition, Law 44/2002 on financial system reform measures, discussed at length in the 2002 Report, already largely included the most significant matters contained in this Directive, particularly those relating to what is deemed to be inside information and what is deemed to be material information, how those who possess it are to act and what measures are to be taken by institutions, whether in respect of the outside environment (disclosure) or internally (separation of areas or “Chinese walls”), what is deemed to be market manipulation and, in particular, when a transaction is deemed to distort the free formation of prices or not, etc.

The Directive also enumerated a number of transactions to which its provisions do not apply, such as those relating to monetary, exchange-rate or public debt management policy, those involving own shares in buy-back programmes and those aimed at stabilisation, which were subsequently addressed by Directive 2003/125/EC of 22 December 2003.

ANNEX 1

A.1 Introduction

Yet another year, the Banco de España has participated actively in numerous international fora. In these fora, banking regulators and supervisory authorities study and formulate rules or recommendations affecting credit institutions and analyse developments in the financial markets and their effects on the stability and smooth functioning of the financial system from both a global and a European standpoint.

2003 was characterised by the increasingly prominent role played by the Banco de España in international fora

2003 was characterised by the prominent role of the Banco de España in these discussion fora. Particularly worthy of note were its participation in the committees and working groups of the Basel Committee on Banking Supervision (BCBS) and the part played by it in the framework of the European institutions, both in the committees and working groups linked to the European Commission (in the Banking Advisory Committee) and in connection with the European Central Bank (Banking Supervisory Committee). It also continued to participate in groups overseen by other institutions such as the Basel-based Bank for International Settlements (BIS) and the OECD, in which it continued to provide support and co-operation as in previous years¹.

The BCBS is the main international forum of banking supervisors

The *BCBS* is the main international forum of banking supervisors. Its basic aim is to improve supervisory activities and develop a common approach at international level. Although it lacks formal powers, its recommendations enjoy widespread international acceptance because of the acknowledged high technical quality of its proposals and because of the backing garnered through the practice of prior consultation of its proposals with interested parties. Transposing these recommendations to positive law depends on the various legislative powers; in the Spanish case, they must first be transposed to Community legislation and then to national legislation.

On 9 March 2003 the Governor of the Banco de España was appointed Chairman of the Committee, strengthening the role of Spain in international banking regulation

On 9 March 2003 the central bank governors and heads of supervision of the G-10 countries appointed as Chairman of the BCBS Jaime Caruana, the Governor of the Banco de España, who succeeded the President of the Federal Reserve Bank of New York, William McDonough. This appointment signified a major qualitative leap in the role played by Spain in international banking supervision fora. It is also a great responsibility and commitment as it calls for Spain to take a more active role in the search for consensus and harmony amongst the members, acting in its joint capacities as national supervisor and as committee Chair.

The main task of the BCBS in 2003 was the revision of the capital adequacy rules

Unquestionably the most important of the matters currently being debated in the BCBS is the revision of the 1988 capital adequacy rules entitled "International Convergence of Capital Measurement and Capital Standards", also known as the Basel Accord or Basel I. The new framework that is being designed, known as Basel II, enjoys the support not only of the regulatory authorities, but also of the industry itself and is considered a key element in strengthening the stability of the world banking system.

The Banco de España played an active role in achieving agreement on the outstanding matters in the Committee meeting in May 2004

The active role played by the Banco de España in recent months and, in particular, the significant commitment achieved at the October meeting in Madrid were fundamental in paving the way for the Committee's May 2004 agreement on certain outstanding matters, which will make it possible to meet the aim of publishing the Committee's proposals on bank solvency by the end of June 2004. Thus, after more than five years' work, the process known as Basel

1. See the Report on Banking Supervision in Spain 2001.

The aim of publishing the proposals by the end of June 2004 will be met

The process has entered a new stage marked by the transformation of the text into national legislation

In relation to the European Commission, 2003 saw the final step for extending the Lamfalussy approach to the banking and insurance sectors

The Banco de España has played a significant role at European level. From January 2004 the Banco de España has chaired the CEBS

The Groupe de Contact will become the CEBS's main working group

The work carried out in the groups linked to the European Commission has proceeded in parallel with the work of the BCBS

The European Central Bank's BSC continued with its analysis and advisory functions in relation to financial system stability

It will enter a new stage in which the authorities of each country will have to focus on transforming the published text into national regulations in order to implement it by the agreed dates. All this revision process has entailed a large number of meetings and consultations of both a technical and a political nature during 2003 and the early months of 2004.

Another matter of prime importance addressed by the BCBS during 2003 was the impact that the new accounting approach based on international financial reporting standards (IFRS) would have from the standpoint of prudential supervision.

Furthermore, worthy of mention in the framework of the *Community institutions* is the participation by the Banco de España in the working groups of the European Commission. 2003 saw the final step for extending the Lamfalussy approach —already implemented in the securities sector— to the banking and insurance sectors (see Box A1-1). In order to put into practice this decision, taken by ECOFIN on 3 December 2002, it was necessary to undertake significant organisational work leading to the redeployment of certain of the existing committees and to the creation of new ones in the framework of the new banking supervision structure.

Also active in the European arena, Spain has played a significant part in the restructuring of European institutions. Specifically, from January 2004, the Banco de España has chaired the new Committee of European Banking Supervisors, a level 3 committee known by its English acronym CEBS.

The Banking Advisory Committee (BAC) will be transformed into the level 2 European Banking Committee (EBC) within the Lamfalussy framework, for which a new directive will have to be drafted to amend Directives 93/6/EEC, 2000/12/EC and others that currently regulate the BAC. The new directive will then be approved via the co-decision process.

The other two existing banking supervision groups are integrated in this new framework. The *Groupe de Contact* (the oldest group of bank supervisors, set up in 1972) has been transformed into the main working group operating under the CEBS. For its part, the Banking Supervision Committee (BSC), which is a European Central Bank committee, continues to have the function of analysing macro-prudential considerations that affect the stability of EU financial and banking systems, and of counseling the European Central Bank on the impact of the (Community and national) financial system regulations in preparation.

The work that has been carried out in the last few years, and particularly in 2003, in the groups linked to the European Commission has proceeded in parallel with the main projects of the BCBS: the revision (and implementation) of solvency legislation in order that the agreement reached in the Basel Committee is transposed to Community legislation as soon as possible, and the effect of international accounting standards (IAS) from the standpoint of prudential regulation.

In 2003 the mandate of the *Banking Supervision Committee (BSC)* was updated to take into account the changes arising from the extension of the Lamfalussy Report. Notable among the activities of this Committee was the signature of the Memorandum of Understanding on high-level principles of cooperation between the banking supervisors and central banks of the European Union in crisis management situations, which entered into force on 1 March 2003. It also signed the Memorandum of Understanding on data exchange between central credit registers, which will enable the participating registers to extend their coverage to include credit relationships that have arisen beyond their national borders. As part of its general activity of

In November 2003 the European Commission published measures to extend the “Lamfalussy approach”¹ to regulation of the banking and insurance sectors in Europe. The Lamfalussy approach was developed in the securities sector in 2000 as a response to the need to establish a European regulatory framework for financial instruments or securities that was more sensitive to market developments and that fostered an integrated capital market. This approach consists of four separate but interrelated levels.

The aims pursued at each of the four levels are as follows:

Level 1: This addresses the broad principles that lie behind European Union (UE) legislation. It is subject to the usual procedure of co-decision by the European Parliament and EU Council of Ministers. The level one rules also have to specify the more technical elements that will subsequently be dealt with at level two.

Level 2: This addresses the more technical matters. There are three main actors at this level: the European Commission; a formal regulatory committee, denoted “level 2 committee”, formed by representatives of the Member States’ Ministries of Economy; and the national supervisors (included also at level 3) in an advisory role. Each of these actors has a specific function in defining, proposing and deciding the technical elements that have legal force, as established at level 1.

Level 3: This is concerned with co-operation among national supervisors to enable more consistent transposition and practical implementation of the legislation agreed upon at higher levels.

Level 4: Designed to reinforce compliance with EU rules.

In late 2002 the European ministers of economy agreed to extend this approach to the banking and insurance sectors. This decision represented the culmination of various reports and consultative processes that reviewed the provisions established to improve financial stability, crisis management and the integration of the EU financial sector as a whole. When the Commission created a package of measures to put this decision into practice, it had to consider the impact on the existing committees, some formally recognised under current European legislation. Another key element is the existence of agreements between the three EU institutions (the Council, the Commission and the Parliament). As far as the banking sector is concerned, the measures published by the European Commission in November 2003 stipulated the creation of two new committees: the European Banking Committee for level 2, and the Committee of European Banking Supervisors (CEBS) for level 3 (the banking equivalent to the Committee of European Securities Regulators or CESR, which has been working in the capital market sector for nearly three years).

The intention is that the *European Banking Committee* be composed of representatives of the various ministries of economy and that it act as a regulatory committee (voting on the technical measures proposed by the European Commission at level 2) and also as an advisory committee, taking on some of the tasks of the current Banking Advisory Committee, which will be dissolved. This latter committee

has historically been formed by representatives of the ministries of economy and of the banking supervisory authorities, its existence and functions being regulated by Banking Directive 12/2000. Consequently, the creation of the European Banking Committee requires European legislation to be changed if this committee is to acquire full operating capacity. To make this change, the Commission’s package of measures includes a directive (in addition to similar measures concerning other committees in other sectors) which is currently passing through the European co-decision process.

For its part, the *Committee of European Banking Supervisors (CEBS)* was set up pursuant to a European Commission decision. It formally commenced its functions on 1 January 2004, although the future members of this committee were working throughout 2003 to lay the groundwork (e.g. a preliminary charter) so that it could embark on its tasks as soon as possible after its formal creation.

The CEBS has three basic functions:

- Advise the Commission on the preparation of banking legislation. However, it should be kept in mind that the CEBS will not receive a formal mandate to prepare a level 2 draft text until the required legislation has been approved.
- Contribute to the consistent implementation of Community Directives and to the convergence of Member States’ supervisory practices throughout the European Union.
- Enhance supervisory co-operation, including the exchange of information.

The CEBS is comprised of high-level representatives from the EU banking supervisory authorities (voting members) and central banks (whether or not they are the competent supervisory authority), including the European Central Bank. Both the Commission and the EEA (European Economic Area) countries that are not EU members will participate as permanent observers.

The Chair of the CEBS will initially be held by the Banco de España. The Chair will be assisted by a Vice Chair and by a “Bureau” comprised of 3 Committee members. This “Bureau” will be particularly important for the efficient working of the Committee because of the size of the latter after the latest enlargement of the EU. The EU ministers of economy decided in January 2004 that the Secretariat of the CEBS would be located in London.

The first formal meeting of the CEBS, held in Barcelona last January, decided that one of the main priorities in the near future would be the application in Europe of the New Basel Capital Accord. Accounting matters will also take priority, particularly International Accounting Standards and their impact on prudential requirements. The CEBS will also take on other tasks in order to identify best supervisory practices and promote their convergence. Also, it will co-operate with the level 3 committees of the other financial sectors.

The CEBS will operate in an open and transparent manner and will consult extensively with market participants, consumers and end-users. In fact, the Committee already has a provisional website (www.c-ebs.org) as a means of communicating with the public.

1. Called this way because was Alexandre Lamfalussy the President of the experts group who developed this method in 2000.

EU financial stability analysis and advisory services, the BSC's first financial stability report was published, corresponding to 2003.

Finally, in 2003 the representatives of the national central banks and supervisory bodies of the EU acceding countries joined the corresponding Community supervisory fora, the work of which was largely focused on matters relating to the revision of bank solvency regulations, which will be the subject of the remainder of this chapter.

A.2 Revision of capital adequacy regulations

The revision of the international solvency framework is in its final phase in both Basel and the EU

The rapid pace of change of the financial system in recent years has made the simplicity of Basel I an inadequate framework for some institutions

Basel II will be published by the end of June 2004

In Europe the Commission has to adapt the Basel recommendations to European circumstances and transform them into a legislative text

The New Accord will be implemented through the amendment of two existing directives, namely Directive 2000/12 and Directive 93/6.

As mentioned above, 2003 saw significant progress towards a new international solvency framework in both Basel and the EU. These matters took up a good deal of the efforts and time of supervisors and regulators, and also attracted considerable interest due to the fact that the revision process was in its final phase.

The current 1988 Accord has been highly successful for two basic reasons. It is simple to apply, which made it more widely accepted. Indeed, it has been adopted by more than 100 countries and is a universally acknowledged yardstick for measuring the financial strength of an institution. Furthermore, it was the first time that a definition of the components of credit institutions' capital and a method of measuring their regulatory capital were accepted internationally. However, the rules included in this Accord have become outdated due to the rapid pace of change of the financial system in recent years. Financial innovation, the ability to transfer risk that now exists due to the rapid development of the asset securitisation and credit derivatives markets, along with the enormous improvement in methods used to measure and manage the risks assumed by institutions have made the simplicity of the 1988 Accord an inadequate framework for some institutions.

After its May 2004 meeting, the BSBC announced in a press release that it would achieve its aim of publishing the new solvency framework by the end of June. The new Accord can thus be implemented by the member countries by end-2006 for those institutions that opt to measure risk using the standardised or foundation IRB approaches, and by end-2007 for those institutions that are ready to use the more advanced methods of measuring credit risk (advanced IRB approach) or operational risk (AMA approach). This announcement also informed of the solutions adopted for matters still pending (such as the treatment of credit cards, the measurement of severity, etc.) and touched on certain points relating to the implementation of the new rules.

Although most of the technical work is done by the BCBS groups, the role of the BAC working groups linked to the European Commission is fundamental. The work done by these groups is highly complex, both technically and politically, since they have to build on the technical work done in Basel by adapting it to the realities of European financial systems and, at the same time, transform the body of recommendations comprising the "Basel II" text into a legislative text. Their task becomes arguably even more important once agreement is reached in Basel, because they have to produce a legal text acceptable to all EU member countries that can be approved by the European Parliament and European Council, and they have to do so within a period that will enable each country to transpose the Directive to its national legislation in time for the new solvency regulations to be implemented by the agreed date.

The 1988 Capital Accord was reflected in Directive 89/647/EEC, now consolidated in Directive 2000/12/EC (which gathers together in a single text the seven existing directives on credit institution regulation for the sake of coherence and clarity). It was decided that the new solvency rules, rather than being implemented as a new directive, would take the form of amendments to Directive 2000/12 and to Directive 93/6 on the capital adequacy of investments firms and

These amendments have to be approved by the European Council and the European Parliament	credit institutions. Hence the European Commission has a limited period to amend these directives such that they fit in with all Community legislation. These two directives will be approved by the co-decision procedure regulated by Article 251 of the Treaty establishing the European Community, although the European Parliament has to decide which part of the amended directives can be changed in the future by comitology using the procedure envisaged under the Lamfalussy approach. This process is fairly advanced, now being in the final phase of review of the draft proposal for the directive that the Commission will submit to the Council and the Parliament in the coming months.
	The most significant developments in the two fora in 2003 are described below.
A.2.1 THE PROCESS IN BASEL	The work carried out by the Basel Committee in 2003 was intense and rapid, and had a highly positive impact on the final accord established in the May 2004 Committee meeting, which will enable it be published by the end of June 2004. Work proceeded apace to resolve the last technical and political problems and to reach a final solution satisfactory for all the member countries of the Committee.
The three basic steps taken by the Basel Committee in 2003 were: the QIS3, the publication of the third consultative paper (CP3) and the «Madrid Commitment»	The Banco de España, participating through the working groups and in the Committee itself, was particularly active at both political and technical levels, defending the positions considered to be reasonable from the standpoint of Spanish supervisory needs, but without losing sight of the singular position of its Governor as chairman of the Committee. This meant that its role was highly important in all the work carried out to reach the required consensus.
In 2004 the Committee's January and May meetings were very important	The three basic steps in 2003 were: analysis of the results of the quantitative impact study (QIS3), publication of the third consultative paper (CP3) and the so-called "Madrid Commitment". The key dates in 2004 correspond to the two Committee meetings in January and May.
Having conducted the QIS3, the Committee confirmed that the results obtained were in line with its aims	As noted in the 2002 Banking Supervision Report, from 1 October 2002 to the end of the year the Basel Committee asked a large number of credit institutions for extensive data in order to quantify the impact of its proposals set forth in a technical guide. This study, in which 350 institutions from 43 countries participated, is known as QIS3 and its results were published on the BIS website on 5 May 2003. The committee confirmed that, in general, the results found were in line with its aim that the new proposals should serve to hold capital requirements stable with respect to the current situation. At the same time, incentives were offered to encourage institutions to use more sophisticated methods to calculate their regulatory capital. On 27 May 2003 the Committee published additional information in response to requests by interested institutions, also including information on the effect of certain decisions taken after the impact study.
The third consultative paper (CP3) was published on 29 April 2003	Once these last changes had been included, 29 April 2003 saw the publication of the third consultative paper (known as CP3), with a content very close to that of the New Capital Accord to be finally published. Interested institutions and bodies had until 31 June to send in their comments, which were analysed in detail by the Committee's various working groups and by the Committee in its Madrid meeting on 10 and 11 October 2003
They Committee received 200 comments which showed wide agreement. However, there remained some matters yet to be resolved	The Basel Committee received some 200 comments which showed wide backing for the work performed and agreement with the need to establish a new solvency framework more sensitive to risk than the current one, with significant support for the structure proposed for this framework. The comments also stressed the importance of completing the New Accord within a short period in order to remedy the deficiencies of the current Accord and provide cer-

tainty to institutions. Nevertheless, there were significant criticisms, comments and contributions concerning specific matters.

The Madrid meeting identified the matters to be resolved before publication of Basel II

Accordingly, at its *Madrid meeting* the Committee decided to respond to the industry's concerns, on the understanding that, although this would delay publication of the new solvency framework from end-2003 to mid-2004, it was important to ensure the quality of the recommendations and the sector's backing of them. The press release following the meeting confirmed the Committee's determination to press forward with its timetable for implementation of the new Accord and specified the matters to be discussed before its publication in mid-2004. These matters were: the general treatment of expected losses and of unexpected losses, the revision of the treatment of credit cards, simplification of the treatment of securitisation and revision of the treatment of certain credit risk mitigation techniques. Importantly, it was acknowledged that it might be necessary to recalibrate the Accord before it is implemented.

At the beginning of 2004 the Committee published three technical documents to explain the changes in the proposals

After the Madrid meeting, all the working groups and the Committee itself made notable progress, which was described in a press release by the Committee following its January meeting. This enabled publication, also in January 2004, of three technical documents explaining in great detail the changes in the proposed treatment of expected and unexpected losses, of securitised assets and of operational risk capital requirements for institutions using the advanced approach (AMA).

The calculation of risk-weighted assets must be based solely on unexpected losses

As regards the first document, in the CP3 proposals it had been agreed to treat expected and unexpected losses together, in order to resolve the problem posed by the existence of different accounting regulations on credit risk provisions in the different countries. Based on the comments received and on the work carried out by the groups in the Madrid meeting, it was agreed that risk-weighted assets would be calculated solely on the basis of unexpected losses. Unquestionably this proposal, which has the clear support of the industry, is conceptually more appropriate and enables regulatory capital to be brought closer to the economic capital calculated by institutions.

Expected losses have to be adequately covered by provisions or by capital

The proposal includes separate treatment of expected losses to ensure that they are properly covered by provisions or by capital. For this purpose, institutions have to compare their expected losses with the sum of all their accounting provisions. Any underprovision will be deducted from tier I and tier II capital in equal amounts and any excess may be recognised in tier II capital up to a limit calculated on the basis of credit risk-weighted assets.

Simpler treatment of securitised assets

The second document centres on the treatment of securitisation. Since it was decided to reform the solvency rules, one of the most complex matters faced by the Committee has been the treatment of securitised assets, because of the variety of structures that can be found in banking practice. Hence, to complete a proposal that takes into account all comments received, a notable technical effort is being required. Among the matters addressed, mention may be made of the design of the formula used if no credit rating exists for a tranche, the treatment of liquidity support and the consistency among the various methods for calculating capital requirements.

Finally, specific treatment is given to matters relating to operational risk capital requirements in internationally active groups

Lastly, the third document forms part of the work carried out in 2003 by the AIG², which worked on matters relating to implementation of the Accord, including those relating to its

2. In late 2001 the Committee decided to set up an Accord Implementation Group (AIG) consisting of high-level supervisors from the member countries, for the purpose of sharing the plans for implementation of the Accord.

QIS3 FINDINGS

% change in capital requirements

	STANDARDISED APPROACH					FOUNDATION IRB APPROACH					ADVANCE IRB APPROACH		
	ES	EU		G10		ES	EU		G10		ES	EU	
		G1	G2	G1	G2		G1	G2	G1	G2		G1	G1
Credit risk	-5	-3	-11	0	-11	-16	-13	-27	-7	-27	-22	-15	-13
Operational risk	9	8	12	10	15	9	9	6	10	7	9	10	11
Total	4	6	1	11	3	-8	-4	-20	3	-19	-13	-6	-2

On 1 October the BCBS started its third quantitative impact study (QIS3) to assess the impact of its proposals to modify the current Capital Accord on regulatory capital requirements. The institutions had until the end of 2002 to send the completed questionnaires to their supervisory authorities.

The QIS3 exercise revealed the need for some changes and adjustments in certain areas, which were incorporated into the proposals of the third consultative paper (CP3) published in late April.

The table shows the percentage change in minimum capital requirements with respect to the current Accord under each calculation method, for Spanish banks, for the 15 European Union countries and for the 13 member countries of the Committee (G10). The figures presented for the study of Spanish banks are the overall results of the six institutions that participated in the QIS3, expressed as a simple average. In the other two cases, the participating institutions are divided into two groups: group 1 consisting of large internationally active banks, and group 2 formed by other smaller credit institutions sometimes specialised in operations of a specific type.

In analysing these data and their consistency with the Committee's aims, the supervisory authorities carried out detailed analyses of how capital requirements would change depending on the different calculation methods and portfolios. Although the QIS3 exercise has unquestionably been the most complete of those carried out by the Committee, for various reasons the institutions were unable to take into account all the options that will be available to them when the New Accord is implemented. Among these, mention may be made of the new risk mitigation techniques, the possibility of including certain

risk exposures to SMEs in the retail portfolio, the use of internal models for certain types of repo operations and the application of advanced operational risk measurement models. Similarly, under the IRB approach, institutions were not required to comply with all the minimum requirements in their estimates of risk factors.

Although a complete analysis of these findings requires them to be broken down by portfolio, as was duly done by the Banco de España at the time¹, it can be concluded that two basic factors explain the results obtained:

- Credit risk capital requirements decrease in all groups of institutions and in all calculation approaches. The largest declines in these requirements are in the retail portfolio, because of its more favourable treatment under the New Accord.
- The new operational risk capital requirements offset the decreases in credit risk capital requirements. In certain cases this gives rise to an increase in the final result.

Finally, in interpreting these data, it has to be taken into account which approach is most likely to be adopted by the institutions belonging to each of the groups. In this respect, it is unlikely that the internationally active banks belonging to group 1 will choose the standardised approach.

1. See "El estudio del impacto cuantitativo en España del proyecto (CP3) de Nuevo Acuerdo de Capitales de Basilea" in the publication *Estabilidad Financiera* by the Banco de España (November 2003) (in Spanish only).

cross-border implementation. In this connection, in August 2003 the Committee published a set of principles designed to aid cross-border implementation of the Accord ("High-level principles for the cross-border implementation of the New Accord"), and in January published the aforementioned document on the treatment of operational risk capital requirements for institutions using the advanced approach (AMA) in large banking groups with foreign subsidiaries.

The May Committee meeting was very important because:

Finally, the May 2004 Committee meeting was very important for three basic reasons. First, because agreement was reached on all the outstanding matters on which a decision was needed before publication of the new framework for regulation of bank solvency. The good deal of work carried out in the preceding months enabled the completion of proposals on a

- Agreement was reached on all outstanding matters
- Agreement was reached on the dates for implementing Basel II: end-2006 for SA and FIRBA, and end-2007 for advanced approaches
- Important decisions were taken on the implementation of Basel II: co-ordination and co-operation between home and host supervisors

considerable number of items: all the technical and political aspects of the decision to calibrate the capital curve so that it covers only unexpected losses, certain matters relating to securitisation, risk mitigation techniques and operational risk. In addition, efforts were devoted to clarifying the significance of Pillar 2 and the process of recalibration prior to implementation of the new framework. Lastly, the treatment of revolving credit card portfolios was specified.

Second, agreement was reached on the dates for implementing Basel II, the text of which will be published by the end of June 2004. It will be implemented in late 2006 for institutions adopting the standardised and foundation IRB approaches to credit risk measurement and in late 2007 for institutions able to use the advanced approaches for measuring credit risk and operational risk. To reduce possible problems of non-level playing fields and of excessive reduction of institutions' capital requirements, temporary floors have been established so that the capital requirement of any institution obtained using Basel II rules cannot be lower than that under the current rules as of December 2006. These floors have been set at 95% in the first year and 90% and 80% the following two years.

Third, important decisions were taken on the implementation of Basel II, particularly on the need to work for improved co-ordination and co-operation between home and host supervisors, and on the open-ended nature of Basel II. On this latter point, the Committee stated that the text to be published in June will not be final and that further work will be undertaken to achieve adequate treatment of LGD (taking recessions into account), of so-called double default when a personal guarantee exists and of calculation of the potential future exposure associated with OTC derivatives.

A.2.2 THE PROCESS IN THE EUROPEAN COMMISSION

In 2003 the European Commission worked on drafting the new solvency directive

In July 2003 the Commission published a preliminary version of the directive for public consultation

The European directive reflects the specific features of European financial systems

The European Commission plans to submit its proposal in July 2004

The European Commission continued to participate as an observer in the Basel Committee working groups and is finalising the changes required in the Banking Co-ordination Directive (2000/12) and in the Capital Adequacy Directive (93/6) to transpose the Basel recommendations, taking account of the specific features of European financial systems.

The process has proceeded in parallel with that of Basel, so anyone familiar with the Committee's work would also know what the Commission was doing, although the timetables were different. On 1 July 2003 the Commission published a preliminary version of the directive for public consultation. It was accompanied by a wide-ranging explanatory document intended to serve as a guide to the proposals, to drive key aspects of them and to respond to comments received during the so-called structured dialogue. The consultative process lasted until 22 October 2003. The 130 comments received provided the most valuable guidelines for future work on the convergence of supervisory practices and on implementation.

The European directive differs somewhat from the Basel recommendations, not only in form but also in substance. Sometimes this is due to the specific features of European financial systems and the differences are therefore deliberate, as in the case of covered bonds (*cédulas hipotecarias*) or of the retention of the sovereign and interbank portfolios in the standardised approach on a permanent basis even though the institution may use the more advanced IRB approach for other portfolios. In other cases the differences arise from the agreements reached in Europe on matters open to national discretion. In this regard, the Commission decided to publish separately from the Committee two technical documents on the impact of the new Accord on the mortgage market, because it is a particularly important issue in Europe.

The European Commission plans to submit its proposal to amend the directive in July 2004 for passage through the European Council and the European Parliament. To ensure that the proposal has the widest support possible and thus expedite its passage, work continues in order

to identify and resolve various technical and political problems. To this end, the Commission receives, in addition to contributions from the CEBS and the Banking Advisory Committee (BAC), technical assistance from a new Committee (MSEG on capital requirements), which has replaced the Technical Sub-Group (TSG) and in which the participation of finance ministers from the member countries predominates.

The EU Council of Ministers asked the Commission for a report on this directive's impact on the European economy

In the EU, the new regulations will apply to all credit institutions and investment companies authorised under the investment services directive. This widespread application, along with the weight of retail activities in the European economy, means that the impact of the amendments to the two directives regulating the solvency of these two groups of institutions is a matter of utmost importance. For this reason, at its 15 and 16 March meeting in Barcelona, the EU Council of Ministers asked the Commission to submit a report analysing the impact that the new proposals would have on all sectors of the European economy, paying special attention to small and medium enterprises (SMEs).

PWC has conducted a study which concludes that the overall effects will be positive

The Commission entrusted this study to PWC Risk Management in collaboration with the *National Institute for Economic and Social Research* (NIESR). It examines the impact of the new proposals on the balance sheet of the financial sector and, in this way, on the EU economy as whole. Its general conclusions are fairly positive. Overall, it is anticipated that the new regulations will slightly reduce the capital requirements of the European banking system which, in the long-term and under favourable conditions, will have a positive effect on the gross production of the European Union.

ANNEX 2

Consolidated groups of Spanish credit institutions in December 2003

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.

		CONSOLIDATION METHOD APPLIED ¹
BANKS	GRUPO ATLÁNTICO	
	0008 BANCO ATLÁNTICO, S.A.	11
	8916 ATLÁNTICO SERVICIOS FINANCIEROS (INSTITUTIONS: 2)	11
	GRUPO DEUTSCHE, S.A.E.	
	0019 DEUTSCHE BANK, S.A.E.	11
	0205 DEUTSCHE BANK CREDIT, S.A. (INSTITUTIONS: 2)	11
	GRUPO SCH	
	0049 BANCO SANTANDER CENTRAL HISPANO, S.A.	11
	0011 ALLFUNDS BANK, S.A.	11
	0030 BANCO ESPAÑOL DE CRÉDITO, S.A.	11
	0036 SANTANDER CENTRAL HISPANO INVEST.	11
	0038 BANESTO BANCO DE EMISIONES, S.A.	11
	0073 PATAGON BANK, S.A.	11
	0083 BANCO ALICANTINO DE COMERCIO, S.A.	11
	0086 BANCO BANIF, S.A.	11
	0091 BANCO DE ALBACETE, S.A.	11
	0100 BANCO DE VITORIA, S.A.	11
	0224 SANTANDER CONSUMER FINANCE, S.A.	11
	4757 SANTANDER CENTRAL HISPANO LEASE, E.F.C.	11
	4797 SCH MULTILEASING, S.A., E.F.C.	11
	8206 HIPOTEBANSA, E.F.C., S.A.	11
	8236 HISPAMER SERVICIOS FINANCIEROS	11
	8314 BANSANDER DE FINANCIACIONES, S.A.	11
	8490 SANTANA CREDIT, E.F.C., S.A.	11
	8906 SCH FACTORING Y CONFIRMING, S.A., E.F.C.	11
	8910 BANESTO FACTORING, S.A., E.F.C. (INSTITUTIONS: 19)	11
	GRUPO PARIBAS	
	0058 BNP PARIBAS ESPAÑA, S.A.	11
	0225 BANCO CETELEM, S.A.	11
	8512 UNIÓN CRÉDITOS INMOBILIARIOS	11

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

8798 EURO CRÉDITO, E.F.C., S.A.	11
8914 BNP PARIBAS LEASE GROUP, S.A., E.F.C.	11
(INSTITUTIONS: 5)	
GRUPO MAPFRE	
0063 BANCO SER. FIN. CAJA MADRID-MAPFRE	11
0125 BANCOFAR, S.A.	11
4837 MADRID LEASING CORPORACIÓN, S.A.	11
8793 FINANMADRID, S.A., E.F.C.	11
(INSTITUTIONS: 4)	
GRUPO BARCLAYS, S.A.	
0065 BARCLAYS BANK, S.A.	11
8905 BAZZANO GROUP FACTORING, S.A., E.F.C.	11
(INSTITUTIONS: 2)	
GRUPO PASTOR	
0072 BANCO PASTOR, S.A.	11
8620 PASTOR SERVICIOS FINANCIEROS	11
(INSTITUTIONS: 2)	
GRUPO POPULAR	
0075 BANCO POPULAR ESPAÑOL, S.A.	11
0004 BANCO DE ANDALUCÍA, S.A.	11
0024 BANCO DE CRÉDITO BALEAR, S.A.	11
0082 BANCO DE CASTILLA, S.A.	11
0095 BANCO DE VASCONIA, S.A.	11
0097 BANCO DE GALICIA, S.A.	11
0216 BANCO POPULAR HIPOTECARIO, S.A.	11
0229 BANCO POPULAR-E, S.A.	11
0233 POPULAR BANCA PRIVADA, S.A.	11
8903 HELLER FACTORING ESPAÑOLA, S.A.	22
(INSTITUTIONS: 10)	
GRUPO SABADELL	
0081 BANCO DE SABADELL, S.A.	11
0185 SABADELL BANCA PRIVADA, S.A.	11
8211 BANSABADELL FINANCIACIÓN, E.F.C., S.A.	11
(INSTITUTIONS: 3)	
GRUPO BANCOVAL-DEXIA	
0094 BANCOVAL, S.A.	11
0231 DEXIA SABADELL BANCO LOCAL, S.A.	11
(INSTITUTIONS: 2)	
GRUPO URQUIJO	
0112 BANCO URQUIJO, S.A.	11
0228 BANCO CDC URQUIJO, S.A.	22
(INSTITUTIONS: 2)	

GRUPO CITIBANK	
0122 CITIBANK ESPAÑA, S.A.	11
8818 CITIFIN, S.A., E.F.C.	11
(INSTITUTIONS: 2)	
GRUPO BANKPYME	
0142 BCO. PEQUEÑA Y MED. EMPRESA	11
4753 EDAMLEASING, E.F.C., S.A.	11
8734 MULTIAHORRO, E.F.C., S.A.	11
(INSTITUTIONS: 3)	
GRUPO BBVA	
0182 BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	11
0009 FINANZIA, BANCO DE CRÉDITO, S.A.	11
0057 BANCO DEPOSITARIO BBVA, S.A.	11
0113 BANCO INDUSTRIAL DE BILBAO, S.A.	11
0121 BANCO OCCIDENTAL, S.A.	11
0129 BBVA BANCO DE FINANCIACIÓN, S.A.	11
0132 BANCO DE PROMOCIÓN DE NEGOCIOS	11
0227 UNOE BANK, S.A.	11
1004 BANCO DE CRÉDITO LOCAL DE ESPAÑA	11
8321 FINANZIA TRUCKS, E.F.C., S.A.	11
8908 BBVA FACTORING, E.F.C., S.A.	11
(INSTITUTIONS: 11)	
GRUPO B. FINANZAS	
0186 BANCO DE FINANZAS E INVERSIONES	11
(INSTITUTIONS: 1)	
GRUPO UBS	
0226 UBS ESPAÑA, S.A.	11
(INSTITUTIONS: 1)	
GRUPO INVERDIS	
0232 BANCO INVERDIS NET, S.A.	11
(INSTITUTIONS: 1)	
0042 BANCO GUIPUZCOANO, S.A.	11
0061 BANCA MARCH, S.A.	11
0078 BANCA PUEYO, S.A.	11
0079 BANCO INVERSIÓN, S.A.	11
0128 BANKINTER, S.A.	11
0130 BANCO SIMEÓN, S.A.	11
0131 BANCO ESPIRITO SANTO, S.A.	11
0138 BANKOA, S.A.	11
0188 BANCO ALCALÁ, S.A.	11
0198 BANCO COOPERATIVO ESPAÑOL, S.A.	11
0200 PRIVAT BANK, S.A.	11
0211 SDAD. ESPAÑOLA BANCA NEG. PROBANCA	11

	0217 BANCO HALIFAX HISPANIA, S.A.	11
	1000 INSTITUTO DE CRÉDITO OFICIAL	11
	(INSTITUTIONS: 14)	
a. Banks consolidated only with other institutions valued by the equity method	0136 BANCO ÁRABE ESPAÑOL, S.A.	
	0223 GENERAL ELECTRIC CAPITAL BANK, S.A.	
	(INSTITUTIONS: 2)	
b. Banks that are not consolidated and have individual own funds	0003 BANCO DE DEPÓSITOS, S.A.	
	0021 BANCO CONDAL, S.A.	
	0123 BANCO DE HUELVA, S.A., EN LIQ.	
	0151 J.P. MORGAN CHASE BANK, S.E.	
	0155 BANCO DO BRASIL, S.A., S.E.	
	0161 BANKERS TRUST COMPANY, S.E.	
	0169 BANCO DE LA NACIÓN ARGENTINA, S.E.	
	0191 EUROBANK DEL MEDITERRÁNEO, S.A.	
	0214 ARAB BANK, PLC, S.E.	
	0219 BANQUE MAROCAINE COM. EXT. INTERNAT.	
	0220 BANCO FINANTIA SOFINLOC, S.A.	
	0222 J.P. MORGAN BANK, S.A.	
	(INSTITUTIONS: 12)	
SAVINGS BANKS	GRUPO CAJA CATALUÑA	
	2013 CAIXA D'ESTALVIS DE CATALUNYA	11
	4779 LEASING CATALUNYA, E.F.C., S.A.	11
	8915 FACTORCAT, E.F.C., S.A.	11
	(INSTITUTIONS: 3)	
	GRUPO M.P. CÓRDOBA	
	2024 CAJA DE AHORROS Y M.P. DE CÓRDOBA	11
	8612 COMERCIANTES REUNIDOS DEL SUR, S.A.	11
	(INSTITUTIONS: 2)	
	GRUPO CAJA MADRID	
	2038 CAJA DE AHORROS Y M.P. DE MADRID	11
	0063 BANCO SER. FIN. CAJA MADRID-MAPFRE	22
	0099 ALTAE BANCO, S.A.	11
	0125 BANCOFAR, S.A.	22
	4837 MADRID LEASING CORPORACIÓN, S.A.	22
	8793 FINANMADRID, S.A., E.F.C.	22
	(INSTITUTIONS: 6)	
	GRUPO CAJA ASTURIAS	
	2048 CAJA DE AHORROS DE ASTURIAS	11
	0115 BANCO LIBERTA, S.A.	11
	(INSTITUTIONS: 2)	
	GRUPO CAJA BALEARES	
	2051 CAJA DE AHORROS Y M.P. DE BALEARES	11

4838 SA NOSTRA DE INVERSIONES, E.F.C., S.A. (INSTITUTIONS: 2)	11
GRUPO CAJA CANTABRIA	
2066 C. AHORROS DE SANTANDER Y CANTABRIA	11
4819 BANCANTABRIA INVERSIONES, S.A., E.F.C. (INSTITUTIONS: 2)	11
GRUPO C. SAN FERNANDO	
2071 C.A.P. S. FERNANDO DE SEVILLA JEREZ	11
8596 UNIÓN CTO. FIN. MOB. INM. CREDIFIMO (INSTITUTIONS: 2)	11
GRUPO BANCAJA	
2077 BANCAJA	11
0093 BANCO DE VALENCIA, S.A. (INSTITUTIONS: 2)	11
GRUPO CAIXA VIGO	
2080 CAIXA VIGO, OURENSE E PONTEVEDRA	11
0046 BANCO GALLEGO, S.A. (INSTITUTIONS: 2)	11
GRUPO IBERCAJA	
2085 IBERCAJA	11
4832 IBERCAJA LEASING Y FINANCIACIÓN (INSTITUTIONS: 2)	11
GRUPO CAJA GALICIA	
2091 CAJA DE AHORROS DE GALICIA	11
0031 BANCO ETCHEVERRÍA, S.A. (INSTITUTIONS: 2)	22
GRUPO KUTXA	
2095 BILBAO BIZKAIA KUTXA	11
4809 ADEFISA LEASING, E.F.C., S.A. (INSTITUTIONS: 2)	11
GRUPO CAJA PENSIONES	
2100 C. AHORROS Y PENSIONES DE BARCELONA	11
0133 BANCO DE EUROPA, S.A.	11
8209 HIPOTECAIXA, E.F.C., S.A.	11
8221 CORPORACIÓN HIPOTECARIA MUTUAL	11
8776 FINCONSUM, E.F.C., S.A.	11
8788 FINANCIACAIXA 2, E.F.C., S.A. (INSTITUTIONS: 6)	11
GRUPO CAJA GUIPÚZCOA	
2101 CAJA AHORROS GIPUZKOA Y S. SEBASTIÁN	11

	0059 BANCO DE MADRID, S.A.	11
	8811 GRUPO SERV. HIP. ON-LINE, E.F.C., S.A.	11
	(INSTITUTIONS: 3)	
	GRUPO UNICAJA	
	2103 UNICAJA	11
	0184 BANCO EUROPEO DE FINANZAS, S.A.	11
	(INSTITUTIONS: 2)	
	2000 CONFED. ESPAÑOLA CAJAS DE AHORROS	11
	2010 M.P. Y CAJA GRAL. BADAJOZ	11
	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 M.P. 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 PENEDEÈS	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 M.P. DE ÁVILA	11
	2096 CAJA ESPAÑA DE INVERSIONES	11
	2097 CAJA DE AHORROS DE VITORIA Y ÁLAVA	11
	2098 M.P. Y C.A. DE HUELVA Y SEVILLA	11
	2099 CAJA AHORROS Y M.P. DE EXTREMADURA	11
	2104 CAJA AHORROS DE SALAMANCA Y SORIA	11
	2105 CAJA AHORROS DE CASTILLA-LA MANCHA	11
	(INSTITUTIONS: 28)	
a. Savings banks consolidated only with other institutions valued by the equity method	2017 CÍRCULO CATÓLICO OBREROS DE BURGOS	
	2045 CAJA DE AHORROS Y M.P. ONTINYENT	
	2069 CAJA AHORROS Y MONTE PIEDAD SEGOVIA	
	(INSTITUTIONS: 3)	
Savings banks that are not consolidated and have individual own funds	2056 COLONYA-CAIXA D'ESTALVIS POLLENSA	
	(INSTITUTIONS: 1)	
COOPERATIVES	3008 CAJA R. DE NAVARRA, S.C.C.	11
	3017 CAJA R. DE SORIA, S.C.C.	11

	3025 CAIXA C. DELS ENGINYERS, S.C.C.	11
	3035 CAJA LABORAL POPULAR, C.C.	11
	3058 CAJA R. INTERMEDITERRANEA, S.C.C.	11
	3084 IPAR KUTXA RURAL, S.C.C.	11
	3085 CAJA R. DE ZAMORA, C.C.	11
	3159 CAIXA POPULAR-CAIXA RURAL, S.C.C.V.	11
	3172 CAJA CAMINOS, S.C.C.	11
	3183 CAJA DE ARQUITECTOS, S.C.C.	11
	(INSTITUTIONS: 10)	
a. Cooperatives consolidated only with other institutions valued by the equity method	3080 CAJA R. DE TERUEL, S.C.C.	
	3082 CAJA R. DEL MEDITERRÁNEO, S.C.C.	
	3171 CAIXA DELS ADVOCATS-CAJA ABOGADOS	
	3187 CAJA R. DEL SUR, S. COOP. CRÉDITO	
	(INSTITUTIONS: 4)	
b. Cooperatives that are not consolidated and have individual own funds	3001 CAJA R. DE ALMENDRALEJO, S.C.C.	
	3005 CAJA R. CENTRAL, S.C.C.	
	3007 CAJA R. DE GIJÓN, C.C.	
	3009 CAJA R. DE EXTREMADURA, S.C.C.	
	3016 CAJA R. DE SALAMANCA, S.C.C.	
	3018 C. R. R. S. AGUSTÍN FUENTE ÁLAMO M., S.C.C.	
	3020 CAJA R. DE UTRERA, S.C.A.L.C.	
	3021 CAJA R. DE ARAGÓN, S.C.C.	
	3022 CAJA R. DE FUENTEPELAYO, S.C.C.	
	3023 CAJA R. DE GRANADA, S.C.C.	
	3029 CAJA DE CRÉDITO DE PETREL, C.R., C.C.V.	
	3045 CAIXA R. ALTEA, C.C.V.	
	3056 CAJA R. DE ALBACETE, S.C.C.	
	3059 CAJA R. DE ASTURIAS, S.C.C.	
	3060 CAJA R. DE BURGOS, C.C.	
	3062 CAJA R. DE CIUDAD REAL, S.C.C.	
	3063 CAJA R. DE CÓRDOBA, S.C.C.	
	3064 CAJA R. DE CUENCA, S.C.C.	
	3067 CAJA R. DE JAÉN, S.C.C.	
	3070 CAIXA R. GALEGA, S.C.C.L.G.	
	3076 CAJA R. DE TENERIFE, S.C.C.	
	3078 CAJA R. DE SEGOVIA, C.C.	
	3081 CAJA R. DE TOLEDO, S.C.C.	
	3083 CAJA R. DEL DUERO, S.C.C.L.	
	3089 CAJA R. NTRA. SRA. GUADALUPE, S.C.C.A.	
	3094 CAJA CAMPO, CAJA RURAL, S.C.C.	
	3095 CAJA R. S. ROQUE DE ALMENARA, S.C.C.V.	
	3096 CAIXA R. DE L'ALCUDIA, S.C.V.C.	
	3098 CAJA R. NTRA. SRA. DEL ROSARIO, S.C.A.C.	
	3102 CAJA R. S. VICENTE FERRER, S.C.C.V.	
	3104 CAJA R. NTRA. SRA. DEL CAMPO, S.C.A.C.	
	3105 CAIXA R. DE CALLOSA D'EN SARRIA, C.C.V.	
	3110 CAJA R. CATÓLICO AGRARIA, S.C.C.V.	

3111 C.R. LA VALL "S. ISIDRO", S.C.C.V.
3112 CAJA R. S. JOSÉ DE BURRIANA, S.C.C.V.
3113 CAJA R. S. JOSÉ DE ALCORA S.C.C.V.
3114 CAJA R. CASTELLÓN S. ISIDRO, S.C.C.V.
3115 CAJA R. "NUESTRA MADRE DEL SOL", S.C.A.C.
3116 CAJA R. COMARCAL MOTA DEL CUERVO, S.C.
3117 CAIXA R. D'ALGEMESÌ, S.C.V.C.
3118 CAJA R. DE TORRENT, C.C.V.
3119 CAJA R. S. JAIME ALQUERÍAS S.C.C.V.
3121 CAJA R. DE CHESTE, S.C.C.
3123 CAIXA R. DE TURIS, C.C.V.
3127 C.C.A., C.R. DE CASAS IBÁÑEZ, S.C.
3128 CAJA R. DE LA RODA, S.C.C.
3130 CAJA R. S. JOSÉ DE ALMASSORA, S.C.C.V.
3134 C.R. NTRA. SRA. ESPERANZA DE ONDA, S.C.
3135 CAJA R. S. JOSÉ DE NULES, S.C.C.V.
3137 CAJA R. DE CASINOS, S.C.C.V.
3138 CAJA R. DE BETXI, S.C.C.V.
3140 CAJA R. DE GUISSONA, S.C.C.
3144 CAJA R. DE VILLAMALEA, S.C.C.A.
3146 CAJA ESCOLAR DE FOMENTO, S.C.C.
3147 CAIXA R. DE BALEARS, S.C.C.
3150 CAJA R. DE ALBAL, C.C.V.
3152 CAJA R. DE VILLAR, C.C.V.
3157 CAJA R. LA JUNQUERA CHILCHES, S.C.C.V.
3160 CAIXA R. S. JOSEP DE VILAVELLA, S.C.C.V.
3161 CAJA R. S. FORTUNATO, S.C.C.C.L.
3162 CAIXA R. BENICARLÓ, S.C.C.V.
3165 CAJA R. S. ISIDRO VILAFAMES, S.C.C.V.
3166 C.R. S. ISIDRO LES COVES VINROMA
3174 CAIXA R. VINARÓS, S.C.C.V.
3177 CAJA R. DE CANARIAS, S.C.C.
3179 CAJA R. DE ALGINET, S.C.C.V.
3186 CAIXA R. ALBALAT DELS SORELLS, C.C.V.
3188 CRÉDIT VALENCIÀ, C.R.C.C.V.
3189 CAJA R. ARAGONESA Y DE LOS PIRINEOS
(INSTITUTIONS: 69)

SPECIALISED CREDIT
INSTITUTIONS (SCIS)

GRUPO LICO

4713 LICO LEASING, S.A., E.F.C. 11
(INSTITUTIONS: 1)

GRUPO RENAULT

8345 RENAULT FINANCIACIONES, S.A., E.F.C. 11
4726 ACCORDIA ESPAÑA, S.A., E.F.C. 11
(INSTITUTIONS: 2)

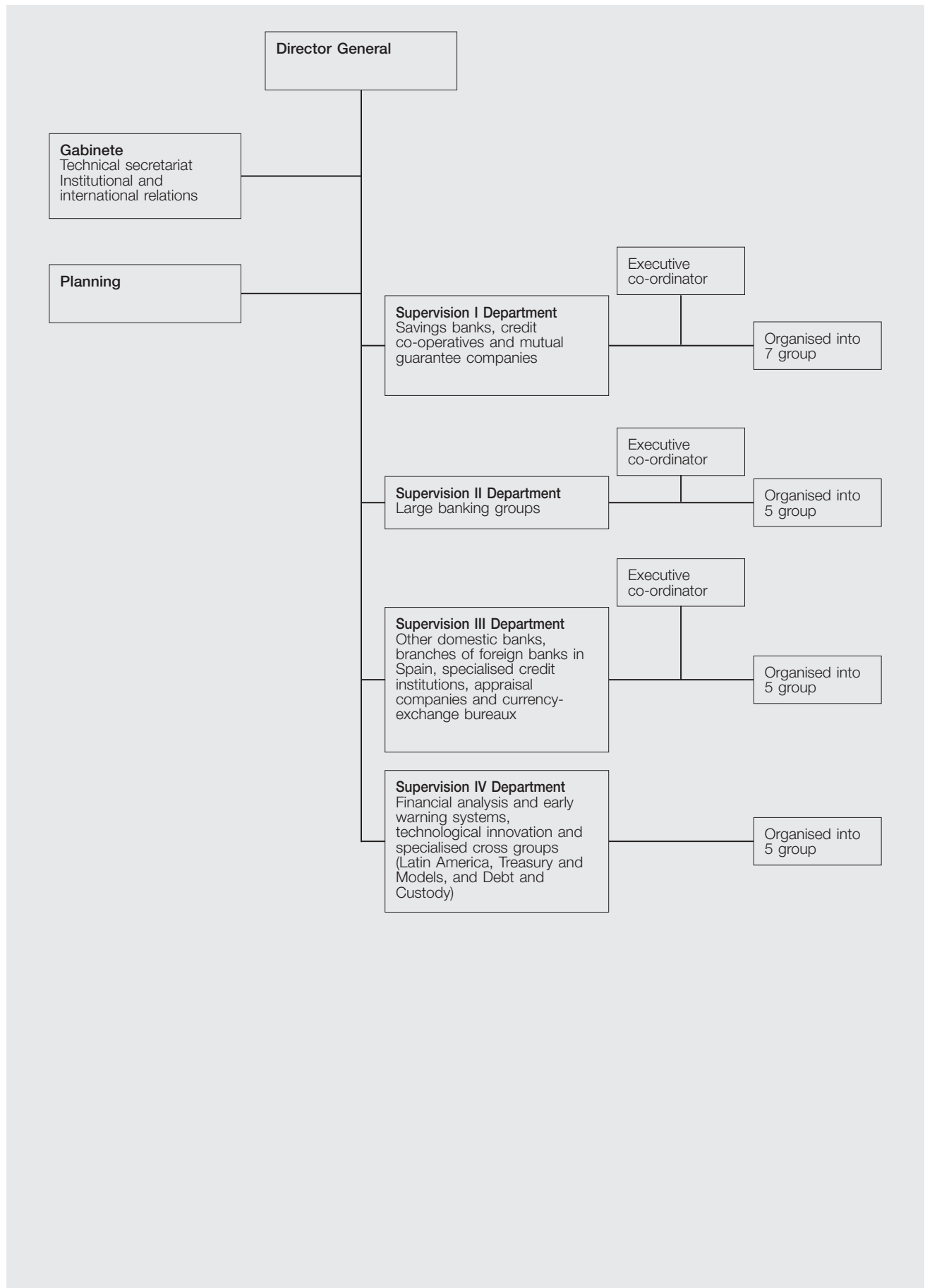
GRUPO TARCREDIT

8640 TARCREDIT, E.F.C., S.A. 11

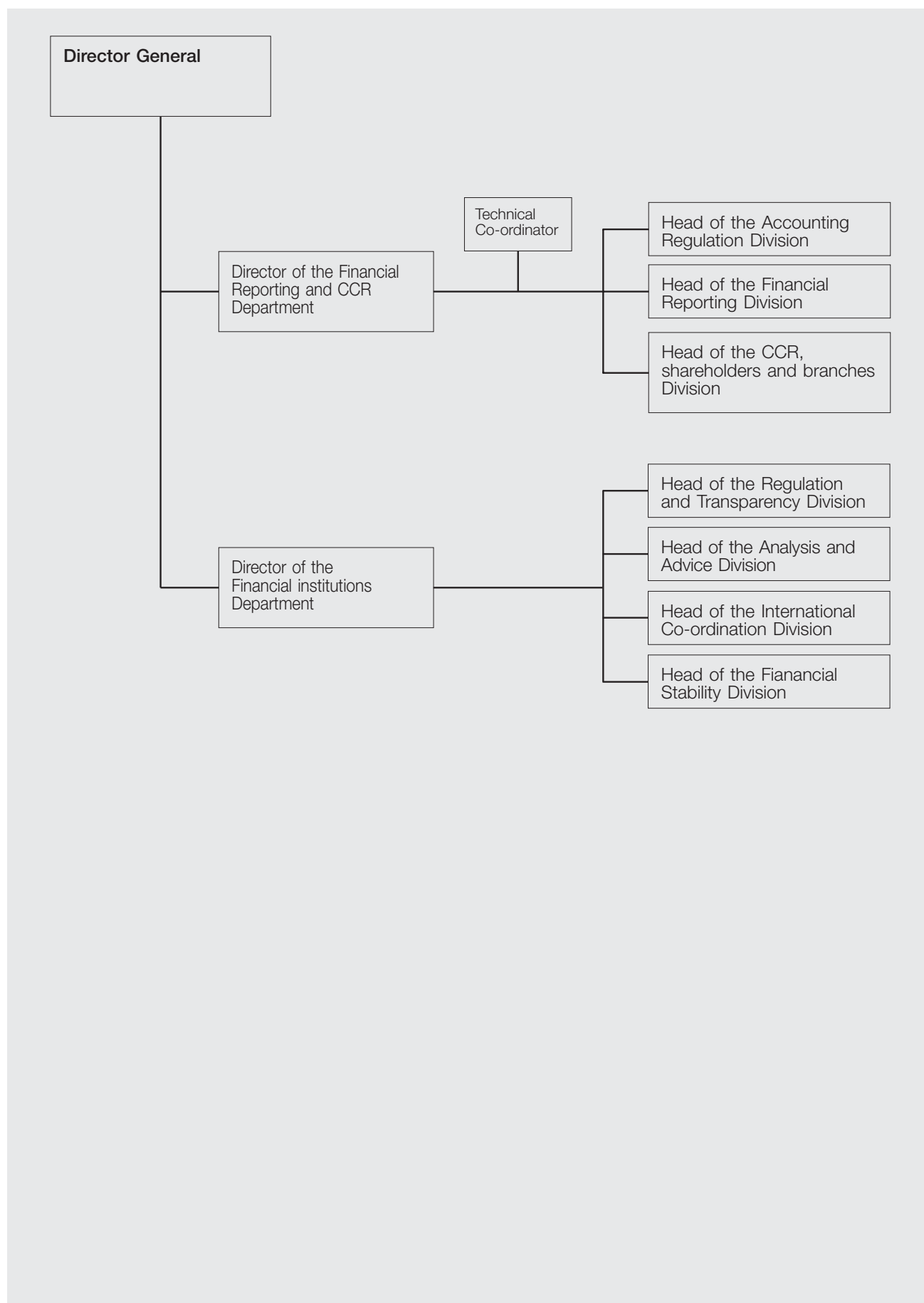
	4784 TRANSOLVER FINANCE, E.F.C., S.A.	22
	8819 TARGASYS STOCK, E.F.C., S.A.	11
	(INSTITUTIONS: 3)	
	GRUPO CARREFOUR	
	8795 SERVICIOS FINANCIEROS CARREFOUR, E.F.C.	11
	8815 FINANDIA E.F.C., S.A.	11
	(INSTITUTIONS: 2)	
	GRUPO CARTUJA	
	8817 CARTUJA FINANCIERA ANDALUZA, S.A.	11
	(INSTITUTIONS: 1)	
	8807 ARALAR, E.F.C., S.A.	11
	(INSTITUTIONS: 1)	
a. SCIs consolidated only with other institutions valued by the equity method	8307 VOLKSWAGEN FINANCE, S.A., E.F.C.	
	(INSTITUTIONS: 1)	
b. SCIs that are not consolidated and have individual own funds	4706 CATERPILLAR FINANCIAL CORP. FINAN.	
	4709 ING LEASE (ESPAÑA), E.F.C., S.A.	
	4761 IBM FINANCIACIÓN, E.F.C., S.A.	
	4789 H. SANTOS, E.F.C., S.A.	
	4799 MERCEDES-BENZ CREDIT, E.F.C., S.A.	
	8219 PRAGA HIPOTECAS Y CTOS., E.F.C., S.A.	
	8233 AHORROGESTIÓN HIPOTECARIO, S.A. (E.F.C.)	
	8234 A.I.G. FINANZAS, S.A., E.F.C.	
	8235 BILBAO HIPOTECARIA, S.A., E.F.C.	
	8240 CREDITER, S.A., E.F.C.	
	8308 FINANCIERA CARRIÓN, S.A., E.F.C.	
	8342 LUZARO, E.F.C., S.A.	
	8524 MONTJUICH EF, E.F.C., S.A.	
	8567 FINANCIERA OVIEDO, S.A., E.F.C.	
	8618 MONETICIA, S.A., E.F.C.	
	8714 GMAC ESPAÑA, S.A.F., E.F.C.	
	8769 UNIÓN FINANCIERA ASTURIANA, S.A.	
	8780 BMW FINANCIAL SERVICES IBÉRICA	
	8796 COFIDIS HISPANIA, E.F.C., S.A.	
	8804 COFIBER FINANCIERA, E.F.C., S.A.	
	8805 FINANCIERA EL CORTE INGLÉS, E.F.C.	
	8806 VFS FINANCIAL SERV., E.F.C., S.A.	
	8810 AMERICAN EXPRESS, E.F.C., S.A.	
	8812 SÜDLEASING ESPAÑA, E.F.C., S.A.	
	8813 SCANIA FINANCE HISPANIA, E.F.C., S.A.	
	8814 ACCORDFIN ESPAÑA, E.F.C., S.A.	
	8816 SDAD.CONJUNTA EMISIÓN G.M.P., E.F.C., S.A.	
	8820 ING REAL ESTATE FINANCE (ESPAÑA), E.F.C.	
	8911 ELECTROLUX FINANCIERA, S.A., E.F.C.	

8912 INTER-FACTOR EUROPA, S.A., E.F.C.
8918 TELEFÓNICA FACTORING, E.F.C., S.A.
(INSTITUTIONS: 31)

ANNEX 3



ANNEX 4



ANNEX 5

Disciplinary proceedings initiated during the period 1999-2003

INSTITUTIONS	1999	2000	2001	2002	2003	TOTAL
Banks	8	2	2	4	3	19
Savings banks	2	1				3
Credit co-operatives	4	4	5			13
Specialised credit institutions	1	3	1		2	7
Appraisal companies		1		3	3	7
Mutual guarantee companies						0
Appraisal companies revocations		3	1			4
Owner of significant bank holdings					1	1
Use of names or pursuit of activities reserved for credit institutions	4	2	2	4		12
Currency-exchange bureaux				5	8	13
Unauthorised currency-exchange bureaux					3	3
Advertising						0
Non-compliance with ECB min. res. requirements	5	6	7	10	4	32
TOTAL	24	22	18	26	24	114

ANNEX 6

Proceedings initiated and resolved, by type of infringement

INFRINGEMENT											
YEAR	NUMBER OF PROCEEDINGS	VERY SERIOUS	SERIOUS	MINOR	PROCE- DING DISMISSED	PROCE- DING SUSPENDED	RESERVED NAME (ARTS. 28-29 LDI)	UNAUTHORISED CURRENCY- EXCHANGE BUREAUX	APPRAISAL COMPANIES (RD 775/97)	NON- COMPLIANCE WITH ECB MIN. RES. REQUIREMENTS	
1999	24 proceedings against institutions		15	1	3		2			5	
	1 proceeding agains particular directors of such institutions						1				
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			
	42 proceedings against particular directors of such institutions	59	131		3	2				4	

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