

Corporate Activities

INCOME STATEMENT			
<small>(MILLION EUROS)</small>			
	1H04	Δ%	1H03
NET INTEREST INCOME	9	n.m.	(61)
Net fee income	(87)	137.4	(36)
CORE REVENUES	(78)	(20.3)	(98)
Net trading income	139	12.6	123
ORDINARY REVENUES	61	138.6	26
Personnel costs	(202)	(9.5)	(223)
General expenses	(17)	n.m.	25
GENERAL ADMINISTRATIVE EXPENSES	(219)	10.6	(198)
Depreciation and amortization	(70)	(7.8)	(76)
Other operating income and expenses	(8)	(54.4)	(17)
OPERATING PROFIT	(235)	(11.1)	(264)
Net income (loss) from companies accounted for by the equity method	126	68.6	75
Amortization of goodwill	(312)	4.0	(300)
Net income (loss) from Group transactions	217	(21.4)	277
Net loan loss provisions	24	n.m.	(269)
Net extraordinary income (loss)	(79)	n.m.	293
PRE-TAX PROFIT	(259)	36.7	(189)
Corporate income tax	144	(38.9)	236
NET PROFIT	(115)	n.m.	47
Minority interests	(21)	(61.2)	(54)
NET ATTRIBUTABLE PROFIT	(136)	n.m.	(7)
BALANCE SHEETS			
<small>(MILLION EUROS)</small>			
	30-06-04	Δ%	30-06-03
Total net lending	(1,757)	(35.7)	(2,731)
Securities portfolio	30,671	26.8	24,195
Liquid assets	(23,461)	45.9	(16,085)
Inter-area positions	16,185	32.0	12,263
Property and equipment and intangible assets	1,529	(3.4)	1,583
Other assets	11,948	64.1	7,280
TOTAL ASSETS/LIABILITIES AND EQUITY	35,115	32.5	26,505
Deposits	(3,638)	34.1	(2,714)
Debt securities	23,717	(1.9)	24,187
Equity	7,655	20.8	6,338
• Shareholders' funds	3,043	20.1	2,534
• Other eligible funds	4,612	21.3	3,804
Liquid liabilities	-	-	-
Inter-area positions	-	-	-
Other liabilities	7,381	n.m.	(1,306)

This area deals with the Group's holding in big industrial corporations and financial institutions; the activities and results of the corporate support units, such as ALCO (Assets and Liabilities Committee); and other activities that do not fit into the rest of the Group's business areas, such as country-risk provisioning and goodwill amortisation (except for business projects within the Wholesale Banking Area).

A comparison of this area's half-year income statement against the comparable period for 2003 highlights the improvement in operating profit, largely due to better net interest income. This was 9 million euros in profit this year (as against -61 million losses last year), largely due to better liquidity and interest risk management. Below the line, equity-accounted income was boosted by both greater contributions from associated companies and the absence of any corrections like those that were so significant in the first half of 2003. However, lower capital gains and a net negative contribution from provisioning and extraordinary losses compared poorly against the positive performance of the year before, when both items were reclassified, the one offsetting the other, mainly with respect to Argentina. Finally, the regularisation of corporate tax this year and the lower weight of minorities led to a negative attributable profit for the area of -136 million euros, as against -7 million in the first half of 2003.

The Large Industrial Corporations Unit basically manages the holdings in Telefónica, Repsol and Iberdrola, which comprise 90% of total holdings. Active management of this portfolio has increased the half-year operating profit by 20.1% over the same period in 2003, reaching 93 million euros. Moreover, the equity-accounted contribution of its companies has made a greater contribution in the year-on-year comparison following adjustments to 2002 results (96 million euros). All this allowed the unit to record an attributable profit of 136 million euros in the last six months, as compared to 19 million in the same period of the previous year.

The Financial Holdings Unit has not made any especially relevant operations this quarter, maintaining its holdings in BNL and Bradesco. In the first quarter of 2004 it sold its stake in Banco Atlántico, with 218-million euros of capital gains, while in the first six months of 2003 its divestment from Crédit Lyonnais added 343 million euros to its accounts. In the first quarter of 2003,

216 million were booked in capital gains from the cash proceeds, and in the second quarter, 127 million euros from selling the Crédit Agricole shares received in the swap. The low tax impact of the capital gains obtained by Banco Atlántico explains the lower corporate tax for 2004. All in all, attributable profit for the first six months, at 187 million euros, was 28 million down on the figure recorded for the same period the previous year.

The Assets and Liabilities Committee (ALCO) administers the Group's interest and exchange rate risks as well as its overall liquidity and shareholders' equity. Net interest income and net trading income added up to 237 million euros in the first six months of 2004, as against 173 million in the same period of 2003. This increase was the outcome of active management of the structural interest-rate risk portfolio, which showed a balance of 24,409 billion euros at 30-6-04 (17.6 billion at 30-6-03) and the positions taken to cover exchange-rate risk. Since this portfolio has a life of less than two years, its sensitivity to interest rate movements is reduced. However, it is worth noting that 51% of the latent capital gains in the portfolio are covered.

The Corporate Activities Area includes personnel and general expenses, depreciation and other operating costs generated by corporate areas for the Group. It also absorbs other costs of an institutional nature that cannot be assigned to a particular area (corporate IT costs, severance payments, etc.). The overall amount for these items, 296 million euros this half year, is similar to last year.

Amortisation of goodwill came to 312 million euros, up 12 million euros on the first six months of 2003. The increase of 65 million euros from the Bancomer acquisition is partially offset by the early amortisation, in June 2003, of 39-million euros' goodwill from Bradesco and the lesser amortisation following divestments from the various associated undertakings (mainly Crédit Lyonnais, Gas Natural and Wafabank).

Lastly, it should be pointed out that the business volume figures (for Retail, Wholesale and The Americas) incorporate intergroup transactions considered an integral part of business activities and management. All intergroup transactions eliminated during consolidation are assigned to the Corporate Activities Area and therefore some items on its balance sheet may contain negative amounts.