



MADRID CENTRO FINANCIERO

## **Analysis of the Community of Madrid's status as a Global Financial Centre in comparative terms**

Deloitte S.L.

Madrid, March 2008

# Contents

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## Presentation letter

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## Executive summary

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## Analysis of the Community of Madrid's status as a GFC in comparative terms

- Prior considerations
  - Definition of a Global Financial Centre for Madrid
  - Financial Centres analysed in the study
  - Methodology
  - Competitor cities and rankings by subject
- 

## Analysis of variables

- Financial business centre
  - Macroeconomic and political scenario
- 

## Conclusions

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## Appendix: Methodology and Information sources

- Methodology
  - Information sources
- 

## Bibliography

## Presentation letter

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Technological advances, the deregulation of capital movements and the need to serve global clients are critical factors in the development of international financial markets. If we add to this forecasts of capital flow growth, which it is considered will increase at a considerable rate in the future, the economic importance of being capable of attracting and managing these capital flows is evident. Hence the interest in gaining a better understanding of and highlighting the region of Madrid's status as a global financial centre.

Various factors determine its appeal as a global financial centre: capital markets, financial system, ability to innovate, potential for growth, etc. although it is clear is the need to take an active role internationally in order to take advantage of the opportunities for growth which might arise.

Seneca said that “there is no favourable wind for the man who does not know where he is going”. The Community of Madrid does know where it is going and it occupies a prominent position in the international context. It is a global financial centre and it depends on the efforts of financial institutions and public and private entities to continue increasing its importance and the important role it plays for Spanish economic growth.

I trust this publication will be of interest to you.

Fernando Merry del Val  
Counsellor of Economy and Consumer Affairs  
Autonomous Community Government of Madrid

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## **Executive Summary**

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# Executive Summary

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## Introduction

Rankings assessing the importance and positioning of various financial centres are published quite frequently. However, an economy such as the Spanish economy is not always shown in these rankings. The disparity of criteria used to select the financial centres, the different variables used and the diversity of opinions obtained demanded a more in-depth analysis to ascertain the region of Madrid's current status within the international financial system, paying particular attention to its status as a financial centre.

The analysis provided below aims to be objective and transparent and to support its findings with a quantitative analysis of over 150 indicators. 50 primary analysis indicators were grouped into two variables and the remaining indicators were considered to be secondary and were grouped into another four variables which were not considered when constructing the ranking. The aim is to provide a stable framework for analysis, for decision-making and seeking future opportunities. With this goal in mind, 15 of the world's main business cities were analysed.

## The importance of being a global financial centre

A global financial centre (GFC) can be defined as the place where financial transactions are centralised permitting the regions (and countries where they are located) to gain efficiency by taking advantage of economies of scale. To a certain degree, we might say that it functions as a focal point for the business and financial world, facilitating domestic and international transactions and thereby fostering relations between players of various types and nationalities.

More precisely, recognition as a GFC is based on three factors: market liquidity, the general economic environment and development of services. GFCs are centres of liquidity management that encourage the attraction of capital and funds and facilitate investment therein through the promotion of financing. This also implies improving system efficiency and reducing management costs whilst increasing competitiveness. The general economic environment favours the ability to form a reputable GFC which in turn becomes a site attracting the best

## Executive Summary

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companies, with a consequent increase in productivity and greater demand for goods and services. Another consequence of this activity is the development of innovation centres. Lastly, GFCs also enhance the development and creation of services. It is not just a question of having the best professionals, but also providing them with an adequate environment for the development of their business activity, which requires investment in infrastructure to provide the Centre with the capabilities required to provide for these professionals.

In a quantitative and qualitative analysis of world financial centres, a group of cities stands out in both economic and geo-strategic terms. This analysis focuses on these cities.

Two financial centres stand out in terms of size and importance at world level: London and New York. It is in the light of these two financial centres, and despite the increasing renown of other centres, that the importance of the centres located in Europe, which are fundamental at international level, is noteworthy. Other centres such as Miami have also been compared with Madrid due to their specialisation and competitiveness (a specialist banking centre competing with the Community of Madrid since it channels investments to Latin America making it a centre attracting investments which could be channeled through region of Madrid).

Lastly, the drive of the new business centres established in Asia, in spite of their current levels of financial activity, should be taken very seriously in terms of the future potential they represent. This would be the case of Singapore, Shanghai and Hong Kong, without overlooking the importance of Tokyo as a financial market place.

# Executive Summary

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## Is the region of Madrid a global financial centre?

The in-depth study of the factors shaping a GFC confirms that the region of Madrid is not just a highly dynamic city with great deal of potential in financial terms, but already a distinguished player in a worldwide context. Madrid would constitute, behind London, New York and Paris, one of the main financial centres due, above all, to the region's balance in the various groups of variables<sup>(1)</sup>.

But this status should not give rise to complacency. Verification of Madrid's strength also contains a message for future motivation: it identifies the opportunities for increasing, improving and sustaining this situation in the long term in an ever changing environment.

## Financial business centre

The economic growth experienced in Spain in recent years has not only brought our economy a degree of maturity in terms of income, but has provided the impetus required by the financial market. The Community of Madrid has profited from this favourable environment. Far from merely riding along with the general wave of prosperity, the region of Madrid has contributed its own wealth to making this a reality. However, this positive effect is determined by the strength

shown by the financial services industry in recent years which has not only been reflected by a greater increase in financial assets than the other cities analysed in this study, but has also led to a gradual strengthening of Spanish banks (which lead the world in terms of cost-to-income). Containment of costs in a business model basically focused on retail banking services and a regulatory model noted for its prudence have been of great importance to our financial system.

The equity and fixed-income securities markets merit a special mention. The equity securities market has shown great dynamism allowing the Community of Madrid's market capitalisation to grow at an annual rate of 20% and its trading volume to grow by 29% between 2003 and 2007. This growth, which is similar to that of the Asian economies, has enabled the region of Madrid to reduce the gap with Frankfurt and Paris<sup>(2)</sup> in terms of capitalisation. Based on the data available at December 2007 the trading volume of the Madrid Stock Exchange is higher than that of Paris<sup>(3)</sup>. The situation of the fixed income market is even more significant with 51% annual growth in the period from 2003 to 2007, making Madrid the leading exchange in the world

## Executive Summary

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in terms of fixed-income trading volume; in spite of the fact that fewer securitisations have taken place since September 2007, mainly due to the international economic situation.

The Spanish market is of less importance internationally in terms of the assets managed by investment funds (or pension funds); our market being on par with Germany, Switzerland and Italy but well below France and the United Kingdom where this business is more highly developed.

Following an analysis of the consumer finance business, in spite of the fact that its business potential is not particularly significant in Spain, a management model has been developed by certain Spanish banks. This model is being applied successfully at international level and gives an idea of the capabilities offered by our market.

In the highly volatile business of flotations, mergers and acquisitions, it can be said that business in Spain and, therefore, in the region of Madrid, is similar to that of Paris, Amsterdam or Frankfurt, although falling well short of more active markets

such as New York, Shanghai or London. Foreign investment business<sup>(4)</sup>, however, is noteworthy due in particular to the internationalisation of Spanish companies which, financed by the generating capacity of national companies, generated an average volume equivalent to 6.7% of GDP from 2002 to 2007<sup>(5)</sup>.

In short, when referring to Madrid's capacity as a financial business centre it is noteworthy that:

- Madrid is the decision-making centre for two of the world's 30 leading banks and is a key gateway to Latin America;
- The banks located in the Madrid Autonomous Community have demonstrated their leadership in terms of cost-to-income and shown their strength in international markets;
- The Madrid Stock Exchange has the third largest equities market in the index calculated at European level; and
- Madrid led the fixed-income trading volume ranking in 2007, and took second place in the index based on the analysis<sup>(6)</sup>.

# Executive Summary

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## Macroeconomic and political scenario

Internationally both Spain and the Community of Madrid have been ranked highly by the rating agencies due to the positive perception of its stability and security arising from membership of the euro zone. This is consolidated by average GDP growth from 2002 to 2007 which is above that of the countries where the other cities in comparison are located, indicating that the Spanish macroeconomic and political scenario is appealing and strengthening Madrid's status as a GFC.

In general terms, it can be concluded that the stability enjoyed by the European countries enhances the Community of Madrid's position in the rankings. Also, the transparency and freedom, which make business operations safer, and good foreign relations provide an image of stability which serves to consolidate the Community of Madrid's position.

## Position

In short, the Community of Madrid is a global financial centre due to its proven strength as a financial business centre with a consolidated banking industry and capital markets. This is supported by the equities and fixed income securities markets, which are very important in international terms, and by the increase in financial assets observed in recent years. Also, in macroeconomic and political terms, the region of Madrid is in a stable economic area in which any top-level financial activity or business may be carried out, a basic requirement for the sustainability of a global financial centre.

# Executive Summary

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## Other aspects to be considered

Another group of factors was considered of interest in the analysis but they were not used to construct the ranking because they were considered secondary. However, to provide the study with greater solidity, the following variables were analysed:

### The financial centre's appeal

When tackling the analysis of a financial centre's importance in a business context, various factors need to be considered. There are a series of indexes which study the region's appeal based on polls, either by analysing indexes of health and sanitation, the work-life balance, climatology, average days with precipitation, etc. Madrid is a region that scores highly on all these indexes in particular considering that the most highly valued cities are those with a lower number of inhabitants making them more accessible to and comfortable for citizens and executives alike.

The Community of Madrid's reputation is worthy of similar consideration. The high number of tourists, the importance of its leisure activities and investment spending make Madrid one of the most attractive regions in the analysis.

### Ease of doing business

A region's appeal as a financial centre is also affected to a larger or lesser extent by the ease of creating and doing business. The Community of Madrid's appeal is similar to that of the other European regions although it offers opportunities for improvement in terms of facilitating certain processes required for business activities.

Based on an analysis of business activity and the ease of obtaining credit, it can be deduced that the Community of Madrid backs business creation and development by facilitating access to the financing instruments and supporting the development of the region's local business fabric.

## Executive Summary

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However, the reduced level of labour market flexibility and the higher tax burden borne by companies means that there is room for improvement in optimising the Community of Madrid's offering in the future with the dual purpose of increasing its appeal through the development of the domestic market and increasing its visibility and interest for foreign investment. Additionally, in relation to the labour market, the European Union backs the movement of workers within its borders, thus harmonising this situation directly.

In spite of the foregoing, companies located in the Community of Madrid handle a business volume on a par with that of the most important regions in the world and Madrid has the potential for future improvement through the consolidation of this strength.

We must also mention the positive effect, in terms of transparency and image, of Spanish corporate governance reforms in recent years<sup>(7)</sup>, which have brought in practices that are consolidated and highly valued internationally.

### Human resources

The importance of qualified professionals is crucial to the creation, development and sustainability of a financial centre. Their presence is determined by the opportunities for adequate training and companies with a demand for professionals with a high level of potential, offering the right conditions to attract and retain them. The Community of Madrid has a training infrastructure and companies requiring these abilities. However, there are opportunities for improvement in terms of human capital availability and quality which may be channelled through specialised courses or support measures to narrow the gap between Madrid and Frankfurt and Brussels.

# Executive Summary

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## Physical and technological infrastructure

There are two axes on which the ease of developing financial centres is articulated in infrastructure terms. On the one hand, service infrastructure (hotels and office space) and on the other, transport infrastructure (transport, communication and technological services). In terms of service infrastructure, the Community of Madrid has a quality hotel infrastructure capable of absorbing its needs as a global financial centre and it also has the space to perform the business activity and has office space and industrial land availability for future growth. Madrid's transport infrastructure (both road and air) occupies a prominent position, thanks to the modernisation of the region of recent years. This is a considerable advantage over other European competitors.

In terms of physical infrastructure and office and hotel capacity availability, Madrid is a region that offers important facilities. The concentration of the population in the city centre and the modern modes of public transport have helped to improve Madrid's position.

# Executive Summary

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## Conclusions and proposals for the future

The analysis highlights the Community of Madrid as a financial marketplace of considerable importance in an international context. However, in-depth analysis is required to discover the region of Madrid's strengths and potential particularly in an environment that is more demanding and competitive every day, in which technological advances, the deregulation of capital movements and the need to serve global customers are critical factors which have to be considered. The importance of the financial decisions taken in the financial marketplace are determined to some extent by the importance of the Spanish banks whose decision-making centres are here, and by the strength of the trading volume and business activity indicators which make the Community of Madrid a leading market at European and worldwide level.

Within the context of this analysis, the region of Madrid and the stakeholders in its financial centre, must continue to strengthen its significance, so as to attract financial activities and the best qualified human capital. The purpose is to achieve a dual objective: to assist the region's growth and the generation of wealth, whilst attracting financial flows and support for the development of an improved quality services network. These objectives require adequate management of various factors:

- promote an economic, regulatory and tax environment that permits entities to carry on their activities securely and flexibly, facilitating market liquidity and trading and, in short, the generation of business;
- increase productivity thanks to the relationships generated between market operators and thereby improving cost competitiveness;
- consolidate commercial and investment relationships in markets with high potential growth levels who find in the Community of Madrid the experience and capacities they seek for their growth whilst, in turn, supporting the region of Madrid's growth as a GFC;
- convert the Community of Madrid into a centre of knowledge and innovation, with access to the latest innovations in products (financial, technology, etc.) and in services (improved quality, efficiency, etc.); and
- boosting the development of the city as a centre for cultural, leisure and business activities, through the creation of a Madrid financial centre brand capable to attract interest and investment from both entities and individuals

Competition is stiff, but the Community of Madrid has a head-start which it needs to consolidate by taking a leading position as a GFC at worldwide level over the next few years.

# Executive Summary

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## Notes:

[1] Appendix hereto “Analysis of the Community of Madrid’s status as a global financial centre in comparative terms”.

[2] From 2003 to 2007 the capitalisation of the Frankfurt’s Stock Exchange dropped from 88% to 18% more than Madrid’s, and the capitalisation of the Paris Stock Exchange fell from 78% more to 55% more.

[3] Source: WFE and Euronext.

[4] Measured in terms of average foreign direct investment from 2002 to 2007.

[5] The growth in other countries of reference was: 8.3% in the Netherlands; 5.3% in France; 2.6% in Germany and 2.5% in Italy. Source: EIU and Deloitte analysis.

[6] 6th position worldwide in terms of stock volumes.

[7] This is the case, for example, of the Unified Code of Good Governance approved by the Spanish National Securities Market Commission on 22 May 2006 which serves to review the Olivencia and Aldama codes.

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**Analysis of the Community of  
Madrid's status as a GFC in  
comparative terms**

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## Introduction: conception of the project

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### Madrid International Financial Centre

- Madrid International Financial Centre is an association that unites interests in the **promotion and development of Madrid's interests and financial business** as an **International Financial Centre**, through the following:
  - ongoing promotion with a view to the consolidation of the Community of Madrid as a financial centre;
  - the enhancement of international development projects;
  - The channeling of investors' and stakeholders' interest toward the financial opportunities offered by the region as a financial centre.

### Conception of the project

- Given the array of rankings, appraisals and opinions that exist in relation to financial centres at international level, it was considered important to ascertain the Community of Madrid's initial situation by directly consulting the information sources while adopting a critical approach thereto
- To this end the following study which analyses 15 cities was performed (the analysis of London and New York is not an in-depth analysis)

## Premises of the analysis

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### Objectivity

- The ranking aims to be objective and transparent and to support its findings with an in-depth quantitative analysis of over 150 indicators grouped into 34 variables which in turn are further divided into 6 evaluation groups<sup>1</sup> as can be verified through analysis of the methodology
- Reliable public sources of analysis were used. The appendix to this document indicates the sources used to analyse each variable and indicator
- These sources are normally used in studies of similar characteristics

### Methodological transparency

- Depending on the kind of variables used, wherever possible, weighted methods generally accepted in studies of a similar nature were used or, where necessary, methods taking into account the proportional importance of the factors considered were used

(1) The “financial business centre” and “macroeconomic and political scenario” analysis groups consider around 50 variables

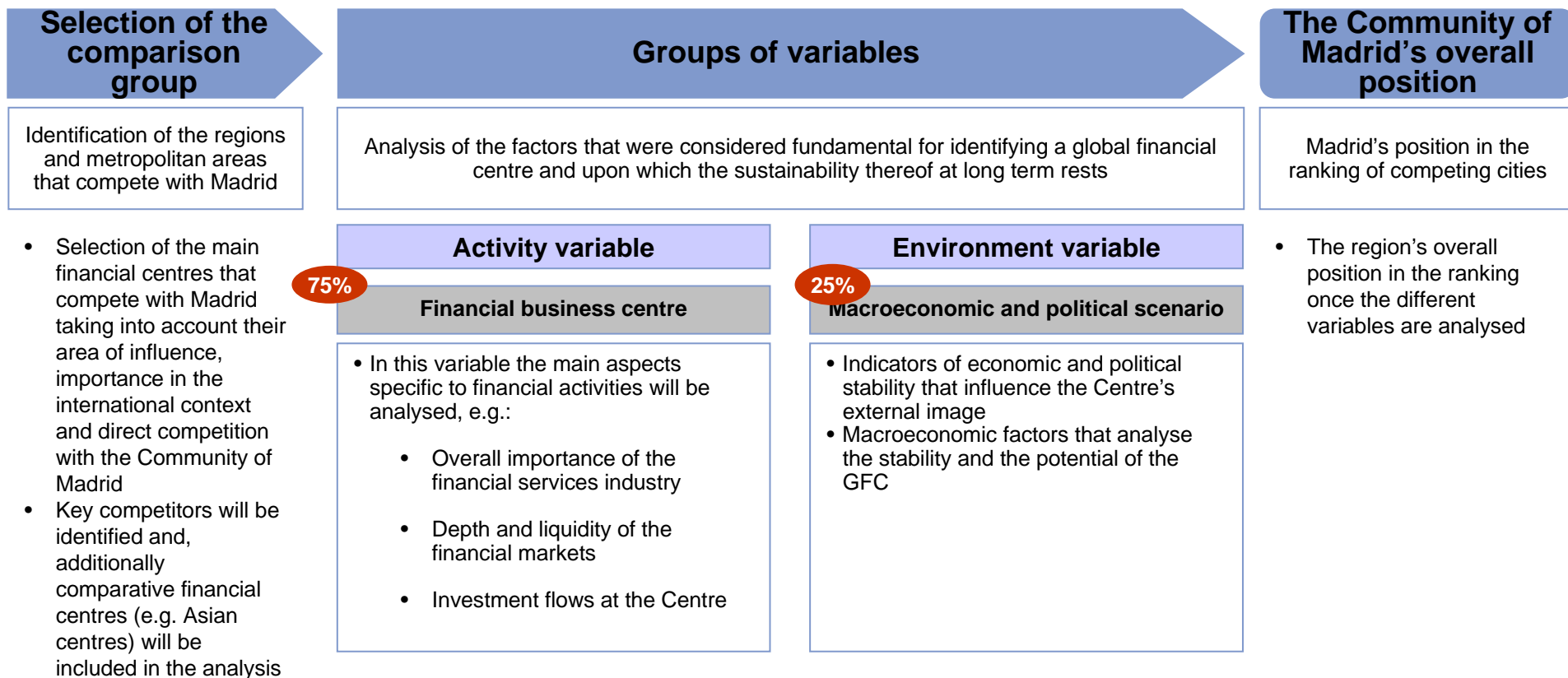
# For a clear approach to the question of what the Community of Madrid is and wants to be it is necessary to understand the characteristics that must exist in order to be considered a GFC

## Definition of a global financial centre (GFC) for Madrid

- A global financial centre can be defined as **the place where financial transactions are centralised** permitting the cities (and countries where they are located) to gain efficiency by taking advantage of economies of scale
- The financial centre functions as **a focal point for the business and financial world**, performing domestic and international transactions and thereby facilitating relations between entities of various types and nationalities
- Below we analyse whether the Community of Madrid meets the following criteria defining a financial centre as a GFC:
  - Does it strengthen the region's **financial activity**, so as to attract key financial activities and the best qualified workforce, assist the growth of the city and the generation of wealth?
  - Does it attract **financial flows**, and support the development of a better network of quality services by:
    - promoting an **economic, legal and tax environment** that permits entities to carry on their activities securely and flexibly, facilitating market liquidity and trading and, in short, the generation of business?
    - increasing **productivity** thanks to the relationships generated between the market operators and thereby improving cost competitiveness?
    - converting the region of Madrid into a Centre of **knowledge and innovation**, with access to the latest innovations in products (financial, technology, etc.) and in services (improved quality, efficiency, etc.)?
    - boosting the development of the city as a **centre for cultural, leisure and business activities**, through the creation of a Madrid financial centre brand with the ability to attract interest and investment from both entities and individuals?

# Once the selection of the centres that compete with Madrid has been made, different variables will be analysed for the purpose of establishing the region's overall positioning

## Methodology



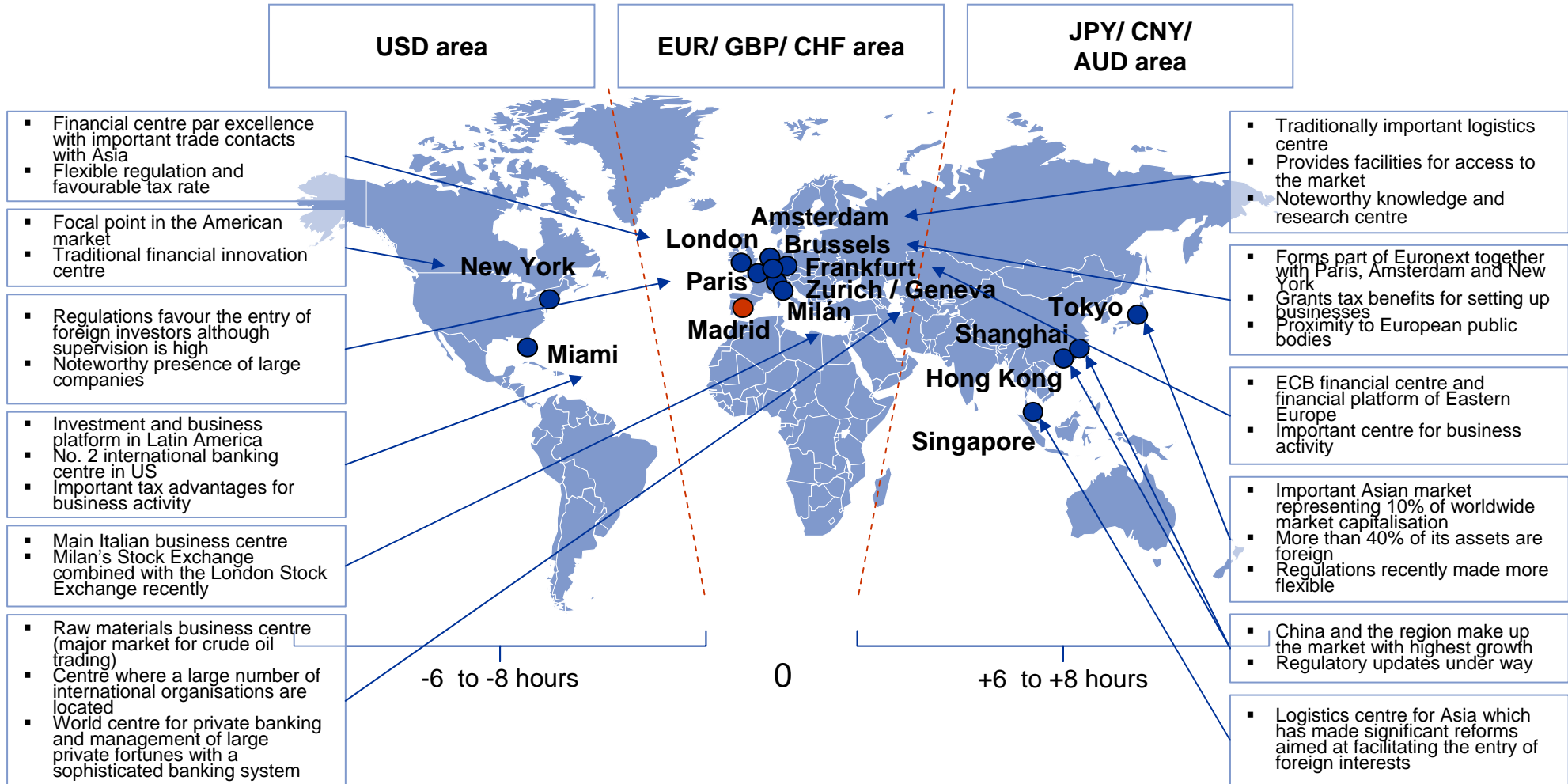
Source: Deloitte analysis

**Xx%**

% weighting of the variable in the ranking (total =100%)

# The regions and metropolitan areas included in the study meet the criteria to be considered a GFC as regards business handled, geostrategic position or international significance

## Financial centres analyzed



Source: Deloitte analysis

# The Madrid comparison group will be formed by cities in Madrid's economic environment or those able to compete with Madrid for inward and outward investment flows (e.g. toward Latin America)



	Competing regions and metropolitan areas	Considerations
Key GFC		<ul style="list-style-type: none"> <li>London and New York are global financial centres because of their <b>size and importance</b></li> <li>The importance of these cities as financial centres can be contrasted using the different variables used in the analysis <sup>(1)</sup></li> </ul>
Competitors of reference		<ul style="list-style-type: none"> <li>Following the two main financial centres, and despite the growing renown of other Centres, the <b>importance</b> of those located in <b>Europe</b> is noteworthy</li> <li><b>Switzerland</b>, since it is a <b>specialist business centre</b> in the area of private banking (Geneva and Zurich) and raw materials (Geneva), is analysed in a particular way since the aim is to analyse importance as a GFC and not merely as a specialised centre</li> <li>Miami, as a centre specialising in banking, competes with the Financial Centre of Madrid since it channels investments to Latin America and, therefore, attracts investments that could be channelled through the region of Madrid</li> </ul>
Comparison group		<ul style="list-style-type: none"> <li>The drive of the new business centres established in Asia, while noteworthy, does not mean that they will achieve the same levels of financial activity as the selected group of competitors</li> <li>For the purposes of comparison with the emerging FCs, comparison with Tokyo, Singapore, Shanghai and Hong Kong has been included</li> </ul>

(1) Since they are not specifically targeted by the study in this project, information on these cities will be provided solely for the purposes of comparison.

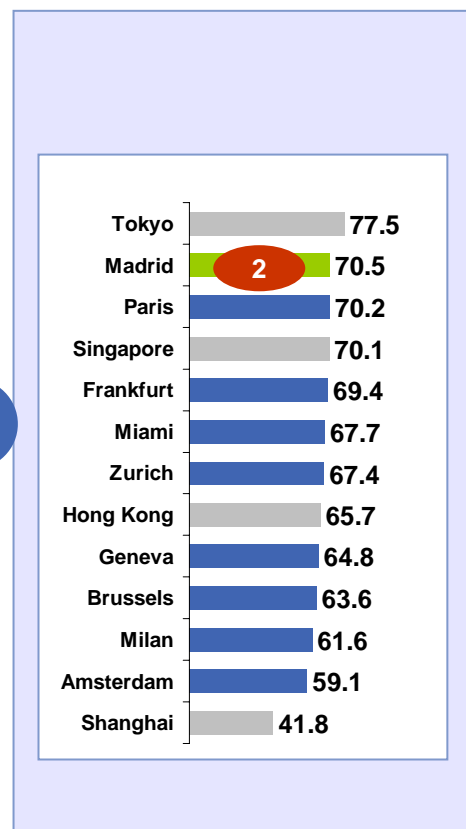
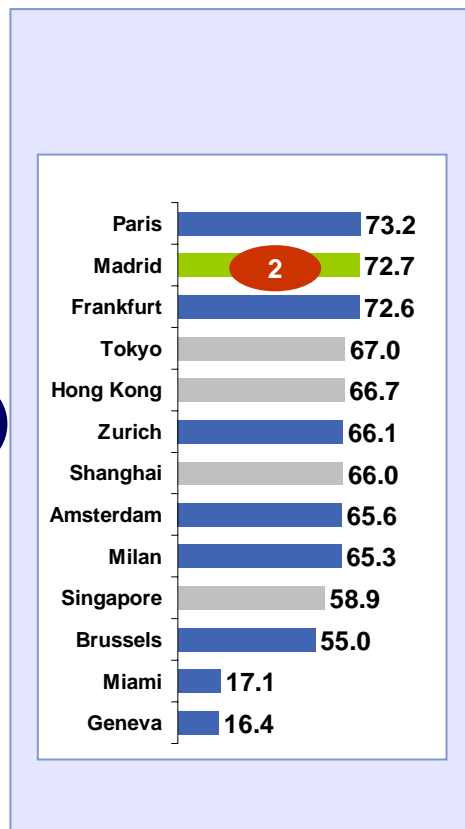
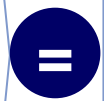
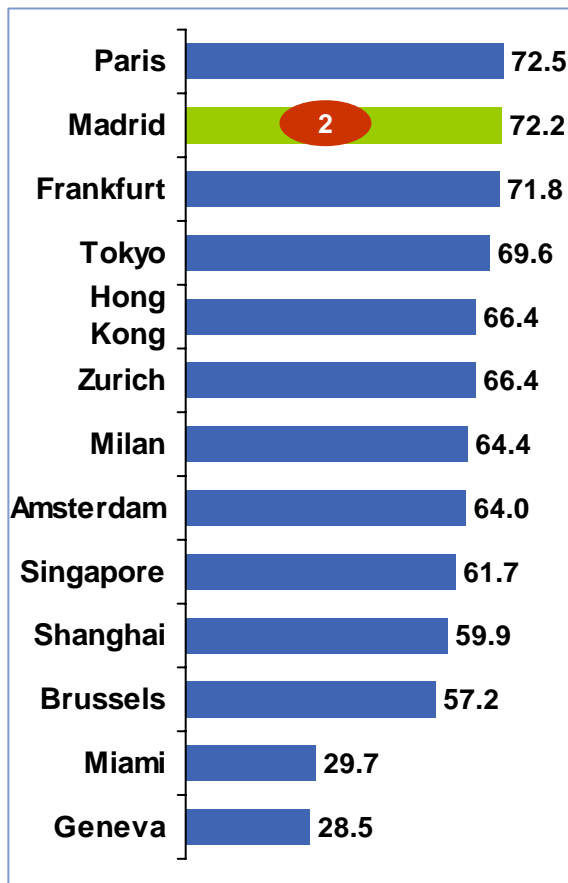
# The leadership of the region of Madrid (after London, New York and Paris) is supported by the region's balance in the various analysis groups, standing out a high level of competition



Ranking of the group of competitors

PRINCIPAL:  
Financial business centre

Secondary:  
Macroeconomic and political scenario



**X** Ranked position      **■** Competidor      **■** Comparison group

Note: this ranking only includes the cities selected for the detailed analysis (13 out of a total of 15)  
Source: Deloitte analysis



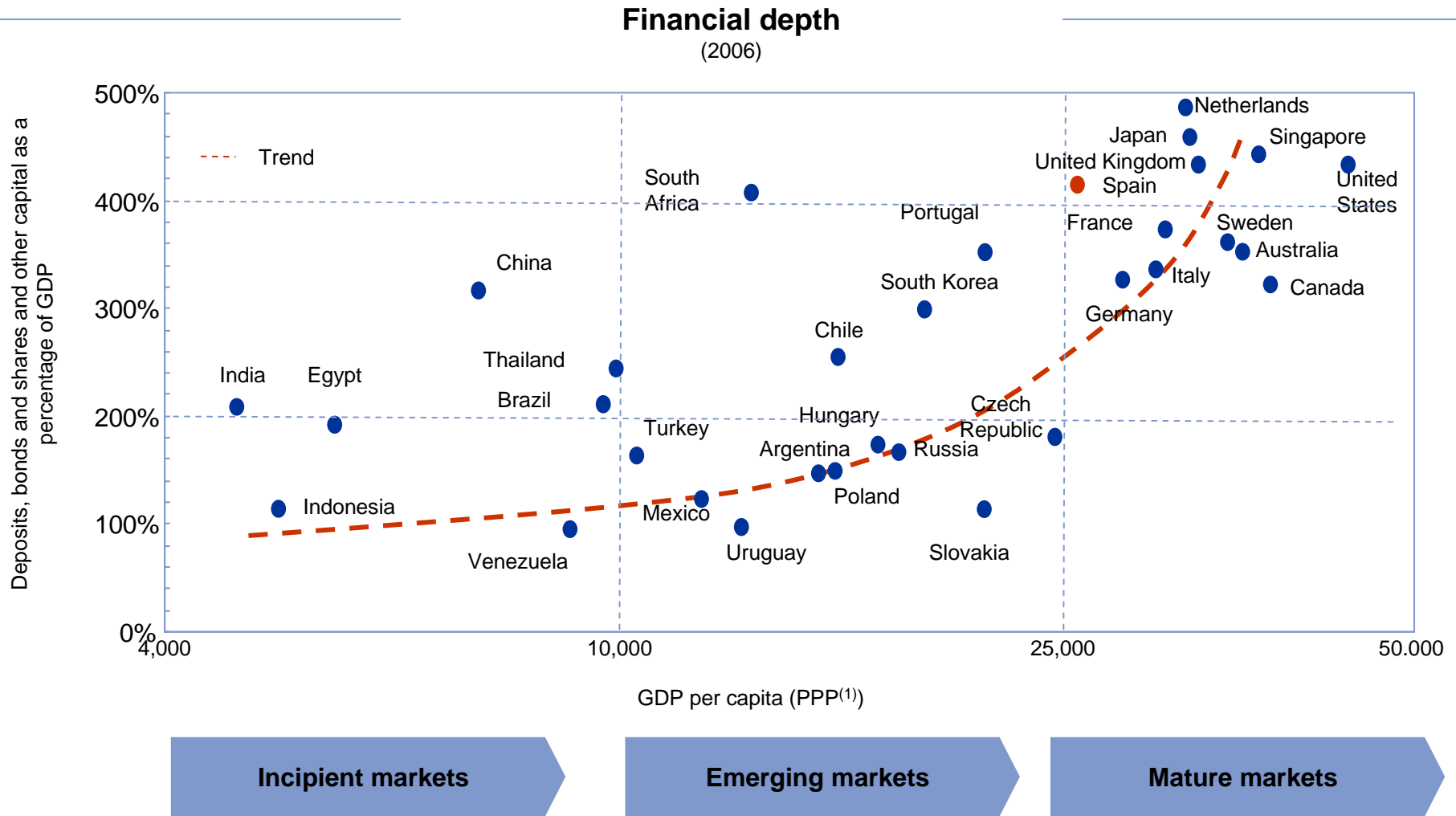
**Financial Business Centre**

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**Primary variable**

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# The development of Spain's financial market and the improvement in terms of wealth has enabled the Spanish economy to achieve a high degree of maturity



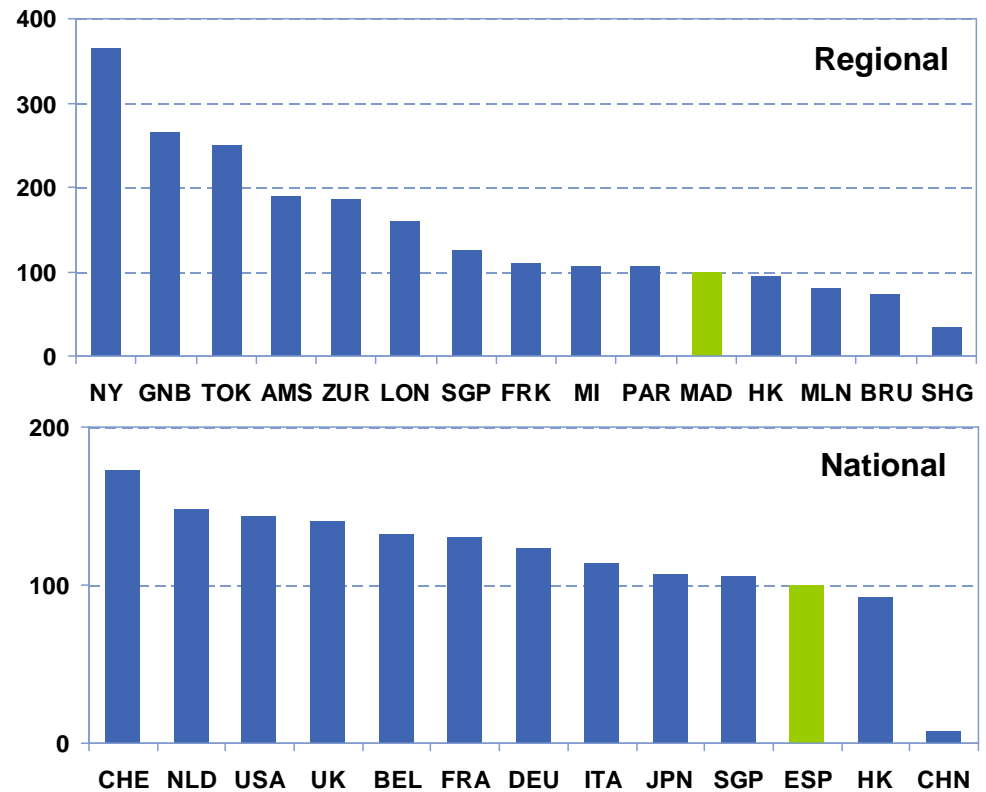
(1) Purchasing power parity. Relates GDP per capita to the cost of living to make a realistic comparison possible  
Source: McKinsey Global Institute

# Income per capita is higher in the Community of Madrid than in the rest of Spain but in line with that of the main regions in the comparison

**Local, regional and national GDP per capita**  
(in Euros; 2006)

## GDP per capita

**Comparison with Madrid**  
(Base Madrid =100)

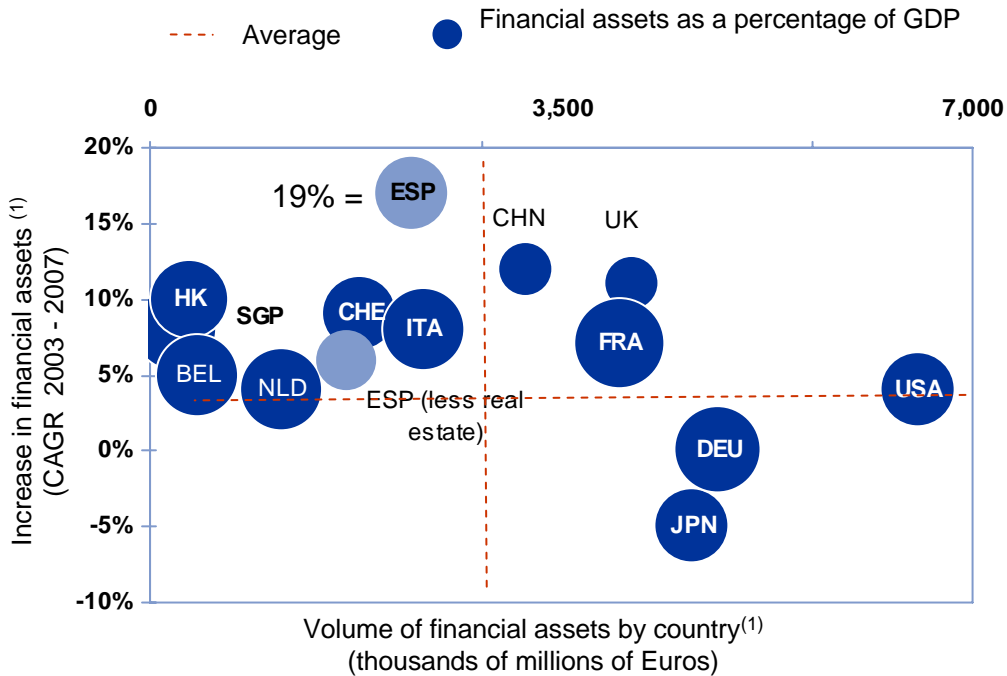


Source: national and regional statistics offices, EIU and Deloitte analysis

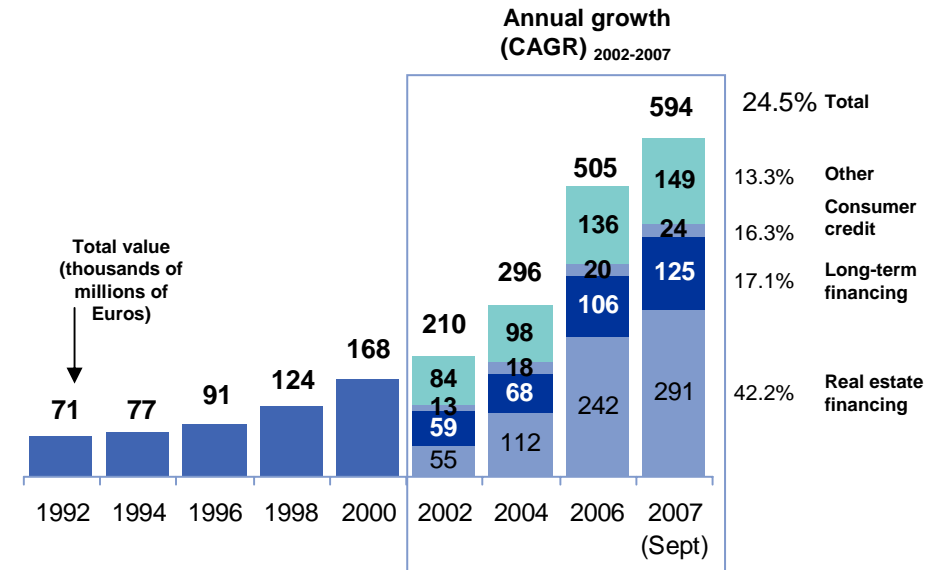
# The consolidated growth thanks to the economic cycle observed in the last few years and the “strength” of the financial services industry place the Community of Madrid in a highly competitive position (i)

## Macroeconomic situation in the financial services industry

### Financial assets (September 2007)



### Loans and credit to the tertiary sector in Spain (September 2007; CAGR February 2007)



- Spain has improved its position in the last few years, with significant growth in its financial assets thanks mainly to the economic development cycle of the last few years

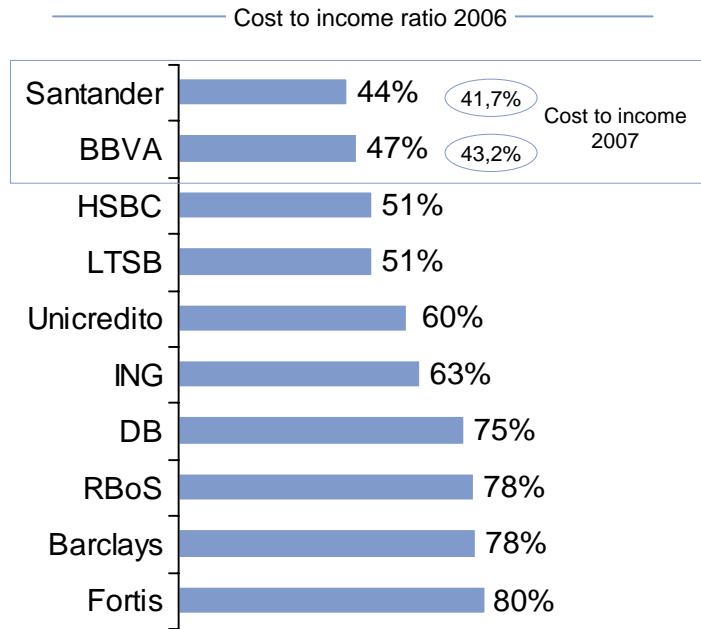
(1) The following are treated as financial assets: loans; securities other than shares (bills, promissory notes, bonds, certificates of deposit, commercial paper and similar financial market financial instruments); money market funds; shares and other types of capital (intellectual property rights in relation to corporations or quasi-corporations)  
 Source: central banks, Deloitte analysis

Source: Bank of Spain; Deloitte analysis

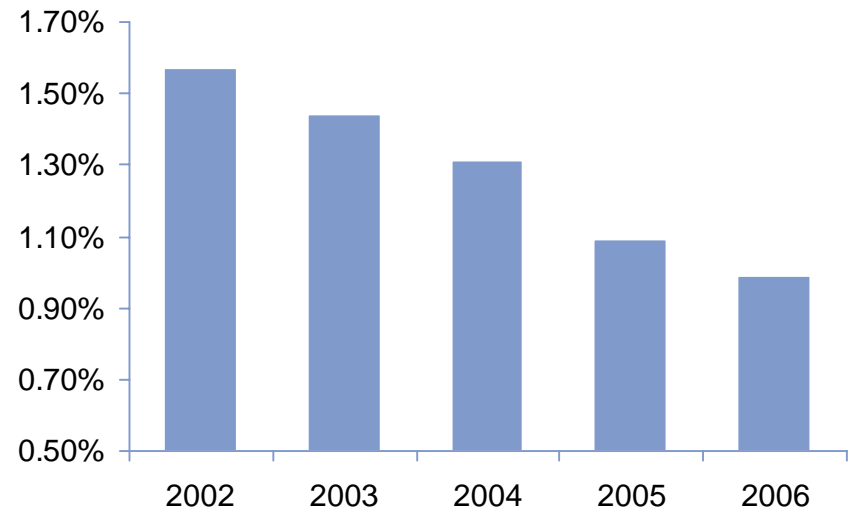
# The consolidated growth and the strength of the financial services industry place Madrid in a highly competitive position (ii)

## Situation of banks (i)

**Cost to income <sup>(1)</sup>**  
(December 2006)



**Costs as a percentage of assets**  
(percentage for all banks in Spain)



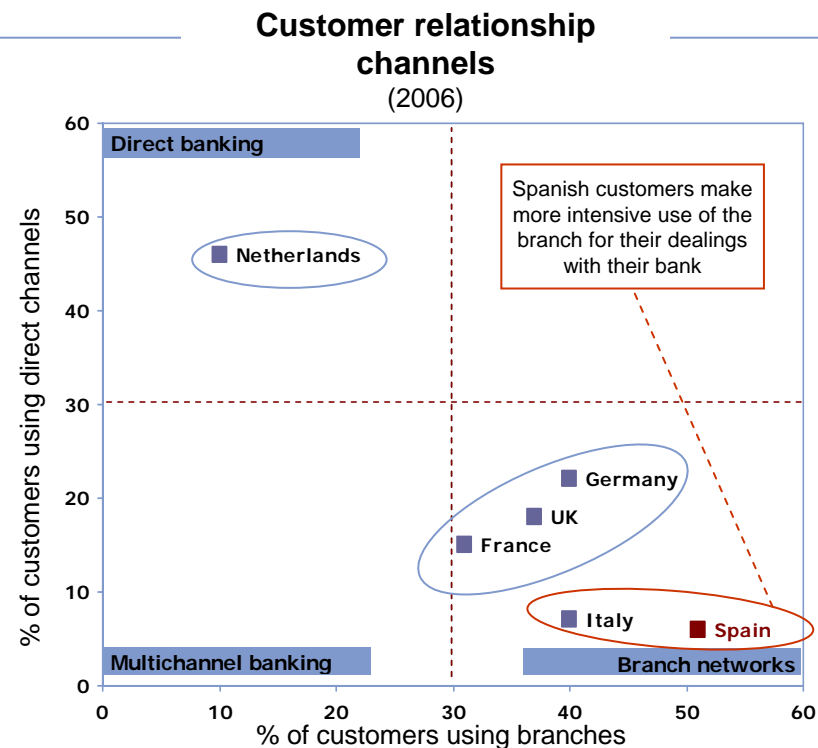
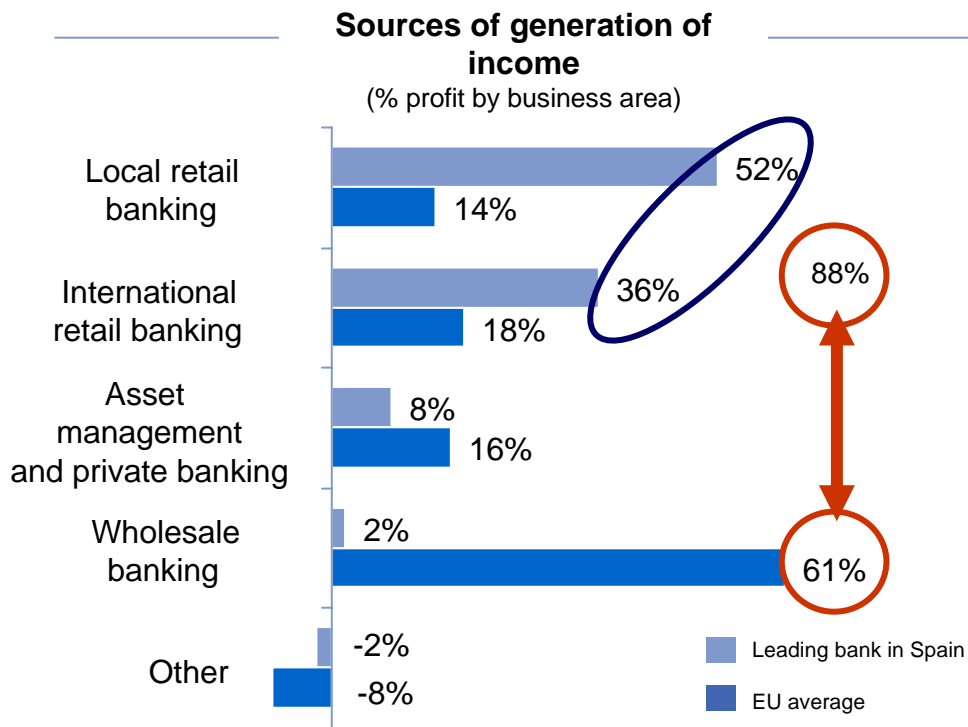
- The Spanish banks present in the region of Madrid are noteworthy for their strength and high levels of efficiency, which indicate the considerable stability of the Spanish financial system
- Made possible by strict regulation and ongoing containment of costs

Cost to income calculated as core business (interest, fees and operating expenses: Santander's retail business in Spain and Portugal; BBVA in Spain and Portugal, Unicredito retail, RBoS's consolidated results, Barclays' consolidated results, ING's business in the Netherlands). Except HSBC Holdings and LTSB Group taken from its annual reports  
Source: Annual reports of the main bank in each country; Deloitte analysis

Source: Bank of Spain; Deloitte analysis

# The consolidated growth and the strength of the financial services industry place the Community of Madrid in a highly competitive position (iii)

## Situation of banks (ii)



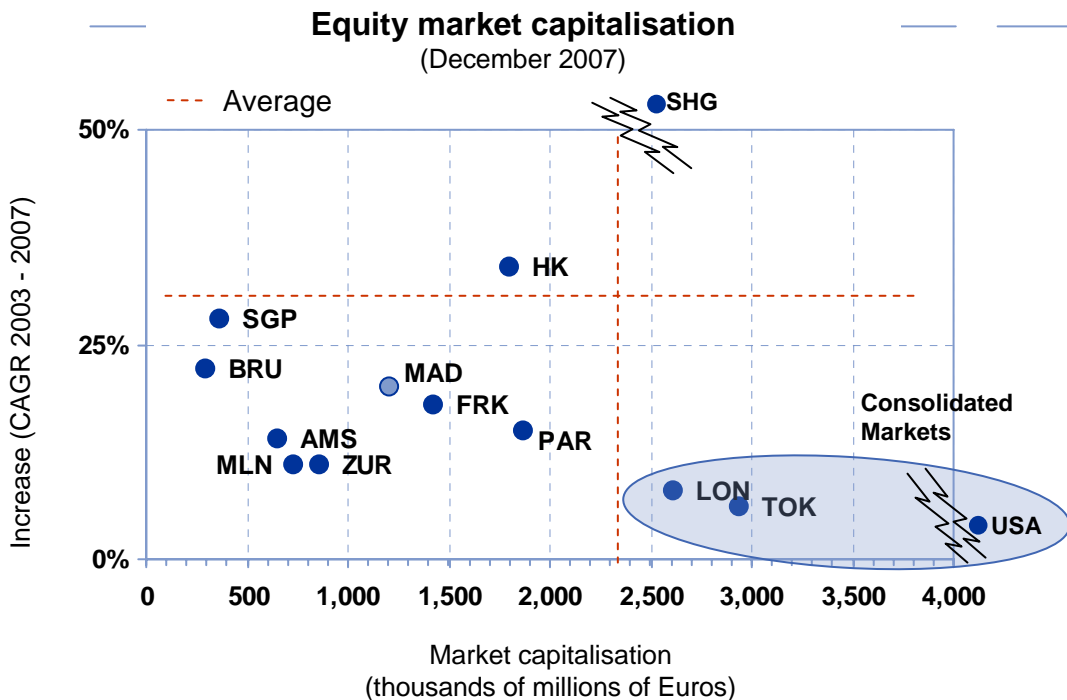
- In response to customer needs, Spanish banks have grown through retail banking and by adapting to customers' needs for proximity through the opening of branches
- In addition, thanks to the investments made in the automation of services, it has been possible to achieve savings and to export the model to other countries

Source: Leading bank in Spain, Deloitte analysis

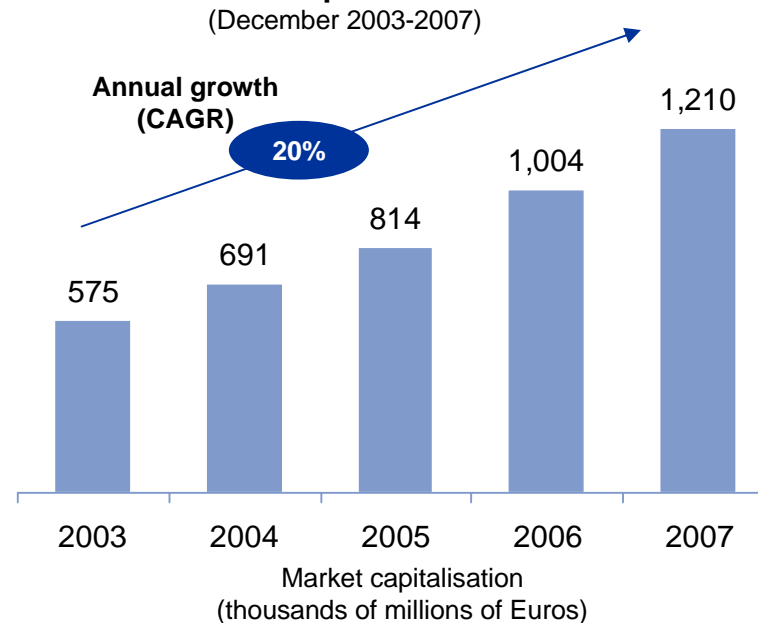
Source: Forrester and Deloitte analysis

# The equities business has grown significantly in the Community of Madrid since the start of the decade, narrowing the gap between Madrid and both Frankfurt and Paris (i)

## Depth of financial markets (i)



## Growth in equity market capitalisation in Spain (December 2003-2007)



- The Madrid Stock Exchange's business has grown at rates similar to those of the Asian countries, in part thanks to higher rates of return than the other European cities in the group of competitors.

- The capitalisation of the Madrid Stock Exchange has recorded clear gradual growth over the last few years, which has permitted the gap between Madrid and its European competitors to be narrowed

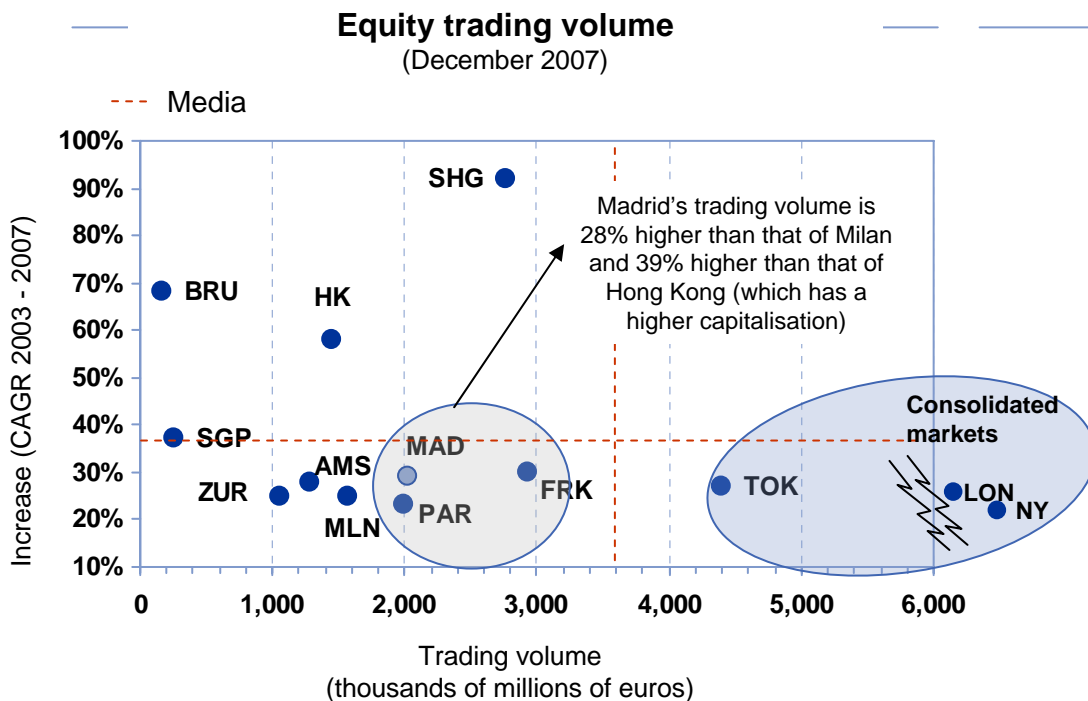
Level of capitalisation	2003	2007	Change
Frankfurt vs. Madrid	188%	118%	- 69%
Paris vs. Madrid	187%	155%	- 32%

Note: WFE data translated to Euros based on the €/\$ exchange rate of the last day of December  
Source: WFE, Euronext, ECB

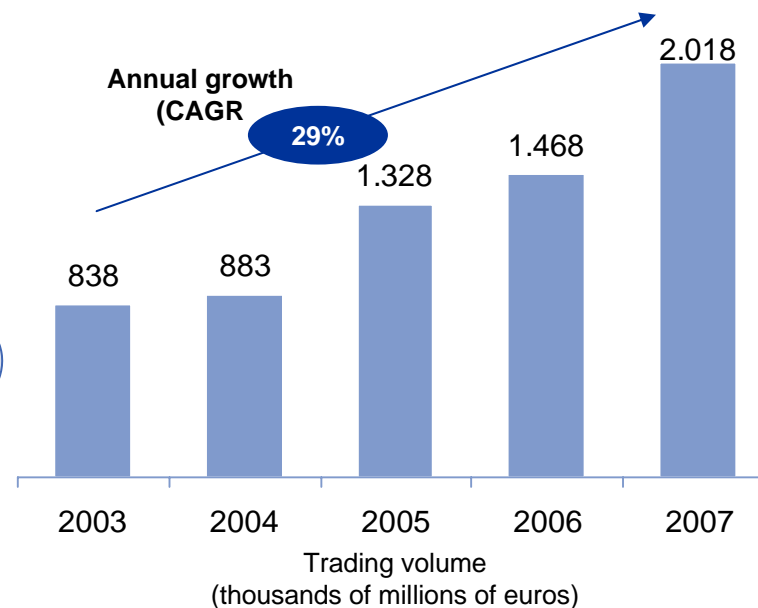
Note: WFE data translated to Euros based on the €/\$ exchange rate of the last day of December of each year.  
Source: WFE

# The equities business has grown significantly in the Community of Madrid since the start of the decade, narrowing the gap between Madrid and both Frankfurt and Paris (ii)

## Depth of financial markets (ii)



## Growth in equity trading volume in Spain (December 2003-2007)



- The Madrid Stock Exchange is among the leading markets in terms of the volume of equities traded, with growth rates similar to those of Frankfurt and London
- The ratio of trading volume to capitalisation of the Madrid Stock Exchange is higher than that of Paris

- Trading volume in the Madrid Stock Exchange grew, as did capitalisation, although at a slower rate, which points to opportunities for development in this respect

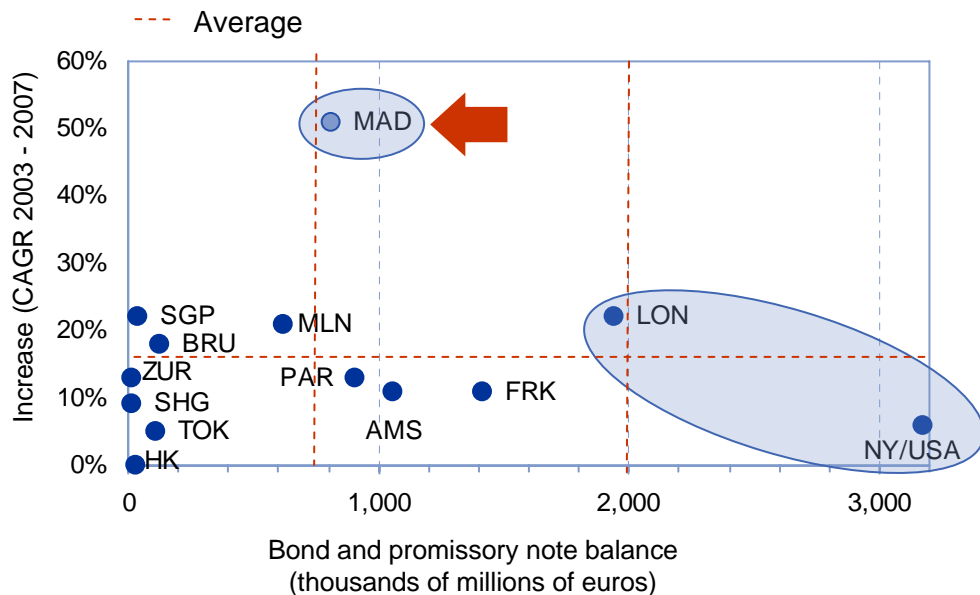
Note: WFE data translated to euros based on the €/€ exchange rate of the last day of December. The Brussels data relate to December 2006  
Source: WFE, Euronext, ECB

Note: WFE data translated to euros based on the €/€ exchange rate of the last day of December of the corresponding year  
Source: WFE, ECB

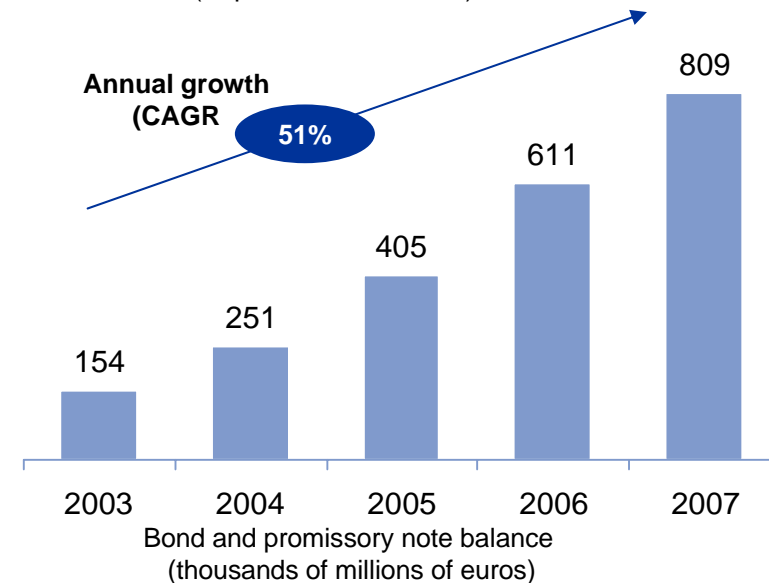
# In 2007 the Madrid Stock Exchange was the world leader in terms of the value of fixed-income products traded (i)

## Depth of financial markets (iii)

**Bonds and notes balance<sup>(1)</sup>**  
(September 2007)



**Growth of the bonds and notes balance in Spain**  
(September 2003-2007)



- The Spanish fixed-income market has grown rapidly over the past ten years, backed by the issue of mortgage bonds
- However, since September 2007, fewer securitisations have taken place due to the international economic situation
- The bonds and notes balance grew significantly in the Spanish stock markets

(1) Committed fixed income amounts

Note: Data translated to euros based on the €/ \$ exchange rate of the last day of September.

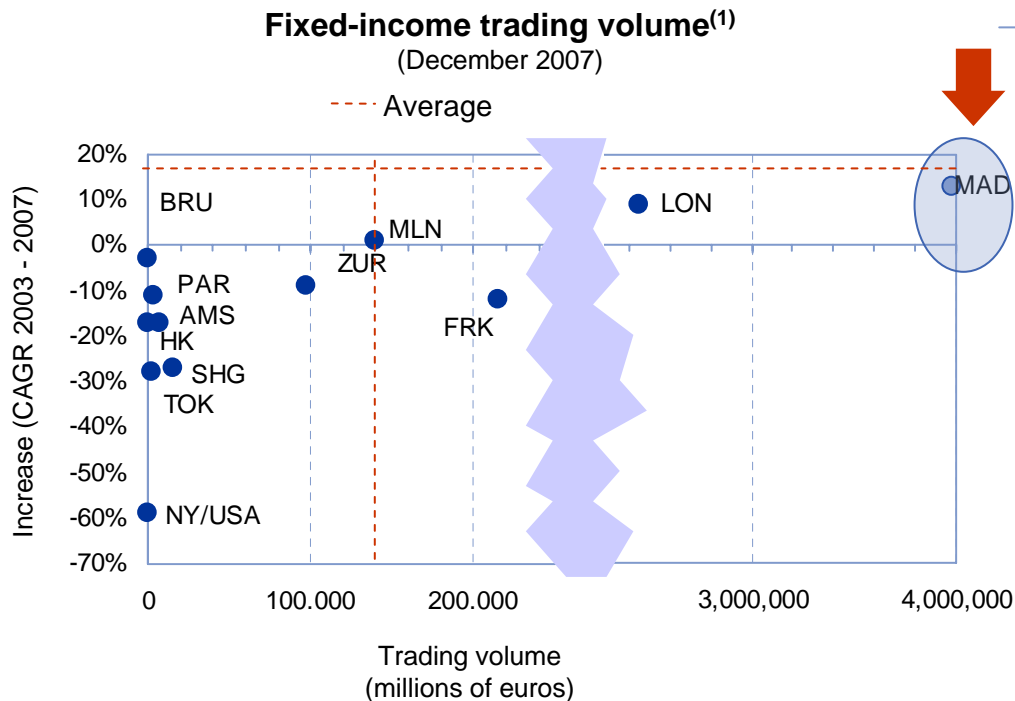
Source: BIS, ECB

Data translated to euros based on the €/ \$ exchange rate of the last day of September

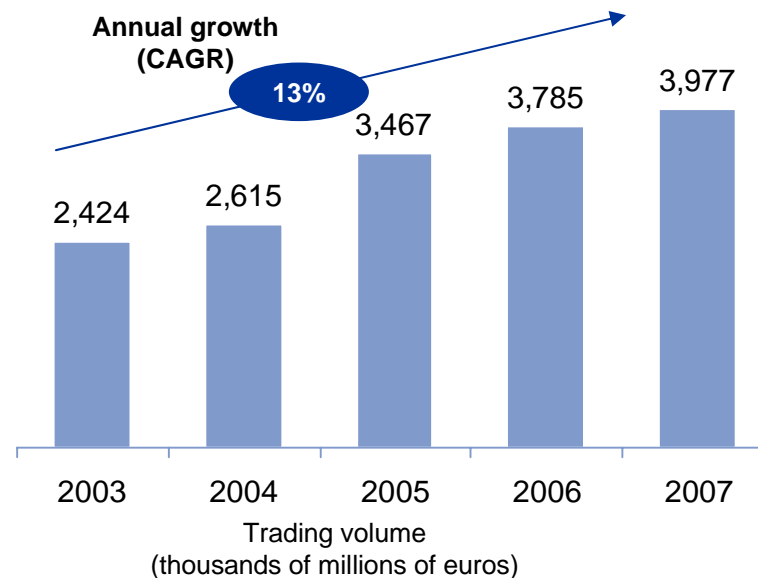
Source: BIS, BCE

# In 2007 Madrid Stock Exchange was the world leader in terms of the value of fixed-income products traded (i)

## Depth of the financial markets (iv)



## Growth in fixed-income trading volume in Spain

  
(December 2003-2007)


- The Madrid Stock Exchange is the leading exchange in terms of fixed-income trading volume and is growing faster than the international average, with CAGR at 13% between 2003 and 2007, compared with London's 9%

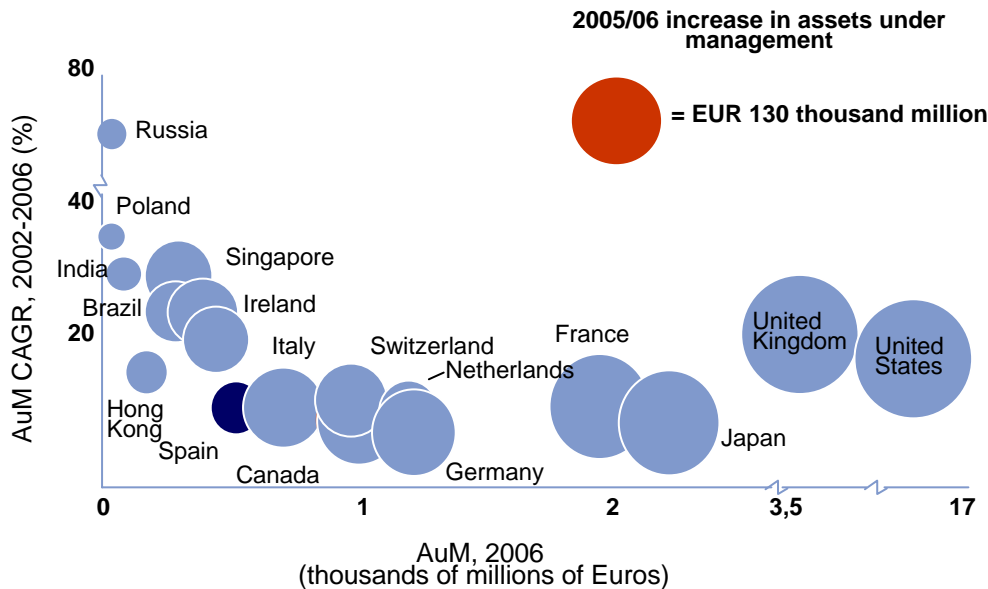
(1) Singapore, where the growth rate exceeded 100%, was excluded because its volumes are low. This data refer only to the volumes traded in organized markets  
Note: WFE data translated to euros based on the €/€ exchange rate of the last day of December.  
Source: WFE, NYSE Euronext, ECB

Data translated to euros based on the €/€ exchange rate of the last day of December  
Source: WFE, ECB

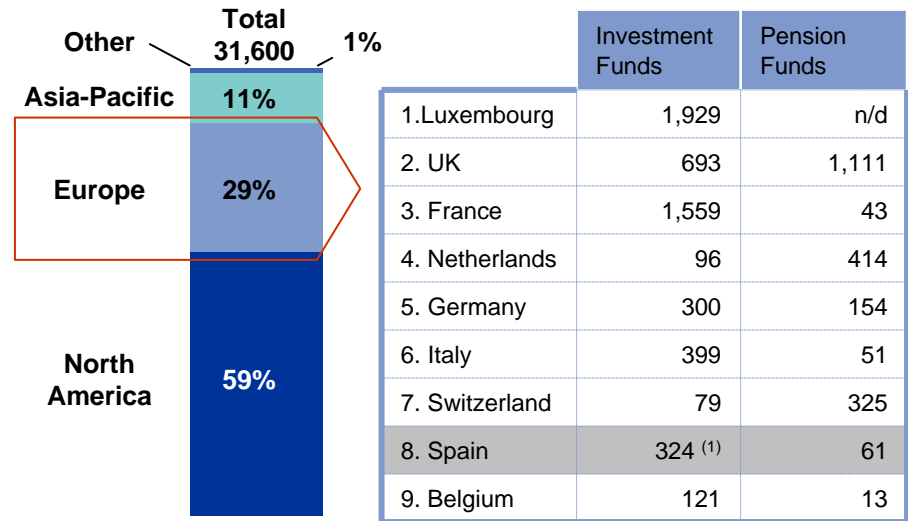
# In terms of investment funds, Spain's levels are similar to those of its neighbouring countries

## Depth of financial markets (v)

Volume of assets under management (AuM)



Volume of investment and pension funds (thousands of millions of euros, 2006)



- Spain is on par with its European competitors in terms of investment funds, although there is still potential for development in this area and in that of pension funds

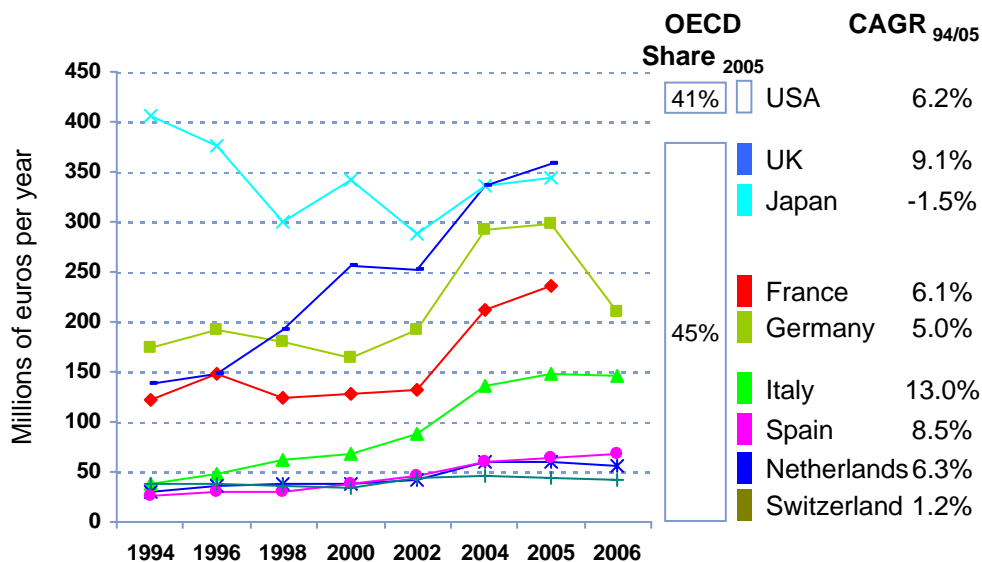
(1) 13% of the volume relates to foreign funds in Spain; 33% of the total volume is controlled by the managers of the two major financial services groups. 9% of the total investment is made through ICVCs.  
Source: ICI, Intersec, Inverco

Note: CAGR calculated in local currencies  
Source: BCG-GAM Database

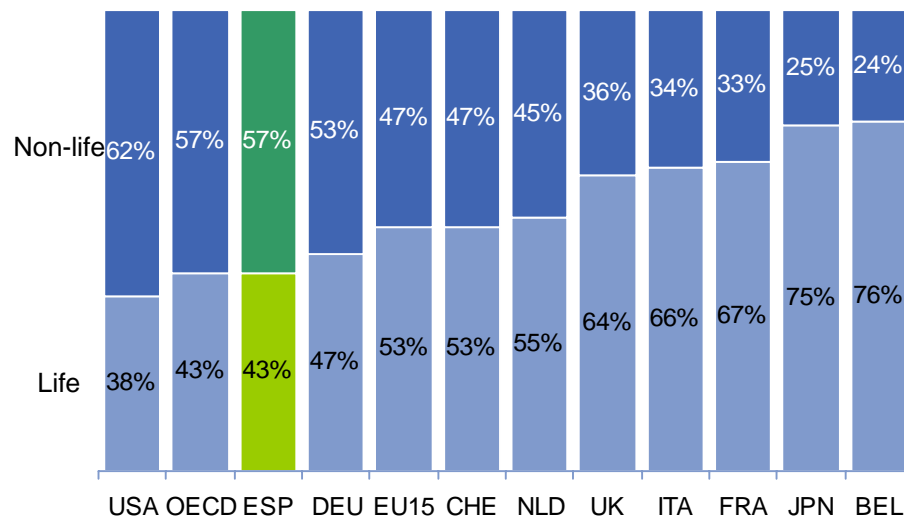
# Other specialised business areas, insurance and consumer finance, have sought to position themselves and grow in order to benefit from existing opportunities

## Depth of financial markets (vi)

**Insurance market**  
(annual premiums, life and non-life)



**Types of insurance premiums by country**  
(2006)

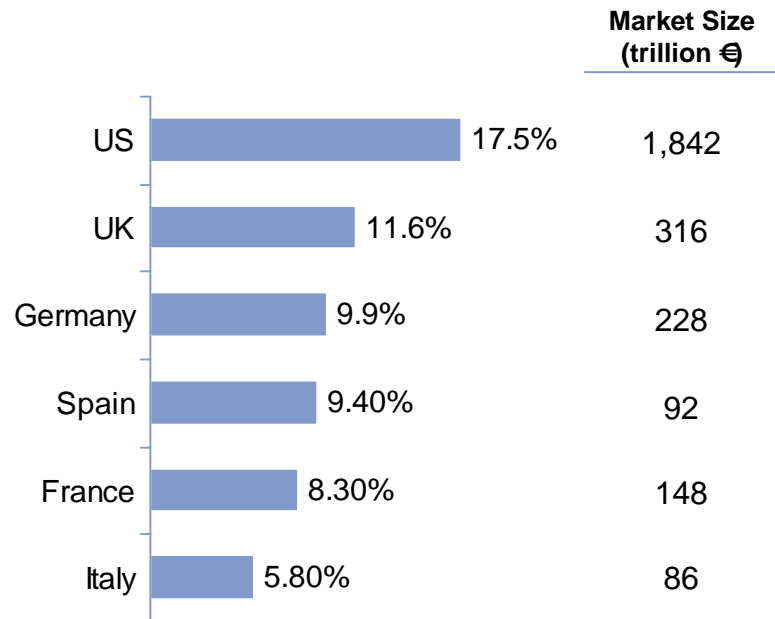


- Although the Spanish insurance market has improved, the level of activity gives an idea of the ground yet to be covered by Spain compared with neighbouring countries

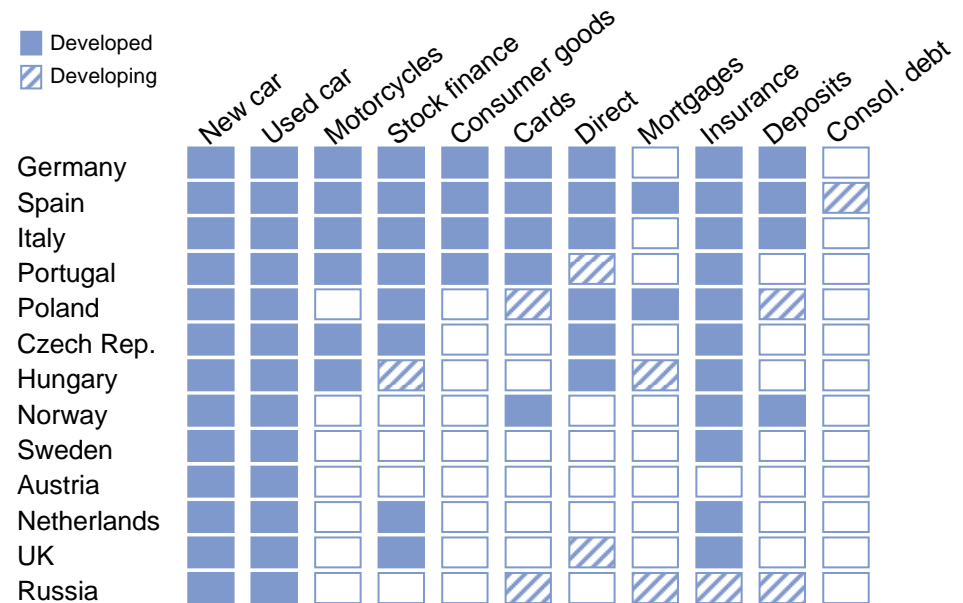
# Other specialist business areas, insurance and consumer finance, have sought to position themselves and grow in order to benefit from existing opportunities

## Depth of financial markets (vii)

**Consumer credit market penetration**  
(consumer lending / GDP (%) – Dec. 2006)



**Example of a Spanish entity's consumer finance business market penetration**



- The consumer finance business presents significant opportunities for development in Spain's neighbouring countries

- Certain Spanish financial institutions are demonstrating their management capability in international environments

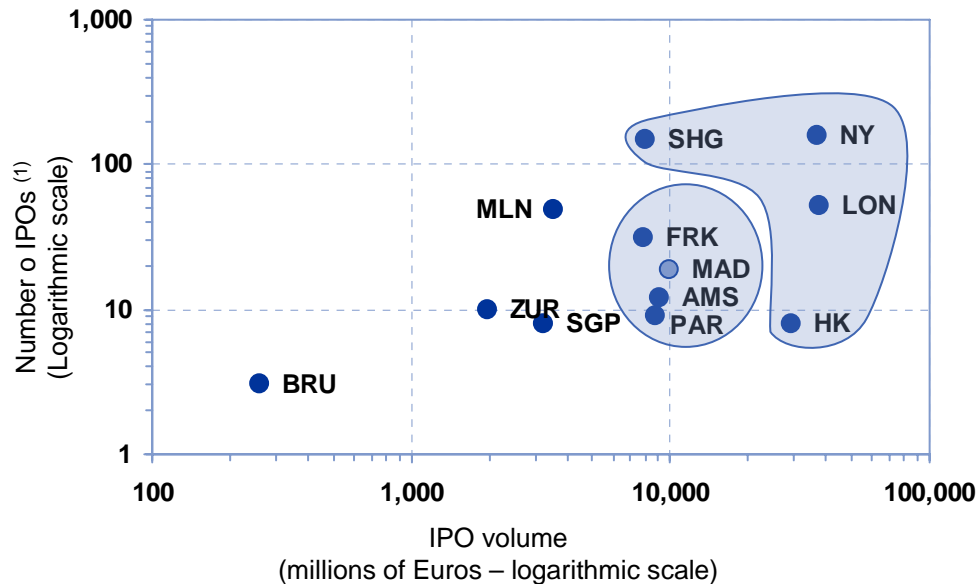
Source: Financial and monetary institutions

Source: Leading Spanish entity

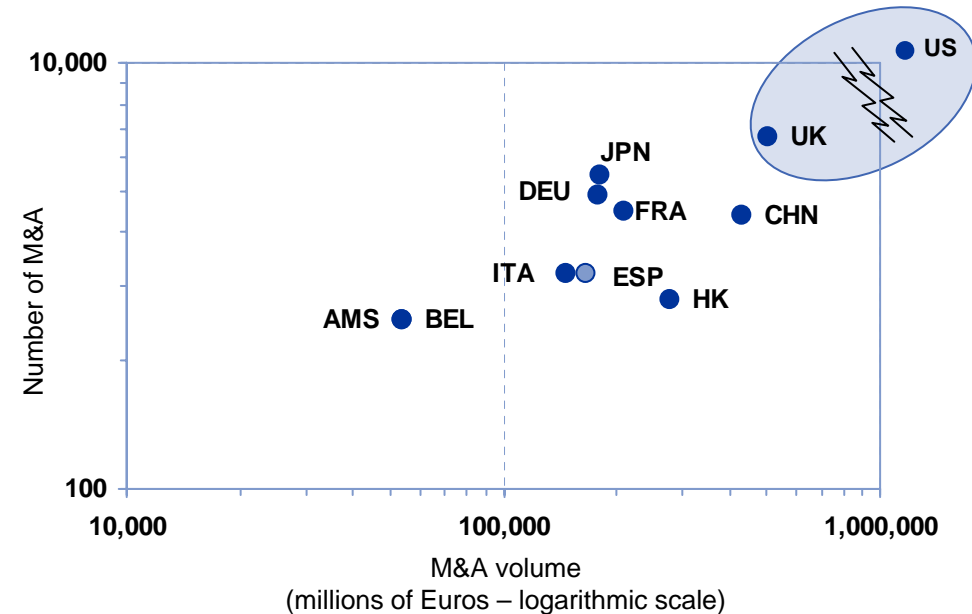
# Spain is at levels similar to those of its comparison group in terms of IPOs, giving an idea of the current market liquidity situation

## Market liquidity and dynamism

**Initial Public Offerings (IPOs)**  
(December 2006)



**Mergers and acquisitions<sup>(1)</sup> (M&A)**  
(December 2006)



- Noteworthy is the dynamism and volume of flotation's in New York, Shanghai, London and Hong Kong. The Madrid marketplace belongs to a safe group of European financial centres that stand out in this category due to the current market liquidity situation

- The number and volume of the mergers and acquisitions carried out in Spain are much closer to the levels of its neighbouring European countries than to those of the leaders, the USA, and the UK, and China
- However, the high volatility of this analytical factor must be borne in mind

(1) Mergermarket data by country

Note: WFE data translated to euros based on the €/€ exchange rate of the last day of December 2006

Source: Mergermarket; World Federation of Exchanges

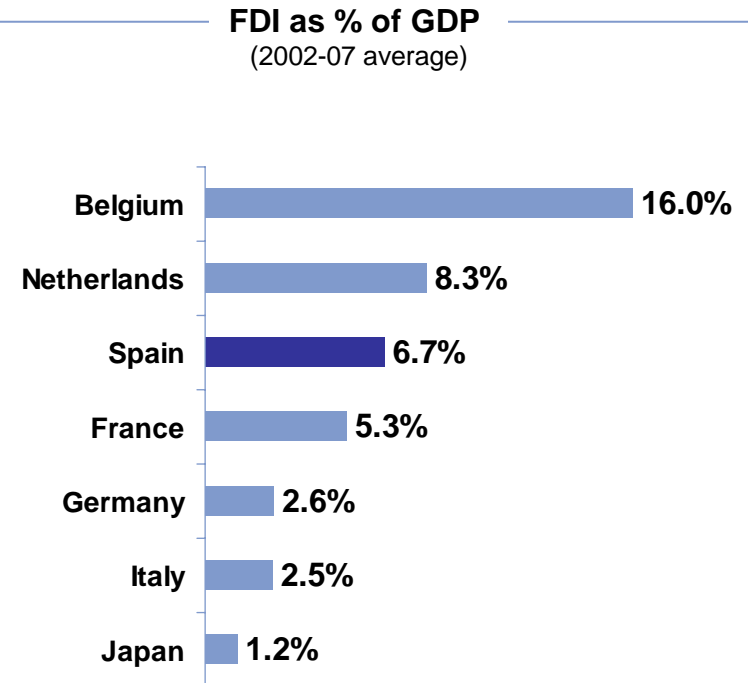
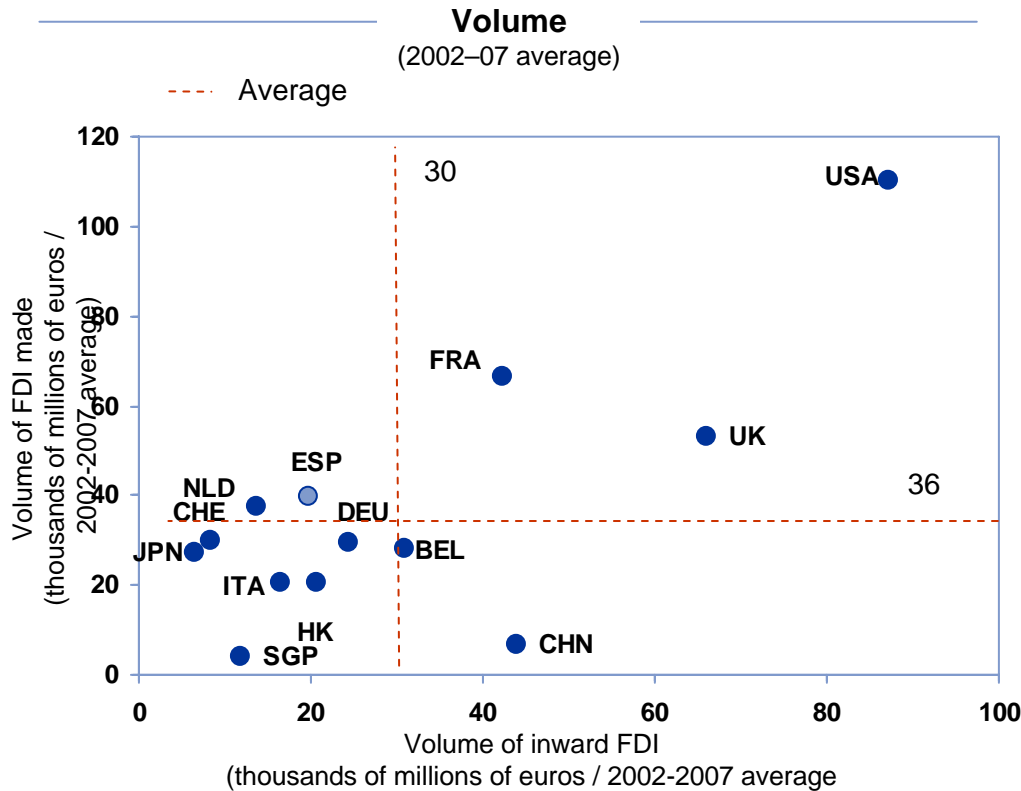
(1) Netherlands and Belgium data estimated from Benelux information

Note: Volume data translated to euros based on the €/€ exchange rate of the last day of December 2006

Source: Thompson Financial

# In recent years Spanish companies have implemented strong foreign investment strategies

## Foreign Direct Investment (FDI)



- Spain is noteworthy among the countries investing abroad, thanks to an intensive internationalisation process carried out by Spanish companies
- Since the volume of inward investment has remained steady, financing was achieved with the Spanish companies' own funds which, to some extent, explains the growth of the debt market

Source: EIU, Deloitte analysis

Source: EIU, Deloitte analysis

# Financial business centre (i)

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Variable	Importance	Financial centre Index	Status																												
<p><b>Importance of the financial institutions</b></p> <p>Presence of the 20 foremost international banks, foreign banks' presence in the country, banking system rating, cost to income and solvency of the major banks and system variables (total assets, bank loans to private sector, % of GDP represented by the financial services sector)</p>	<p>The strength of the financial institutions established in the city indicates its international importance and therefore that it is worth promoting as a financial business centre</p>	<p>(100: positive, 0: negative)</p> <table border="1"> <tr><th>City</th><th>Index</th></tr> <tr><td>GNV</td><td>55</td></tr> <tr><td>ZUR</td><td>55</td></tr> <tr><td>MAD</td><td>52</td></tr> <tr><td>MI</td><td>52</td></tr> <tr><td>AMS</td><td>48</td></tr> <tr><td>FRK</td><td>42</td></tr> <tr><td>PAR</td><td>38</td></tr> <tr><td>MLN</td><td>35</td></tr> <tr><td>BRU</td><td>30</td></tr> <tr><td>SGP</td><td>50</td></tr> <tr><td>HK</td><td>45</td></tr> <tr><td>TOK</td><td>38</td></tr> <tr><td>SHG</td><td>35</td></tr> </table>	City	Index	GNV	55	ZUR	55	MAD	52	MI	52	AMS	48	FRK	42	PAR	38	MLN	35	BRU	30	SGP	50	HK	45	TOK	38	SHG	35	<p>Madrid is the decision-making centre for two of the world's 30 leading banks</p>
City	Index																														
GNV	55																														
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<p><b>Equity market</b></p> <p>Volume of IPOs, number of IPOs, number of companies, domestic market capitalisation, value of shares traded, market concentration</p>	<p>The activity and size of stock exchanges provide data on the liquidity and depth of the markets</p>	<table border="1"> <tr><th>City</th><th>Index</th></tr> <tr><td>PAR</td><td>75</td></tr> <tr><td>MAD</td><td>70</td></tr> <tr><td>FRK</td><td>70</td></tr> <tr><td>MLN</td><td>62</td></tr> <tr><td>AMS</td><td>60</td></tr> <tr><td>SZU</td><td>60</td></tr> <tr><td>BRU</td><td>50</td></tr> <tr><td>GNV</td><td>10</td></tr> <tr><td>MI</td><td>10</td></tr> <tr><td>SHG</td><td>78</td></tr> <tr><td>TOK</td><td>72</td></tr> <tr><td>HK</td><td>70</td></tr> <tr><td>SGP</td><td>58</td></tr> </table>	City	Index	PAR	75	MAD	70	FRK	70	MLN	62	AMS	60	SZU	60	BRU	50	GNV	10	MI	10	SHG	78	TOK	72	HK	70	SGP	58	<p>Compared with its main competitors, Madrid ranks third in equities in Europe, and has scope to increase its traded volume</p>
City	Index																														
PAR	75																														
MAD	70																														
FRK	70																														
MLN	62																														
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<p><b>Fixed-income market</b></p> <p>Bond trading volume, year-end bond market value, number of listed bonds, number of bond transactions performed</p>	<p>The activity and size of the fixed-income market provide data on the liquidity and depth of the markets</p>	<table border="1"> <tr><th>City</th><th>Index</th></tr> <tr><td>MAD</td><td>95</td></tr> <tr><td>FRK</td><td>90</td></tr> <tr><td>MLN</td><td>85</td></tr> <tr><td>AMS</td><td>80</td></tr> <tr><td>PAR</td><td>80</td></tr> <tr><td>SZU</td><td>75</td></tr> <tr><td>BRU</td><td>70</td></tr> <tr><td>MI</td><td>10</td></tr> <tr><td>GNV</td><td>10</td></tr> <tr><td>SHG</td><td>70</td></tr> <tr><td>TOK</td><td>68</td></tr> <tr><td>SGP</td><td>68</td></tr> <tr><td>HK</td><td>55</td></tr> </table>	City	Index	MAD	95	FRK	90	MLN	85	AMS	80	PAR	80	SZU	75	BRU	70	MI	10	GNV	10	SHG	70	TOK	68	SGP	68	HK	55	<p>In 2007 the volume traded by Bolsas y Mercados Españoles was higher than that of the London Stock Exchange and the NYSE Group, and in stock volumes, Madrid ranked sixth</p>
City	Index																														
MAD	95																														
FRK	90																														
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SGP	68																														
HK	55																														
<p><b>Derivatives market</b></p> <p>Derivatives trading volume, number of derivatives contracts</p>	<p>Trading is concentrated in a few financial marketplaces, which bring together specialised professionals and give rise to innovation and new businesses</p>	<table border="1"> <tr><th>City</th><th>Index</th></tr> <tr><td>PAR</td><td>95</td></tr> <tr><td>FRK</td><td>90</td></tr> <tr><td>ZUR</td><td>90</td></tr> <tr><td>AMS</td><td>75</td></tr> <tr><td>MLN</td><td>70</td></tr> <tr><td>MAD</td><td>70</td></tr> <tr><td>BRU</td><td>50</td></tr> <tr><td>MI</td><td>10</td></tr> <tr><td>GNV</td><td>10</td></tr> <tr><td>TOK</td><td>85</td></tr> <tr><td>SGP</td><td>75</td></tr> <tr><td>HK</td><td>72</td></tr> <tr><td>SHG</td><td>68</td></tr> </table>	City	Index	PAR	95	FRK	90	ZUR	90	AMS	75	MLN	70	MAD	70	BRU	50	MI	10	GNV	10	TOK	85	SGP	75	HK	72	SHG	68	<p>Madrid has the opportunity to build up the structured product business</p>
City	Index																														
PAR	95																														
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(1) Miami does not have its own stock exchange. In Switzerland, the Swiss Exchange (SWX), formed by the merger of the Zurich, Geneva and Basel stock exchanges, is headquartered in Zurich and, therefore, the Swiss stock exchange values were attributed in full to Zurich. (2) In derivatives, SWX and Deutsche Börse form EUREX on an equal basis (which is why Frankfurt and Zurich have the same values)



# Financial business centre (ii)

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Variable	Importance	Financial centre Index (100: positive, 0: negative)	Status
<p>▪ <b>Investment funds</b></p> <p>Net investment fund assets</p>	<p>▪ Investment funds are an important part of the products marketed by banks</p>		<p>▪ Spain occupies a prominent position among its peers in terms of the volume of net investment fund assets</p>
<p>▪ <b>Foreign Direct Investment (FDI)</b></p> <p>Inward FDI (volume), inward FDI as a proportion of GDP, inward FDI projects, outward FDI (volume), outward FDI as a proportion of GDP</p>	<p>▪ Financial institutions channel foreign investments into or out of the city</p>		<p>▪ There is intense investment activity from the Community of Madrid, due to the internationalisation of Spanish companies</p>
<p>▪ <b>Mergers and acquisitions</b></p> <p>Number of mergers and acquisitions<sup>1</sup>, volume of mergers and acquisitions<sup>1</sup></p>	<p>▪ Mergers and acquisitions are an indicator of the market's level of appeal for investment banks</p>		<p>▪ In the area of mergers and acquisitions, Spain is at the same level of its peers</p>

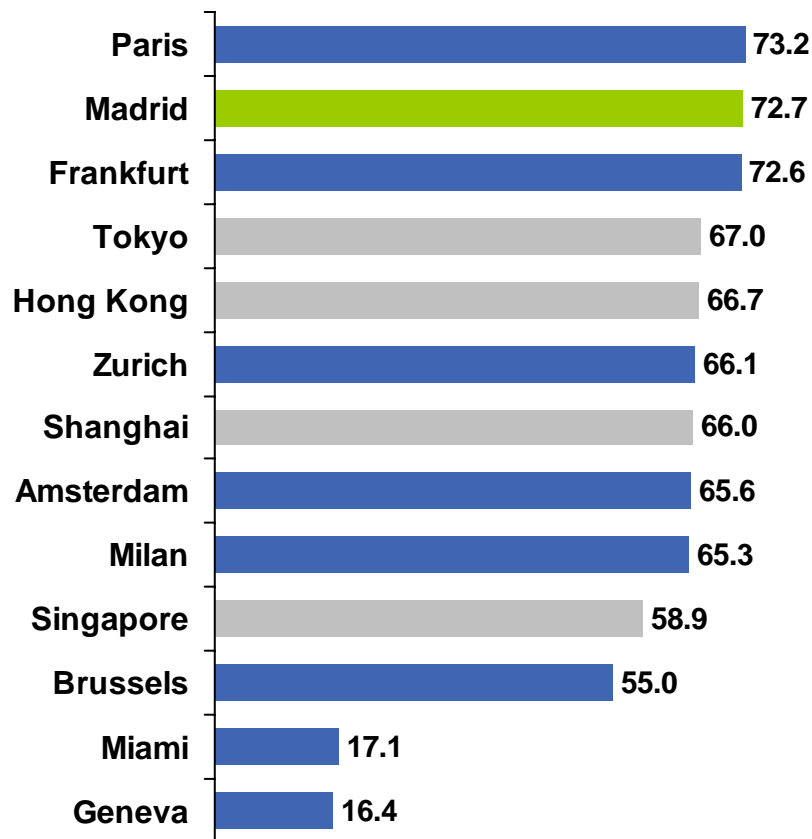
(1) Data analysed at country level

Note: The data on investment funds and on mergers and acquisitions relate to the country as a whole, and are assigned to the city that has a stock exchange (in the US, New York, and in Switzerland, Zurich)

Source: see appendix

## Frankfurt, Madrid and Paris are clearly the major financial business centres

### Financial business centre ranking



### Main conclusions

- One of the main assets the region of Madrid has as a financial business centre is that it is the **decision-making centre for SCH and BBVA, two of the world's leading 30 banks**, which shows the extent of its global influence and adds to its appeal (Santander is the world's fifth most profitable bank<sup>1</sup>)
- In addition, Spanish financial institutions' undisputed **leadership** in terms of **cost-to-income** provides evidence of its strength
- Financial assets **increased significantly** mainly due to the growth in credit
- The Madrid marketplace occupies a **prominent international position** in both **fixed-income** and **equity** securities compared with the other financial centres, ranking second and third, respectively, in comparison with other European stock exchanges, although it is further ahead in equity securities
- However, M&A and IPO activities are less significant than in other marketplaces, although these indicators are more volatile

Note: In the rankings by subject, the positions of New York and London are not taken into account

(1) Expansión, 8 February 2008

Source: Deloitte analysis



**Macroeconomic and political scenario**

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**Secondary variable**

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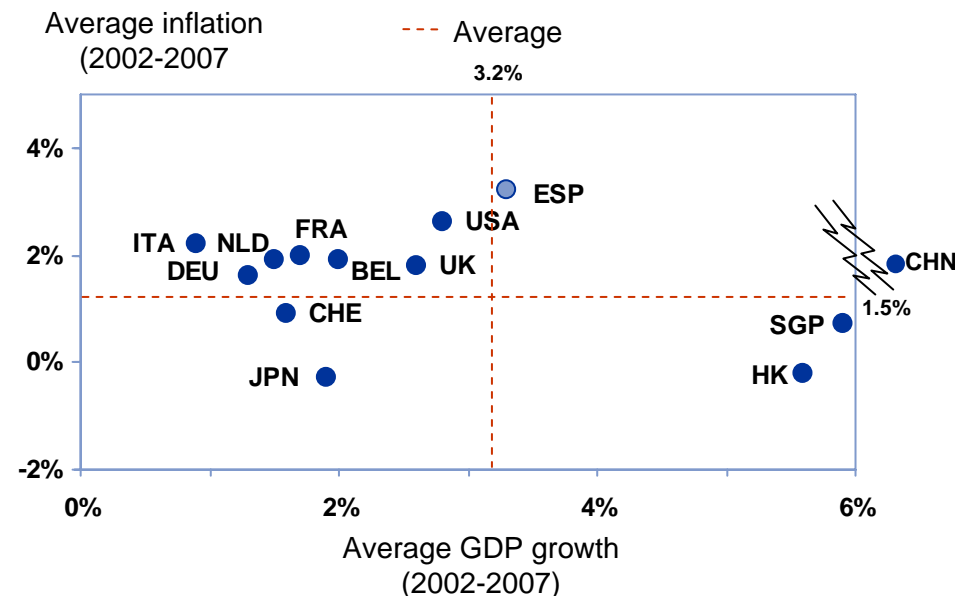
# Spain's macroeconomic and political scenario is attractive due to the positive perception of its stability, security and membership of the euro zone

## Macroeconomic and political scenario

### Ratings agencies<sup>(1)</sup> 2006

### Macroeconomic situation

	MAD	NY	MI	LON	FRK	PAR	AMS	BRU	MLN	ZUR	GNV	SGP	HK	SHG	TOK
Sovereign	Moody's	Aaa	Aaa	Aaa	Aaa	Aaa	Aaa	Aa1	AA2	Aaa	Aaa	Aaa	AA2	A1	Aaa
	S&P	AAA	AAA	AAA	AAA	AAA	AAA	AA+	A+	AAA	AAA	AAA	AA	A	AA
	Fitch	AAA	AAA	AAA	AAA	AAA	AAA	AA+	AA-	AAA	AAA	AAA	AA	A	AA
Sub-sovereign <sup>(2)</sup>	Moody's	Aa1	Aa1	Aa1	Aaa	Aa2	n/d	Aa2	Aa2	Aaa	Aa3	Aaa	Aa2	n/d	Aaa
	S&P	AA	AA	AAA	AA+	AA	AAA	n/d	AA	A+	AAA	AA-	AAA	n/d	AAA
	Fitch	AA-	AAA	AAA	n/d	AA	AAA	n/d	AA	AA-	AAA	AA-	AAA	n/d	AAA



- Both Spain and the Community Madrid have been highly rated by the rating agencies, since the credit risk to which they are exposed is deemed to be highly unlikely to occur

- Spain is noteworthy among its peers for its high level of GDP growth, although it could lose some of its appeal due to a higher inflation rate than that of the other countries reviewed

(1) Moody's, Fitch Ratings and Standard and Poor's

(2) Risk of administrative units below the sovereign government (e.g. autonomous community, canton, federal state, municipality, etc.).

In cases where there is no sub-sovereign rating for any of the agencies, the information has been compared with the existing sub-sovereign ratings of the other agencies

Source: ratings agencies

Sources: EIU, Deloitte analysis

# Macroeconomic and political scenario (i)

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## Variable

### ▪ Ratings agencies

Sovereign risk rating and sub-sovereign risk rating of Standard & Poor's, Moody's and Fitch

### ▪ GDP

GDP level, GDP per capita, the region's GDP, GDP growth, average GDP growth over the past five years, GDP growth trends, GDP volatility, GDP volatility trends

### ▪ Stability of the political system (\*)

Democratic responsibility<sup>1</sup>, law and order<sup>1</sup>, investment profile<sup>1</sup>, electoral process<sup>1</sup>, pluralism and participation<sup>1</sup>, government functioning<sup>1</sup>

### ▪ Inflation

Inflation, average inflation over the past five years, inflation trend, inflation volatility, inflation volatility trend

## Importance

▪ The credit rating agencies' ratings provide information on a country's risks to those responsible for identifying investments and establishing their business headquarters

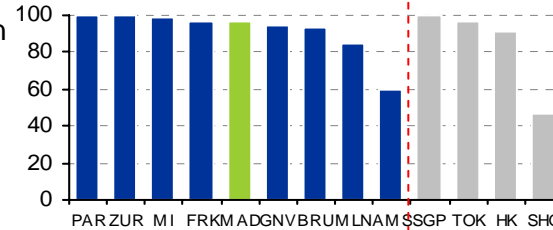
▪ Growth and low volatility of GDP testify to the strength and stability, respectively, of the economy, and are one of the first indicators examined by investors

▪ The stability of the political system provides reassurance to financial institutions and investors as to the continuity of the legal and economic framework

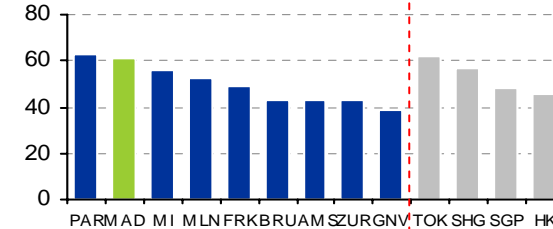
▪ The inflation rate is an indication of a country's economic stability

## Financial centre Index

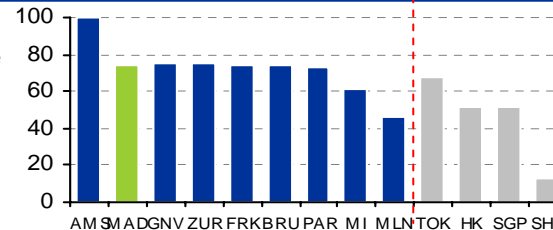
(100: positive. 0: negative)



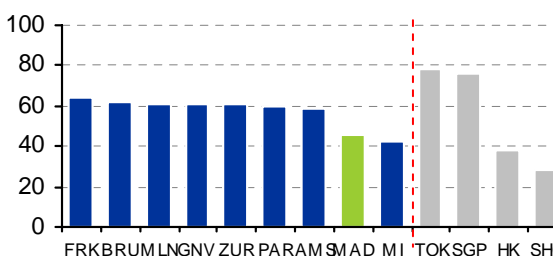
▪ The Madrid Autonomous Community and Spain have the highest credit rating



▪ The Community of Madrid is the second Western region of the metropolitan areas, due to the significant increase in its GDP over the past five years



▪ Spain's political stability is in line with that of the countries of the competing European Financial Centres



▪ The strong growth of the Spanish economy has pushed inflation to levels above those of the other competing European countries

(1) Indicators prepared by PRS Group and Freedom House, World Bank sources  
 (\*) Political analysis variable  
 Source: see appendix

# Macroeconomic and political scenario (ii)

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## Variable

## Importance

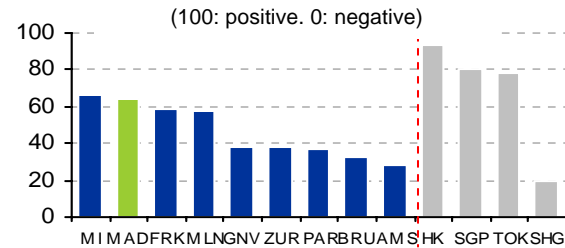
## Financial centre Index

## Status

### Unemployment rate

Unemployment rate, trends observed in the past in the unemployment rate

- The unemployment rate is an indicator of a country's economic performance and wealth since it is linked to the availability of work and to business activity

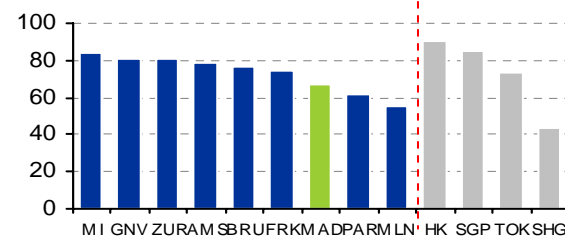


- In recent years, there has technically been a situation of full employment in Spain

### Economic freedom and transparency (\*)

Opacity index<sup>(1)</sup>, degree of economic freedom<sup>(2)</sup>

- Measures the clarity of the business environment and the independence of the individual to act vis-à-vis public agencies and regulatory bodies as a whole, according to reputable sources

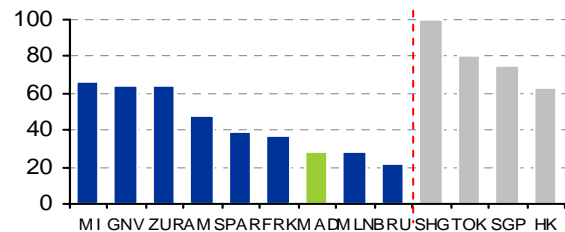


- Spain competes with countries which have historically been trading centres and have approved laws that foster the establishment of new businesses and the movement of capital

### Safety (\*)

Number of crimes per inhabitant, investment in safety

- Safety provides guarantees to global financial centres regarding the environment in which business is carried on



- The Community of Madrid has citizen safety indices similar to those of other EU cities

(1) The Global Costs of Opacity. Measuring business and investment risk worldwide

(2) Heritage Foundation: 2007 Index of Economic Freedom

(\*) Political analysis variable

Source: see appendix

# Macroeconomic and political scenario (iii)

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## Variable

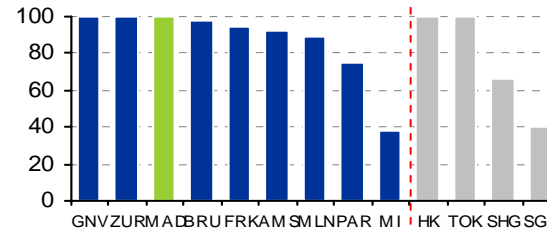
- **Stability of foreign relations(\*)**  
Defence expenditure, risk of armed conflict

## Importance

- The instability of a country's foreign relations can have an adverse impact on the financial markets

## Financial centre Index

(100: positive. 0: negative)



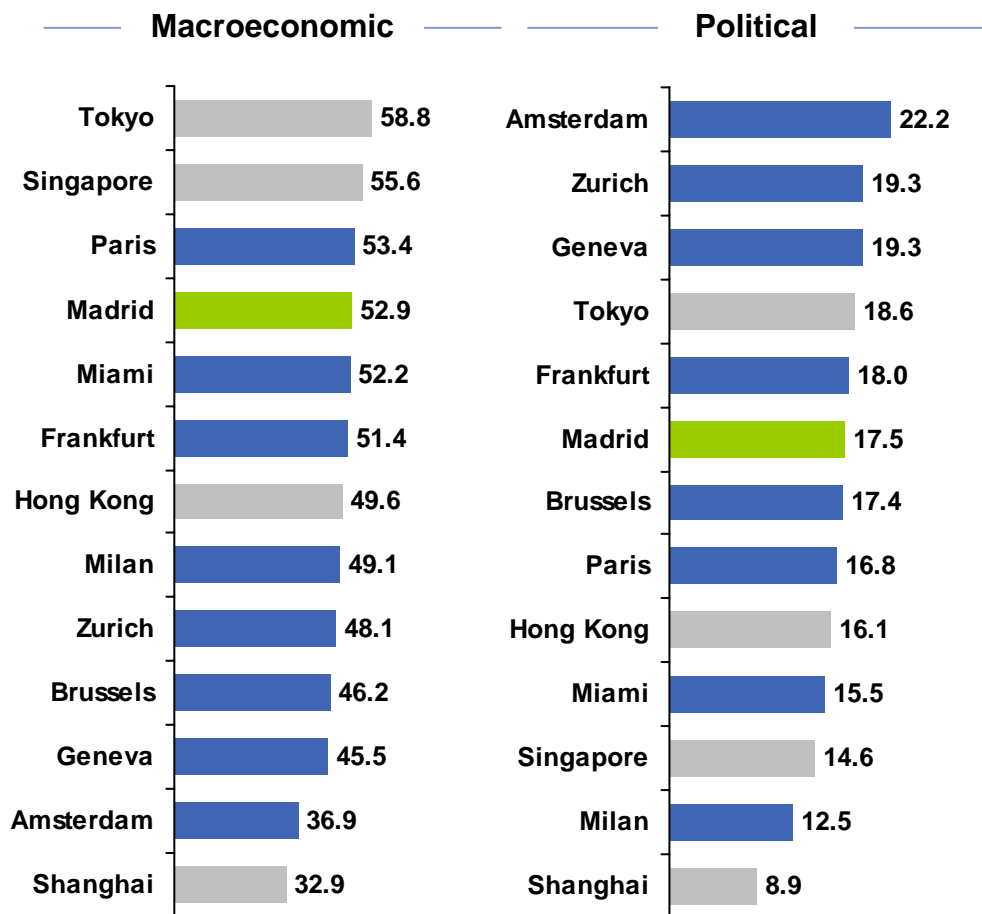
## Status

- Spain maintains a good relationship with its neighbouring countries, Latin America, the US, the Middle East and Asia

Source: see appendix  
(\*) Political analysis variable

# The economic and political scenario in which the Community of Madrid operates provides the stability and transparency conditions required of a global financial centre

## Macroeconomic and political scenario ranking



## Main conclusions

- Due to its high **GDP growth rates**, the Community of Madrid has improved its ranking
- Both the Community of Madrid and Spain have a **very high credit rating** for their economic environment
- The **stability** of the European countries has contributed to the Community of Madrid's position in the rankings
- The conditions of **transparency and freedom** make business operations and the development of a GFC safer
- The proper management of the **good foreign relations** historically maintained by Spain could facilitate the commercial development of the GFC, thus consolidating the Community of Madrid's positioning vis-à-vis its competitors in its economic space

Note: In the rankings by subject, the positions of New York and London were not taken into account  
Source: Deloitte analysis



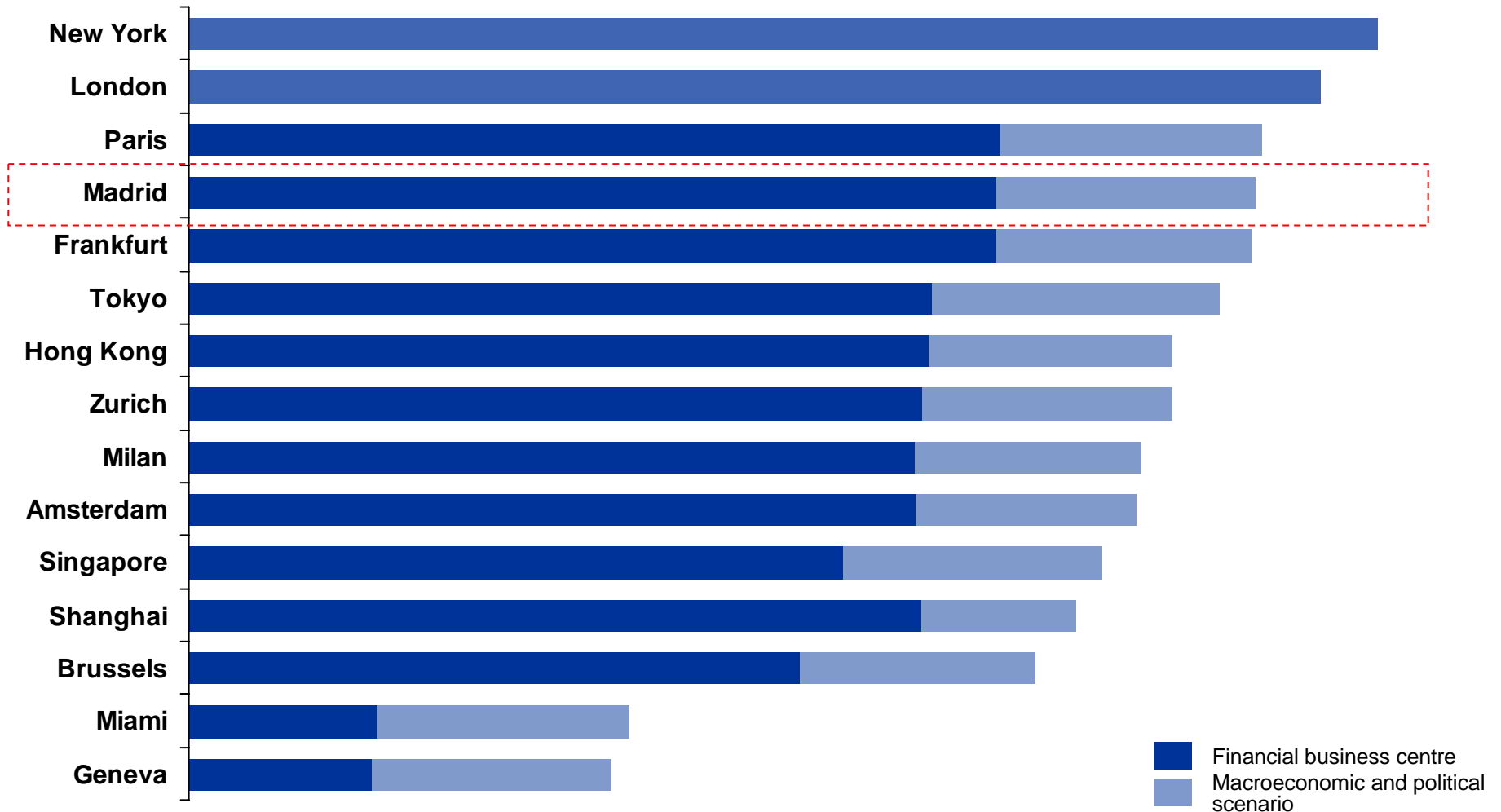
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## Conclusions

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# The overall ranking demonstrates the region of Madrid's strengths and the need to continue endeavouring to consolidate its long-term position

Overall Ranking



Source: Deloitte analysis

# The overall ranking demonstrates the region of Madrid's strengths and the need to continue endeavouring to consolidate its long-term position

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## Conclusions

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- The region of Madrid shows **considerable capability** as a financial business centre, being particularly strong in banking and capital markets (especially fixed-income securities)
- The stable macroeconomic and political **environment**, the current regulatory regime and established foreign relations must be the axes on which the consolidation and growth policy as a GFC is articulated
- It will be equally important to develop the capacity to **attract valuable professionals** who wish to develop their careers here
- This is possible due to the available resources (infrastructure and services) which make the Community of Madrid an **attractive region to do business**
- Lastly, the Community of Madrid's **reputation** as a worldwide global financial centre must be **promoted**

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**Appendix:  
Methodology and Information  
sources**

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# Methodology

## Abbreviations and presentation format

### Abbreviations used for the financial centres

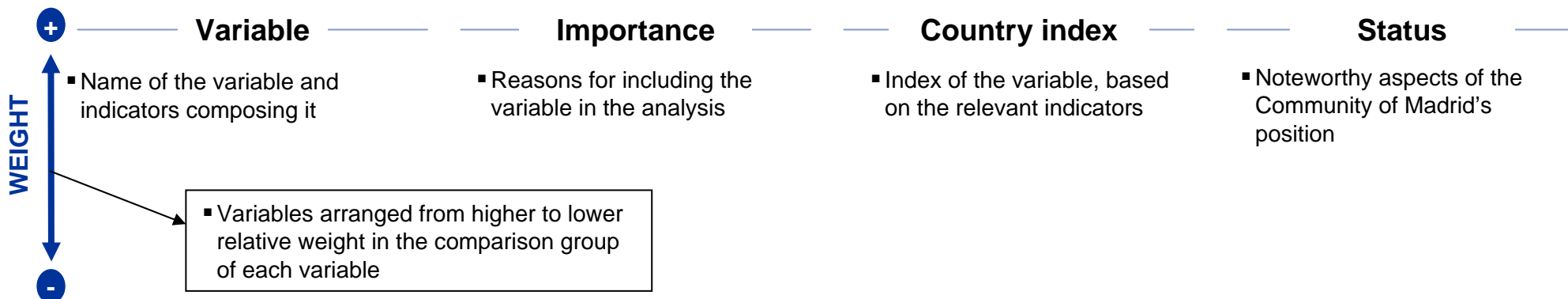
#### City

<u>North America</u>		<u>EUROPE</u>	
New York	NY	Madrid	MAD
Miami	MI	Milan	MLN
<u>EUROPE</u>		Paris	PAR
Amsterdam	AMS	Zurich	ZUR
Brussels	BRU	<u>ASIA</u>	
Frankfurt	FRK	Hong Kong	HK
Geneva	GNV	Shanghai	SHG
London	LON	Singapore	SGP
		Tokyo	TOK

#### Country

<u>North America</u>		<u>EUROPE</u>	
United States	USA	Italy	ITA
<u>EUROPE</u>		United Kingdom	UK
Germany	DEU	Switzerland	CHE
Belgium	BEL	<u>ASIA</u>	
Spain	ESP	China	CHN
France	FRA	Hong Kong	HK
Netherlands	NLD	Japan	JPN
		Singapore	SGP

### Presentation of variables



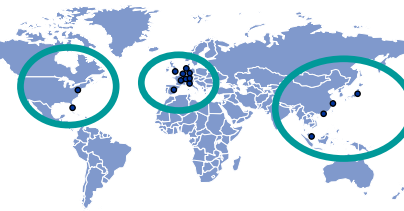
# Methodology

## Construction of the ranking: identification of variables

### Variable identification process

#### Identification of comparable centres

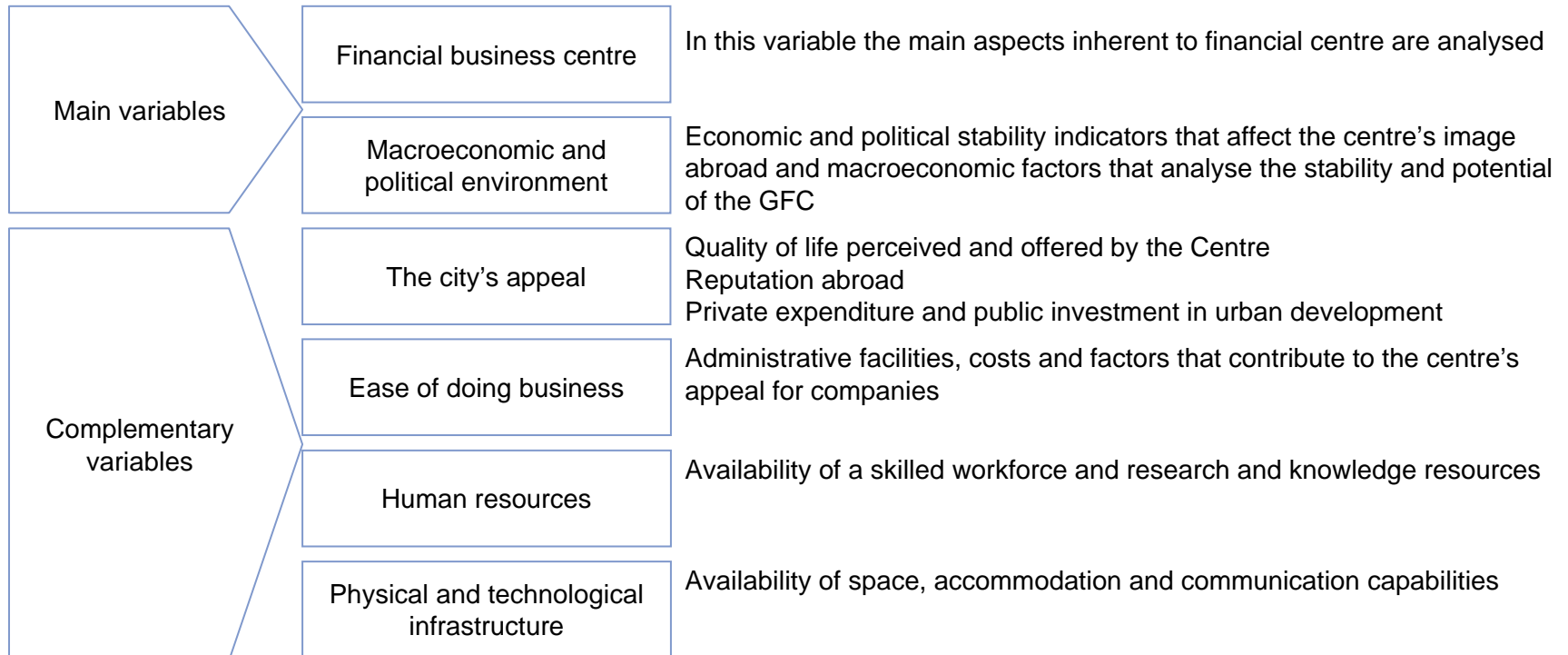
- The metropolitan areas analysed are those previously singled out for their importance



FINANCIAL CENTRES	
NORTH AMERICA	
▪ New York	▪ Milan
▪ Miami	▪ Paris
EUROPE	
▪ Amsterdam	▪ Zurich
▪ Brussels	▪ ASIA
▪ Frankfurt	▪ Hong Kong
▪ Geneva	▪ Shanghai
▪ London	▪ Singapore
	▪ Tokyo

#### Determination of the areas to be analysed

- A global analysis was used to define the following areas under which the variables will be analysed:



#### Selection of variables

- Selection of the variables and indicators for the proposed analysis

# Methodology

## Construction of the ranking: comparison of variables

### Variable comparison process

#### Identification of values by city

- Selection of reputable sources
- Analysis and comparison of information

#### Standardisation of variables

- Transformation of the absolute values of the variables on a **scale of 0-100**. The method used only shows the relationship of the values of the selected metropolitan areas (relative method)
- Identification of the **transformation equation** for each variable: linear, logarithmic, exponential, etc. Logarithmic equations are used to avoid the concentration of scores in a small percentage of cities

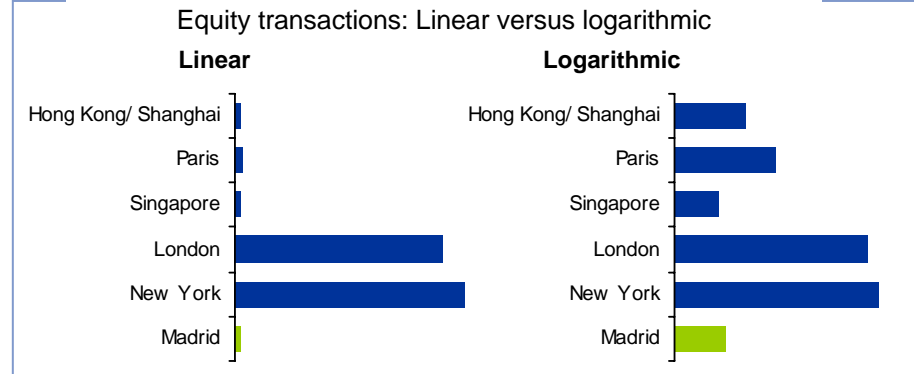
#### Possible comparison methods

Selected method

Relative
<ul style="list-style-type: none"> <li>▪ A score of 100 relates to the highest value of the selected cities</li> <li>▪ Clearly demonstrates Community of Madrid's position compared with its competitors</li> </ul>

Semi-Relative
<ul style="list-style-type: none"> <li>▪ A score of 100 relates to the highest value of the global financial centres</li> <li>▪ Demonstrates the region of Madrid's potential for improvement</li> </ul>

#### Transformation methods



#### Weighting of variables

- Assignment of a weighting percentage to calculate the overall ranking, based on surveys of executives by **reputable sources**, weightings used by other ranking and analysis of **Deloitte's panel of experts** in the financial services industry and in the public sector

# Information Sources

## Financial business centre (i)

<b>1</b>	<b>Importance of financial institutions</b>	
1.1	Presence of foreign banks	
1.1.1	Presence of the 20 leading international banks	The Banker, entities
1.1.2	Presence of foreign banks at national level	IMF
1.2	Rating of the banking system	Fitch Ratings
1.3	Variables of the leading national financial institutions	
1.3.1	Cost-to-income	Deloitte analysis based on annual reports
1.3.2	Solvency	Entities
1.4	Financial services industry variables	
1.4.1	Total assets	ECB, national banks
1.4.2	Bank lending to the private sector	Euromonitor
1.4.3	Percentage of GDP corresponding to the financial services industry	Euromonitor

## Information Sources

### Financial business centre (ii)

2	Equity market		
2.1	Volume of IPOs		World Federation of Exchanges (WFE), Euronext
2.2	Number of IPOs		Mergermarket
2.3	Number of companies		WFE, Euronext
2.4	Domestic market capitalisation		WFE, Euronext
2.5	Value of shares traded		WFE, Euronext
2.6	Market concentration		Stock Exchanges

3	Fixed-income securities market		
3.1	Value of bonds traded		WFE; Euronext, NYSE
3.2	Value of bond market at year-end		BIS
3.3	Number of listed bonds		WFE; Euronext
3.4	Number of bond trades		WFE; Euronext

## Information Sources

### Financial business centre (iii)

<b>4</b>	<b>Derivatives market</b>	
4.1	Volume of derivatives traded	WFE; Euronext
4.2	Number of derivatives contracts	WFE; Euronext
<b>5</b>	<b>Mergers and acquisitions</b>	
5.1	Number of mergers and acquisitions	Thompson Financial
5.2	Volume of mergers and acquisitions	Thompson Financial
<b>6</b>	<b>Foreign direct investment (FDI)</b>	
6.1	Volume of inward FDI	Economist Intelligence Unit
6.2	Volume of inward FDI as a proportion of GDP	Economist Intelligence Unit
6.3	Number of inward FDI projects	Economist Intelligence Unit
6.4	Volume of outward FDI	Economist Intelligence Unit
6.5	Volume of outward FDI as a proportion of GDP	Economist Intelligence Unit
<b>7</b>	<b>Investment funds</b>	
7.1	Net assets of investment funds	ICI, Economist Intelligence Unit

# Information Sources

## Macroeconomic and political scenario (i)

<b>1</b>	<b>Rating agencies</b>	
1.1	Sovereign risk rating	
1.1.1	Moody's rating	Moody's
1.1.2	Standard & Poor's rating	Standard & Poor's
1.1.3	Fitch rating	Fitch Ratings
1.2	Sub-sovereign risk rating	
1.2.1	Moody's rating	Moody's
1.2.2	Standard & Poor's rating	Standard & Poor's
1.2.3	Fitch rating	Fitch Ratings
<b>2</b>	<b>Stability of foreign relations</b>	
2.1	Defence expense	World Bank
2.2	Risk of armed conflict	
2.2.1	Current	Economist Intelligence Unit
2.2.2	Forecast	Economist Intelligence Unit

# Information Sources

## Macroeconomic and political scenario (ii)

3 Security		
3.1	Delinquency	Eurostat, National Bureau of Statistics of China, Singapore Police Force, Hong Kong Police Force
3.2	Investment in security	Eurostat, GlobalSecurity, Singapore Police Force, Hong Kong Police Force
4 Stability of the political system		
4.1	Democratic responsibility	PRS Group
4.2	Law and order	PRS Group
4.3	Investment profile	PRS Group
4.4	Electoral process	FreedomHouse
4.5	Pluralism and participation	FreedomHouse
4.6	Government performance	FreedomHouse

# Information Sources

## Macroeconomic and political scenario (iii)

5	Freedom and transparency of the economy		
5.1	Opacity index		MIT (Kurtzman group)
5.2	Degree of economic freedom		Heritage Foundation

6	GDP		
6.1	Level of GDP		Economist Intelligence Unit
6.2	GDP per capita		Economist Intelligence Unit
6.3	Regional GDP		National and regional statistics offices
6.4	GDP growth		Deloitte analysis based on Economist Intelligence Unit data
6.5	Average GDP growth in recent years		Deloitte analysis based on Economist Intelligence Unit data
6.6	Future GDP growth trend		Deloitte analysis based on Economist Intelligence Unit data
6.7	GDP volatility		Deloitte analysis based on Economist Intelligence Unit data
6.8	Future GDP volatility trend		Deloitte analysis based on Economist Intelligence Unit data

# Information Sources

## Macroeconomic and political scenario (iv)

7	Inflation	
7.1	Inflation rate	Deloitte analysis based on Economist Intelligence Unit data
7.2	Average inflation in recent years	Deloitte analysis based on Economist Intelligence Unit data
7.3	Inflationary trend	Deloitte analysis based on Economist Intelligence Unit data
7.4	Inflationary volatility	Deloitte analysis based on Economist Intelligence Unit data
7.5	Trend in inflationary volatility	Deloitte analysis based on Economist Intelligence Unit data

8	Unemployment rate	
8.1	Unemployment rate	Economist Intelligence Unit
8.2	Unemployment rate trend observed	Deloitte analysis based on Economist Intelligence Unit data

9	Exchange rate and interest rate	
9.1	Exchange rate volatility	Deloitte analysis based on Economist Intelligence Unit data
9.2	Exchange rate volatility forecast	Deloitte analysis based on Economist Intelligence Unit data
9.3	Volatility of average market bank interest rates	Deloitte analysis based on Euromonitor data

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