


SPECIAL ADVERTISING SECTION

## SPAIN

## Financial sector opens to alternative investments

 But when it comes to selling new products, a personal touch still matters.

By Joan Tarzian

SPAIN'S financial-services sector is a tightly run ship. Having undergone tremendous change and internationalization over the past 10 to 15 years, the country's banks are now among the most efficient in Europe. Its domestic retail-banking market is known for its stiff competition, and its stock exchange, which also has a reputation for efficiency, will soon go public. Spaniards feel — and many are — wealthier. But, in general, they are financial conservatives who are only just beginning to develop a taste for risk.

Now, though, new alternative investment legislation may give foreign investment managers the chance to get their foot in the door, while the last great frontier in Spain's financial-services market — convincing investors to diversify investment portfolios and take on greater risk — looms.

Spain's two largest banks — Santander Central Hispano, the euro zone's largest bank by market capitalization, and BBVA, the euro zone's fourth largest — have attracted attention for their foreign acquisitions.

Today, nearly a quarter of Spanish banks' assets are outside Spain, 66% in the European Union and some 30% in Latin America. What makes them so sure of their footing outside Spain? José Manuel Campa, finance professor at IESE Business School in Madrid, highlights three factors: "The Bank of Spain has been effective in implementing regulations that have increased competition at home," Prof. Campa says. "The domestic market is highly competitive and the consolidation of the Spanish banking sector in the 1990s has given the Spanish banks unique expertise."

Santander Central Hispano bought Banco Español de Crédito (Banesto) after the Bank of Spain intervened

following a solvency crisis in 1994. Santander appointed a new management team that turned Banesto around.

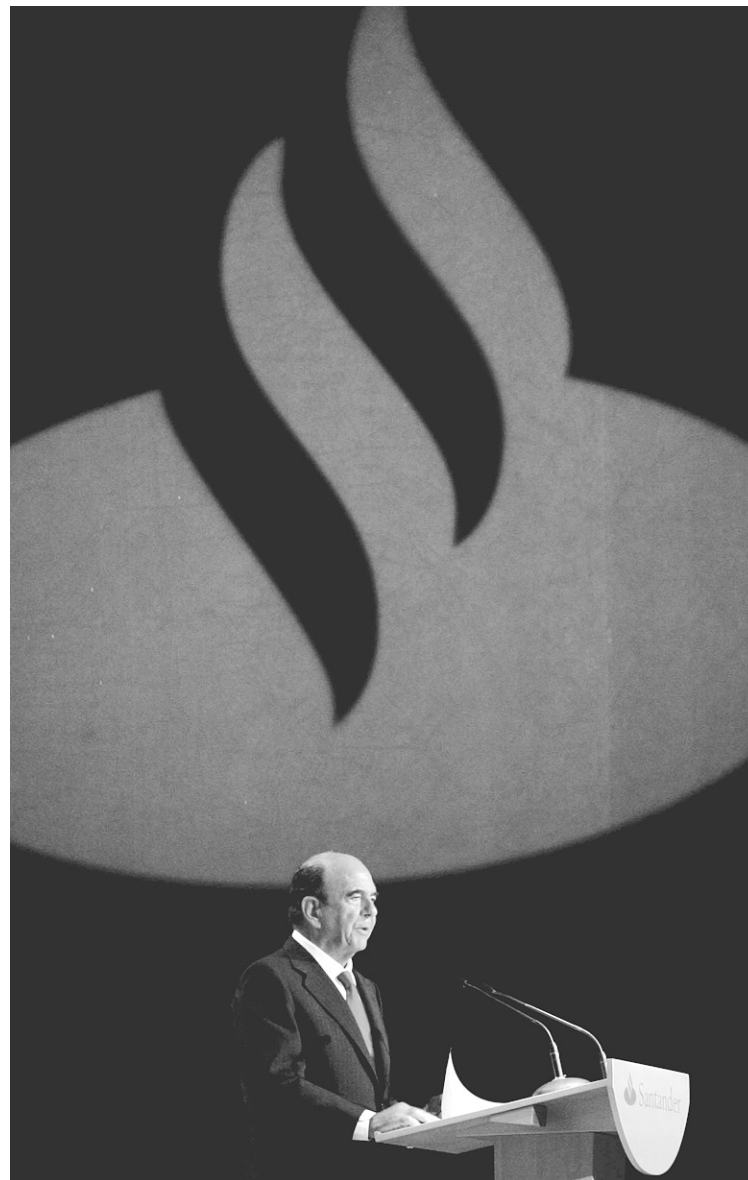
Often cited by Emilio Botin, Santander's chairman, as "the jewel in the crown," Banesto now contributes between 9% and 10% of Santander's profits and has proved a successful testing ground for improvements in banking technology — the Parthenon banking platform developed at Banesto is being rolled out across Santander's European operations.

At home, Spanish banks face stiff competition for retail customers from Spain's powerful savings and loan companies (S&Ls), which hold more than half of the country's deposits. A country with among the highest number of bank branches per capita, Spain's banks were closing branches from 2000 to 2002, until they started losing market share to the S&Ls.

Having underestimated the importance of human contact, banks are now trying the reverse strategy, opening hundreds of new branches last year. "How much business Spaniards do with their bank still depends a lot on their relationship with their local branch manager, particularly for investments," says Prof. Campa.

Created from the merger of Spain's four stock exchanges (Madrid, Bilbao, Barcelona and Valencia) in early 2002, Bolsas y Mercados Españoles (BME) is to go public next month. It boasts a solid track record. Europe's fourth-largest market, which includes derivatives trading and Latin American shares through its Latibex platform, BME boasts an efficiency ratio — operating cost divided by total income — of 38%, below its competitors' average.

BME became the first international stock market to link different



Emilio Botin, chairman of Santander, the euro zone's largest bank.

stock exchanges with its own state-of-the-art technology when the four merged. Its diversified business model integrates clearing and settlement, responsible for 23% of revenue, and trading.

With international stock markets buzzing with news of trans-Atlantic and cross-border mergers, will BME entertain thoughts of marriage? It

says it is open to dialogue. However, the merger of the four Spanish exchanges has meant their interconnection, not disappearance.

While the level of sophistication of Spanish investors continues to rise, acceptance of a broader range of financial products and, in some cases, the risk that goes with them, will continue to start at the branch

level in the retail market. This means control will remain with large, established banking groups.

The new laws governing alternative investments now give the green light for hedge funds in Spain. However, for now, foreign managers must market their fund products and expertise to Spain's large banks for marketing in their retail network, or sell to institutional investors and to private bankers.

"We expect an increase in the use of independent financial advisers by local banks, who control the distribution of hedge funds right now," says Sasha Evers, country manager of Pittsburgh-based Mellon Global Investments. He estimates that 5% of investments in Spain will be in alternative products in five years.

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Sonssoles Santamaria, product director for Tressis, an independent investment consultancy in Madrid, is more optimistic: "I wouldn't be surprised to see 10% or even 20% in alternative investments here in five years," Ms. Santamaria says. "It depends on how well the Spanish entities develop their own hedge fund products."

Meanwhile, the new EU Markets in Financial Instruments Directive is likely to mean an eventual change in Spanish legislation for alternative investments, which must be modified to allow foreign groups to market their hedge funds directly to Spain's retail market.

If the locals fail to sell alternative investments to the Spanish market now, the surge in their use among Spanish investors is likely to come with the entrance of foreign firms to the retail segment.

## Cubist tapas and Basque haute cuisine make eating out a feast for the senses

OLIVE OIL caviar. Egg and truffle flower in goose fat with chorizo of dates. Almond sorbet with garlic. Spanish chefs are tantalizing your taste buds and blowing your mind. What's so unusual is that Spain's chefs have been experimenting with daring new combinations for a good decade now, proving they are no flash in the pan.

Ferran Adria, the high priest of modern haute cuisine, grabbed attention when he used a siphon — typically used for making whipped cream — to create "foams" of vegetables. This innovation turned El Bulli, his remote restaurant outside the town of Roses, north of Barcelona, into one of the most acclaimed in the world. El Bulli sports three Michelin stars and is open only from April to September. Every reservation for the 2006 season was snapped up in one day.

Mr. Adria's cooking has been called molecular cuisine. But if sci-

ence is the basis of his creations, they are hailed as works of art. Admirers have compared Mr. Adria with Salvador Dali and Picasso.

Diners go to El Bulli seeking pleasure, a challenge, surprise and amusement: they do not go to fill their stomachs. Portions are small and exquisitely presented — such as a group of vegetable foams that resemble a painter's palette — and tasting menus offer up to 30 different plates. Call it cubist tapas.

To keep the throngs coming, and coming back, Mr. Adria is under pressure to stay a step ahead. "That

Ferran Adria is one of Spain's leading chefs.

was 1994," he jokes when asked to talk about foams and siphons. Asked about another dish, apple caviar — which involved using a syringe to put droplets of apple solution into calcium chloride — he sighs. "That was 2003. We have moved on."

In fact, he moves on every day. Mr. Adria changes El Bulli's menu sometimes daily, and he spends the half-year the restaurant is closed in

his laboratory in Barcelona, experimenting and discovering. New techniques being studied include dehydrated soy meringues and "cro-quanters" — fruit that's crunchy and as fine as paper, dehydrated for two days at no more than 55 degrees, to retain the flavor.

El Bulli is a laboratory for chefs, too. Many of Mr. Adria's former apprentices have gone on to set up on their own. They include Sergi Arola of La Broche in Madrid and Jose Andres who has five restaurants in Washington and presents a television show on Spanish national television.

Although Mr. Adria has drawn international attention to Spain's new cuisine, chef Juan Maria Arzak got the ball rolling first, back in 1975. His Arzak Restaurant in San Sebastian carries three Michelin stars, serving modern, haute cuisine with a Basque influence.

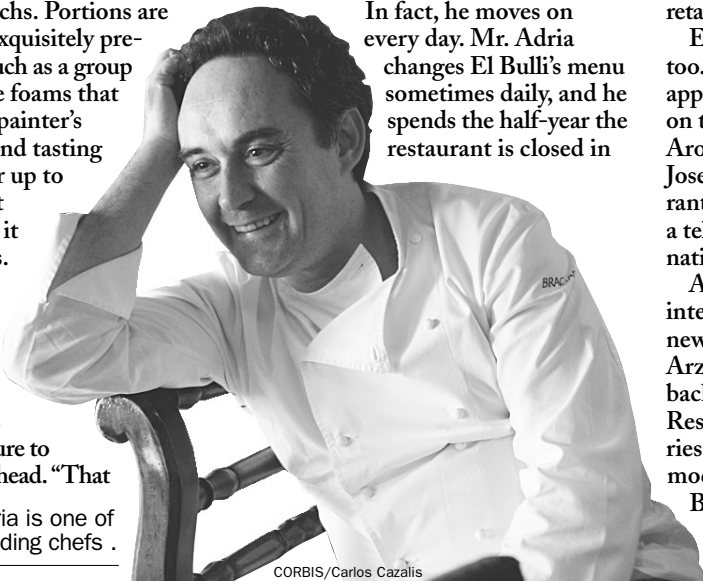
"We think about cooking as a child would," Mr. Arzak

says, explaining his creative approach. "We can't think that we know everything. We have to be ready to learn. It's investigation, avant-garde, evolution. We always have to be thinking about cooking. We have to look at the world and at life through the joy of cooking."

Today, Mr. Arzak says, Spanish cuisine is more than paella and gazpacho, although tradition plays a role in modern gastronomy. "Spain is varied, and it's beautiful," he says. "It's full of culture and heritage. But we also serve a Basque cuisine, which has its own heritage and genetic structure."

The success of Spain's chefs has trickled down to boost sales of Spanish food in general. Between 2000 and 2005, exports of extra virgin olive oil nearly doubled in value, to €1.2 billion from €613 million. In the same period, sales of ham increased 56% to €143.5 million and sales of cheeses increased 50% to €171.5 million.

— CATHERINE BOLGAR



CORBIS/Carlos Cazalis