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## **The business management of the Bank of Barcelona (1844-56): An interpretation based on accounting analysis.**

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### ***INTRODUCTION***

Modern banking in Spain developed in the middle decades of the 19<sup>th</sup> century. After many years of financial difficulties, the first Spanish bank, the old Bank of San Carlos (1782-1829), was turned into the Bank of San Fernando. This entity existed alone until the 1840s, when other banking institutions began to open on the peninsula. The 1829 Code of Commerce demanded royal authorisation for the founding of an issuing bank and the government was required to name a royal commissioner charged with making sure that the legislation was upheld. A series of laws at the end of the 1840s and beginning of the 1850s restricted the creation of limited liability companies and put limits on the operational capacity of existing banks.

In 1856 a new law modified the panorama of Spanish banking. The banks which had existed up until that time (San Fernando, Cadiz and Barcelona) held the privilege of issuing within their own respective markets. Under the new bank and credit society law this privilege was extended to other newly created banks. Issuing

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banks, commercial banks and societies of credit and factoring coexisted over two decades until, in 1874, the Bank of Spain obtained a monopoly over issuing rights.

Barcelona was one of the pioneering cities in the establishment of modern banking institutions. The Bank of Barcelona was set up in 1844 and closed down in 1920 after a much-publicised bankruptcy. From the time of its foundation to 1856 the bank had no competition since it was the only one on the market and it extended its influence through branches. At the same time, this was a greatly dynamic economic period, especially concerning the development of Catalan industry<sup>1</sup>. Therefore, it is in the period preceding the legislative changes of 1856 where the origins of the modernisation of Catalan finance are to be found.

Most studies have focused on an analysis of the period initiating in 1856. Spanish banking historiography carried out significant studies in the 1970s and 80s from a macroeconomic standpoint, seeking to explain the effects of banking activity on the economic system. Later on, much interest was shown in reconstructing the history of banking institutions in the 19<sup>th</sup> century. Some of these studies give rise to new questions regarding the functioning of banking on the peninsula.

The aim of this particular study is based on an analysis of the business management of the Bank of Barcelona in its activities as broker. Being a private institution, decision taking was carried out using business criteria, with no consideration for the macroeconomic effects that the bank's policies might have. From this point of view, an analysis of the objectives of liquidity, solvency and profitability is relevant not only in order to understand the microeconomic workings of the bank but also in order to analyse the effects of the aforementioned business management on the economic activity of the market.

This case study concentrates on an accountancy analysis of balance sheets, profit and loss accounts and financial statements of the Bank of Barcelona for the period comprising its competition-free activities on the market (1845-1856). The interpretation of quantitative results is complemented by qualitative information extracted from the minutes of bank board meetings<sup>2</sup>. The historiography highlights

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*Historia industrial y de la empresa* (2001 SGR00028).

<sup>1</sup> Carreras, Albert (ed.) (1989): *Estadísticas históricas de España. Siglos XIX y XX*, Fundación Banco Exterior. Madrid. Also: Nadal, Jordi and Carreras, Albert (direction and coordination) (1990): *Pautas regionales de la industrialización española: ss XIX y XX* Ariel. Barcelona.

<sup>2</sup> The appearance of the documentation of the Bank of Barcelona is relatively recent. In this respect, see: Blasco, Yolanda (2003): "Una nueva fuente bancaria, el Banco de Barcelona 1844-1920" in the journal

a change in the policy of the institution from the 1848 crisis onwards and an extremely cautious attitude in subsequent years (indicated by a high cash reserve) which limited credit on the market. An analysis of accountancy ratios offers us an initial insight into the business management of the entity. From our study a firmer grasp of both the decision-making process of the institution and the importance of these decisions in Catalan economic development during this period can be obtained.

The paper is organised in two parts. In the first part we carry out a review of the historiography of Spanish banking and place the Bank of Barcelona in the corresponding period, and in the second part we analyse the business management of the Bank.

### ***THE BANK OF BARCELONA WITHIN THE CONTEXT OF SPANISH BANKING IN THE MID 19TH CENTURY***

The first studies of the historiography of Spanish banking date from the 1940s<sup>3</sup>. However, the most significant contributions have been made from the 1970s onwards<sup>4</sup>. Gabriel Tortella produced a seminal text on the historiography (1973). In it he analyses the origins of capitalism in Spain, placing special emphasis on the organisation of the financial system and its effects on economic growth in the middle decades of the 19<sup>th</sup> century. Tortella realized his dissertation with Rondo Cameron supervision; as consequence, his research used as main reference the Cameron approach<sup>5</sup>. The studies carried out at this time focused on searching for explanations for the backwardness of the Spanish system. As such, Spanish historiography was occupied principally in offering up general explanations and additional data in order to attempt to establish the macro magnitudes which would allow a thorough understanding of the period.

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*Revista de Historia Industrial*, n. 23, pp. 199-206

<sup>3</sup> See Canosa, Ramón (1945): *Un siglo de banca privada 1845-1945. Apuntes para la Historia de las finanzas españolas*. Nuevas Gráficas. Madrid. See also Tallada, José María (1946): *Historia de las finanzas españolas en el siglo XIX*. Espasa Calpe. Madrid.

<sup>4</sup> An initial selection can be consulted in (1970): *El banco de España. Una historia Económica*. Banco de España. Madrid. Around this time the most notable works were those of Nicolás Sánchez Albornoz, including (1968): *España hace un siglo, una economía dual*. Península. Barcelona; and Gabriel Tortella's work [1973], (1995): *Los orígenes del capitalismo en España*. Tecnos. Madrid.

<sup>5</sup> Cameron, Rondo (1974): *La banca en las primeras etapas de la industrialización*. Tecnos. Madrid.

Monographs of financial institutions were developed over the following decades along with partial studies of aspects related to the evolution of the finance of the period<sup>6</sup>. Nevertheless, in the period leading up to 1856 there were only three banking institutions. There is an exhaustive study by Pedro Tedde on the Bank of San Fernando (1999). Regarding the Bank of Cadiz, to the studies by Leopoldo Zumalacárregui (1952), we can add Ruíz Velez Frías, who also completed a fundamentally descriptive study of the institution (1977). Pedro Tedde also includes an analysis in his work of 1984. Francesc Cabana (1978) carried out a study on the Bank of Barcelona (1978) based on the records of the institution covering the entire existence of the bank<sup>7</sup>.

Banks were not unknown in Spain in earlier times. In fact, the *Taula de Canvi*, created in Barcelona in 1401<sup>8</sup>, is an early example, along with some other failed experiments at the end of the 18<sup>th</sup> century. Nonetheless, it was in the mid 19<sup>th</sup> century when modern banks began to appear on the peninsula. Throughout the 1840s an interest in banking was sparked off in many cities<sup>9</sup>. This interest occurred relatively late on in the context of the evolution of banking across the

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<sup>6</sup> Although not totally exhaustive, it is worth mentioning the work of Pedro Tedde on the Bank of San Carlos (1988): *El Banco de San Carlos*. Banco de España-Alianza Editorial, Madrid and also his study on the Bank of Cadiz (1984): “Burguesía, banca y mercado (1840-1874)” in A. M. Bernal (Dir): *Historia de Andalucía*, vol. VI. Planeta. Barcelona, pp. 345-397; preceding studies on the Bank of Cadiz are those of Leopoldo Zumalacárregui (1952): *El Banco de Isabel II y la crisis de la Banca de emisión española de 1847*. Gráficas Reunidas, S.A.. Madrid, that of Florian Ruíz Vélez Frías (1977): *Los bancos de emisión de Cádiz en el siglo XIX*. Universidad de Córdoba. Instituto de Historia de Andalucía. Madrid. Also the studies by Clementina Ródenas on the application of the Peel law in Spain (1978): “La política bancaria deflacionista a mediados del siglo XIX: la influencia de la ley Peel” en *Hacienda Pública Española*, nro. 55. Instituto de Estudios Fiscales. Madrid. On the Bank of Catalonia, the effort of Francesc Cabana in compiling and putting information at the disposal of the researchers must be acknowledged. As far as this study is concerned it must be pointed out that the only existing monograph to date on the Bank of Barcelona is that of the above author (1978): *Història del Banc de Barcelona (1844-1920)*. Edicions 62, Barcelona, which we will deal with later on. Additionally, Carles Sudrià carried out a study in the 1980s on banking in Catalonia: (1982): “Desarrollo industrial, subdesarrollo bancario en Cataluña 1844-1950”, in *Investigaciones económicas*, n. 18. For other Spanish banks, some studies have been made of institutions, among them that of José Ramón García López (1989): *El Banco de Oviedo 1864-1874. Historia económica de un banco de emisión*. Masas Ediciones. Gijón.

<sup>7</sup> There is a summary on provincial banking in: Sudrià, Carles (1995): “Los bancos de emisión provinciales en la España del siglo XIX”, in P. Tedde and C. Marichal (coord): *La formación de los bancos centrales en España y América Latina (s.XIX y XX)*. Banco de España. Madrid.

<sup>8</sup> Feliu, Gaspar and Adroer, Anna Maria (1989): *Història de la Taula de Canvi de Barcelona: seu fundacional de la Caixa de Barcelona*. Caixa de Barcelona. Obres Socials i Culturals. Barcelona. Ruíz Martín, Felipe (1970): “La banca en España hasta 1782” in *El Banco de España, una historia económica*.

<sup>9</sup> Gabriel Tortella [1973] (1995): *Los orígenes del capitalismo en España*. Tecnos, Madrid; apart from the Bank of San Carlos and that of San Fernando, which have their own history, it also mentions the Bank of Isabel II (including its branch in Cadiz), as well as two short-lived and non-issuing banking ventures, namely the Banco de la Unión and Banco de Fomento y Ultramar. He also mentions that other banks were set up in provinces, without the right to emit banknotes, in the 1840s: The Caja de Descuentos Zaragoza and the Sociedad Valenciana de Fomento. Of all the provincial issuing banks, the most important was the Bank of Barcelona.

European continent. The political and institutional causes for this must be highlighted. On the matter of political evolution, Spain suffered great instability from the beginning of the 19<sup>th</sup> century; colonial independence came on top of the Napoleonic invasion and to round the situation off, the first four decades of the century were plagued by internal conflict. Nonetheless, at the beginning of the 1840s the political situation appeared to stabilise, stimulating business. The only bank in existence until the 1920s was the Bank of San Carlos, which experienced an adverse state of affairs due to the depreciation of royal promissory notes. This led to the closing down of the institution in 1829 and the emergence of the Bank of San Fernando<sup>10</sup>. Despite the relative political stability, Spanish banking continued to be subject to serious restrictions until 1856.

The Spanish State of the first half of 19<sup>th</sup> century was not notable for its permissiveness concerning the development of limited liability companies<sup>11</sup>. The creation of such a company required the approval of the Court of Commerce and in cases where some kind of privilege existed (as was the case for issuing banks), the approval of the monarch was also needed. Until 1856 and especially after the 1848 crisis, this legislation resulted in important restrictions with regard to the founding of banks, credit societies and other companies by actions of a commercial or industrial nature<sup>12</sup>.

Despite the lack of affection for financial institutions, by 1844 two permits granted for the opening of provincial issuing banks on the peninsula: one which paved the way for the opening of the Bank of Isabel II in Madrid at the beginning of 1845; and some months later another authorising the Bank of Barcelona. The

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<sup>10</sup> On the subject of the Bank of San Carlos see: Hamilton, E (1970): *El Banco Nacional de San Carlos (1782-1829)*, in *El Banco de España. Una historia económica* and Pedro Tedde, (1988): *El Banco de San Carlos*. Banco de España, Alianza Editorial. Madrid. Teresa Tortella put together an index entitled: *Indice de los primitivos accionistas del Banco Nacional de San Carlos*. Archivo Histórico Banco de España, 1986. With regard to the Bank of San Fernando see: Tortella, Gabriel (1970): “El Banco de España entre 1829-1929. La formación de un Banco Central”, in *Banco de España. Una historia económica*. An essential work is that of Pedro Tedde (1999): *El Banco de San Fernando*. Alianza Editorial, Banco de España. Madrid

<sup>11</sup> See Tortella, Gabriel (1968): “El principio de responsabilidad limitada y el desarrollo industrial de España: 1829-1869”, in *Moneda y Crédito*, n. 104, pp. 69-84

<sup>12</sup> On 28<sup>th</sup> January, 1848, a restrictive Public Limited Company Law was passed, accompanied by a set of regulations (dictated by a Royal Decree of 17<sup>th</sup> February, 1848, which included public limited partnerships). As such, the setting up of a company required the approval of either the legislative assembly or the queen, which meant an awkward and expensive process aimed to act as a disincentive for the founding of these companies. Although the 1848 crisis has been associated with this legislation, the legislation was prior to the crisis (which began in France on the 23<sup>rd</sup> and 24<sup>th</sup> of February). It appears to be more a response to the problems with the Banks of Isabel II and San Fernando than to the 1848 crisis, understood as a response to the events in France after the destitution of Louis Philippe of Orleans.

Bank of Isabel II was set up by José de Salamanca, a well-known businessman, speculator and minister<sup>13</sup>. The entity had existed barely two years when, in 1847, with Salamanca himself as Treasury Minister, it was “forcibly” merged with the San Fernando bank, which took over its dubious portfolio. With some difficulty, the Cadiz branch of the Bank of Isabel II obtained the issuing privilege. After the episode of the closing of the Bank of Isabel II, there remained three entities with the right to issue banknotes: the bank of San Fernando in Madrid (whose fundamental purpose consisted in acting as banker to the government), the Bank of Cadiz and the Bank of Barcelona.

The origins of the Bank of Barcelona can be found in three commercial firms of the city. The opening permit for the institution was granted to them *in extremis*. On the day prior to his resignation, the minister García de Carrasco, Count of Santa Olalla, signed the authorisation; his successor in the post was reluctant to open banking institutions. The bank began its operations in August 1845 with a nominal capital of 1 million *duros*<sup>14</sup>, of which a quarter was to be disbursed, and it was authorised to issue banknotes for the total social capital. Businessmen and some industrialists of the city were well represented within the management structure<sup>15</sup>.

The motives presented by the management of the institution on requesting authorisation for the opening of the bank were linked to the commercial and industrial growth of the city. As they point out: “*The commercial firms of this city which shall sign here below (Girona Hermanos Clavé y Cía., José María Serra, Plandolit Hermanos), observing the progressive increase in manufacturing within the Principality, the multiplying of transactions and commercial contracts, the strength being acquired by commerce and industry and the upwards trend in the*

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<sup>13</sup> The José de Salamanca character has interested and attracted some historians. A comparison with Santillán has been drawn by Pablo Martín Aceña (2002): “Two Banks and Two Bankers in Mid-nineteenth-century Spain”, in Kostas P. Kostis (ed.): *The Creators and the Creation of Banking Enterprises in Europe from the 18<sup>th</sup> to the 20<sup>th</sup> century*. Alpha Bank. Historical Archives. Atenas. Among the curious details mentioned about the life of Salamanca is one recalled by José de Echegaray in his memories. Echegaray explains that a friend of his who used to work alongside Salamanca, the engineer Leopoldo Brookman, had the idea of communicating the French and English coasts by means of a tunnel below the English Channel. This idea, today a reality, was passed on by José de Salamanca to Napoleon III; The French Court made fun of the financier, who returned to Spain and fought with Brookman, making him responsible for the unfortunate event. A posteriori, Echegaray wrote a play entitled “The last night” in which the story of a banker is told; although he began to write it with Brookman, he finished it alone and everything points to his source of inspiration as being none other than Salamanca.

<sup>14</sup> Coins of 5 pesetas

<sup>15</sup> A study of the composition of the board of governors of the bank in the early years of its existence can be consulted in Blasco, Yolanda (2001): “Los protagonistas de la Fundación del Banco de Barcelona.”

*forming of partnerships; acknowledging equally the obstacles to rapid growth of public wealth represented by the lack of hard cash in certain cases, the suppression of manufacturing orders and lack of equipment for industrial firms, became convinced that in Barcelona there was a need for an element capable of avoiding such obstacles in the fashion of what is advantageously practised in other European capitals, i.e., a Factoring Bank; a truly powerful aid for the most widespread development of commercial, manufacturing and industrial operations, the benefits of which could spread to agriculture and every stratum of society. The three firms proposed to His Majesty's Government at the commencement of the year 1842 the creation of the Bank of Barcelona, including its statutes. Certain partners made repeated journeys to this effect, dedicated to the undoubted necessity of such an establishment and subsequent to not inconsiderable expenses and the delay which unfortunate events in this capital provoked, thanks to their industry and the powerful help received from influential persons of the Court, they have finally achieved from His Majesty the approval for the establishment of the aforementioned bank and consequently in the aforementioned city of Barcelona...."*<sup>16</sup>

To date, the sources used in the explanations given over some aspects of the Bank of Barcelona have been: the financial statement of the 50<sup>th</sup> anniversary (1894); the financial statements published each semester by the institution and prior to shareholder meetings; and the reports drawn up by the bank from 1850 onwards. The principal source has been the first of these, referred to by Vicens Vives (1958) in his book *Industrials i politics*<sup>17</sup>. Vicens used the cash movement of the institution as an indicator of the dynamism of the market in the second half of the 19<sup>th</sup> century. Tortella was the first to collect a proxy to the principal entries on the annual balance sheets of the bank (1850-1873), based on the semestral financial statements.

Tortella identifies the two elements which stand out in this period: on one hand, the cutback which the 1848 crisis meant for the policy of the institution<sup>18</sup>; on

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*Estudis Històrics i Documents dels Arxius de Protocols*, Revista del Colegio de Notarios de Barcelona.

<sup>16</sup> Minutes from the meeting of the board of directors of 20th August 1844, page 5.

<sup>17</sup> Vicens Vives, J. and Llorens, M [1958] (1994): *Industrials i politics* (segle XIX). Vicens Vives, Barcelona.

<sup>18</sup> Tortella considers the 1847-48 crisis to be the first capitalist crisis in Spain and links to the economic events experienced by the country to the situation of the Bank of Isabel II. Some contemporaries separate

the other, he points out that subsequent to this crisis the bank adopted a policy of contraction: it reacted, “by increasing its cash reserve, which was quadrupled from 1848 to 1852. This deflationary reaction at a time of uncertainty occurred again in 1866 and in subsequent years. In order to boost its reserves, the bank proceeded in the same way on both occasions: first it demanded a passive dividend from its shareholders and then allowed its portfolio to decrease in relative terms while simultaneously a growing volume of deposits (and, in the case of 1866, of fiduciary money) allowed for the rapid expansion of total assets.”<sup>19</sup>

Other later studies have stressed the prudent and conservative character of the institution. Pere Pascual (1991) considers that the bank came into being in order to mitigate the upward tendency of interest rates which was taken advantage of by lenders and bankers who operated on the market by imposing practically usurious conditions. Nonetheless, he points out that the *extremely prudent* attitude of the entity prevented this goal from being achieved<sup>20</sup>. The author adds that security took precedence over any other consideration. The highly conservative nature of the bank is illustrated by its narrow selection of clientele. The idea of the bank’s prudence is taken up by other authors, e.g. Castañeda and Tafunell (1997), who remark on the *extreme prudence* with which the entity acted<sup>21</sup>. The literature has considered that the bank took a restrictive approach by keeping a “very substantial part of the available resources” in the form of cash. Carles Sudrià (1995) points out that “the bank devoted itself to eradicating any possibility of credit, which explains the surge in current accounts which occurred after the crisis.

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the events of February 1848 (revolution in France) from the previous situation (unification of the Bank of Isabel II and the Bank of San Fernando), alleging that: “Here, the 1848 crisis did not reach such extremes as in other countries; once the first stirrings of trouble were repressed one could certainly be confident that the existing political order would not be unduly affected. Yet it was impossible to calm the moral disquiet inspired by the source of the revolution beating at our doors. In this state, no longer was it possible to sustain the immense mass of truly baseless values which had been created in Madrid and were kept in place by dint of cunning tricks, not all of them lawful.” Santillán, Ramón de [1864] (1982): *Memoria histórica sobre los Bancos*. Madrid. Banco de España. Carles Sudrià in “Los bancos de emisión provinciales en la España del siglo XIX, in Pedro Tedde and Carlos Marichal (coord.) (1995): *La formación de los bancos centrales en España y América Latina. (Siglos XIX y XX)*. Vol. 1: España y México. Banco de España, Servicio de Estudios. Estudios de Historia Económica, nro. 29. Madrid, deems the crisis of the Bank of Barcelona to be a one-off event triggered off by the French episode of February 1848.

<sup>19</sup> Tortella, Gabriel [1973] (1995): *Los orígenes del capitalismo en España*. Tecnos, Madrid... page 39. Our underlining.

<sup>20</sup> Pere Pascual (1991): “El mercat financer i el sistema bancari català 1844-1864” in J. Nadal, J. Maluquer and C. Sudrià (edit), *Història Econòmica de la Catalunya contemporània*. Vol. III. Enciclopedia Catalana, Barcelona pp. 351-378

<sup>21</sup> Castañeda, Ll., Tafunell, X (1997): “Un instrumento dinamizador de los mercados de crédito: los pagarés a mediados del siglo XIX” in the *VI Congreso de la Asociación de Historia Económica*, Girona 15-17 September.

This increase does however indicate that there was indeed a demand for modern money and credit methods”<sup>22</sup>. According to some authors, this restrictive policy furthermore directly affected operations made with physical collateral, mainly cotton. For example, Frances Cabana (1978), basing himself on the financial statements of the institution and other secondary sources, points out that the activities of the bank suffered a serious blow during the 1848 crisis. According to the author, until the crisis, when the bank ceased to offer credit with physical collateral (mainly cotton), such operations had constituted one of the bank’s core activities. Carles Sudrià (1982) defends the same hypothesis in his article on the underdevelopment of Catalan banking<sup>23</sup>.

The scarcity of sources has weighed particularly heavily over Spanish banking historiography. Monographic studies have been carried out more widely over the last few years. Some are relatively recent and others are yet to be published<sup>24</sup>. All of them, except Pedro Tedde’s work on the Bank of San Fernando (1999), focus on banks subsequent to the 1856 laws. The period prior to this legislation, which principally covers the early years of the Banks of Barcelona and Cadiz, has remained in the domain of the bibliography of the 1970s and 1980s. The emergence of documentation pertaining to the Bank of Barcelona has given us the opportunity to revise the historiography and search for new answers to questions which have been posed by researchers up until now.

We have focused on this first period stretching from the origins of the bank in 1844 up to the 1856 laws since for the length of this period the Bank of Barcelona had no competition on the market and it is homogenous in terms of our study. This

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<sup>22</sup> Sudrià Carles (1995): “Los bancos de emisión provinciales en la España del siglo XIX, in Pedro Tedde and Carlos Marichal (coord.): *La formación de los bancos centrales en España y América Latina. (Siglos XIX y XX)*. Vol. 1: España y México. Banco de España, Servicio de Estudios. Estudios de Historia Económica, nro. 29. Madrid. p. 87

<sup>23</sup> Francesc Cabana (1978): *Història del Banc de Barcelona (1844-1920)*. Edicions 62, Barcelona. Carles Sudrià (1982): “Desarrollo industrial, subdesarrollo bancario en Cataluña 1844-1950”, in *Investigaciones económicas*, n. 18. In an initial study approaching the documentation of the Bank of Barcelona, Yolanda Blasco’s doctoral research dissertation: *Los orígenes de la banca moderna en Cataluña. El banco de Barcelona 1844-1850*. Universidad de Barcelona. Departamento de Historia e Instituciones Económicas, Septiembre 2000, illustrates the importance of factoring operations with asset guarantees over public debt securities in the bank’s portfolio. Although operations with physical collateral (mainly cotton) were very important prior to 1848, they never exceeded a quarter part of the total number of operations carried out by the bank.

<sup>24</sup> Among the studies published is that of Adrià Royes (1999): *El Banc de Terrassa en el marc de la decadència bancària catalana, 1881-1924*. Proa. Barcelona; among those which remain unpublished is the doctoral thesis of María Jesús Facal (2003): *El efecto de las leyes bancarias de 1856 en Galicia: El caso del Banco de emisión de la Coruña 1857-1875*. Facultad de Ciencias Económicas y Empresariales. Universidad de Santiago de Compostela. Julio 2003.

period has been somewhat neglected by the historiography, which tends to focus on the period beginning in 1856. Our purpose is to bring a fresh viewpoint from the perspective of a microeconomic analysis in order to answer some of the questions which have been posed by the historiography. We have chosen the perspective of an accounting analysis, basing ourselves on the hypothesis that the Bank of Barcelona, being a private institution, would aim to strike a balance between maximising profits and minimising risk. Therefore, a combined analysis of its management objectives facilitates an understanding of the policies implemented by the institution.

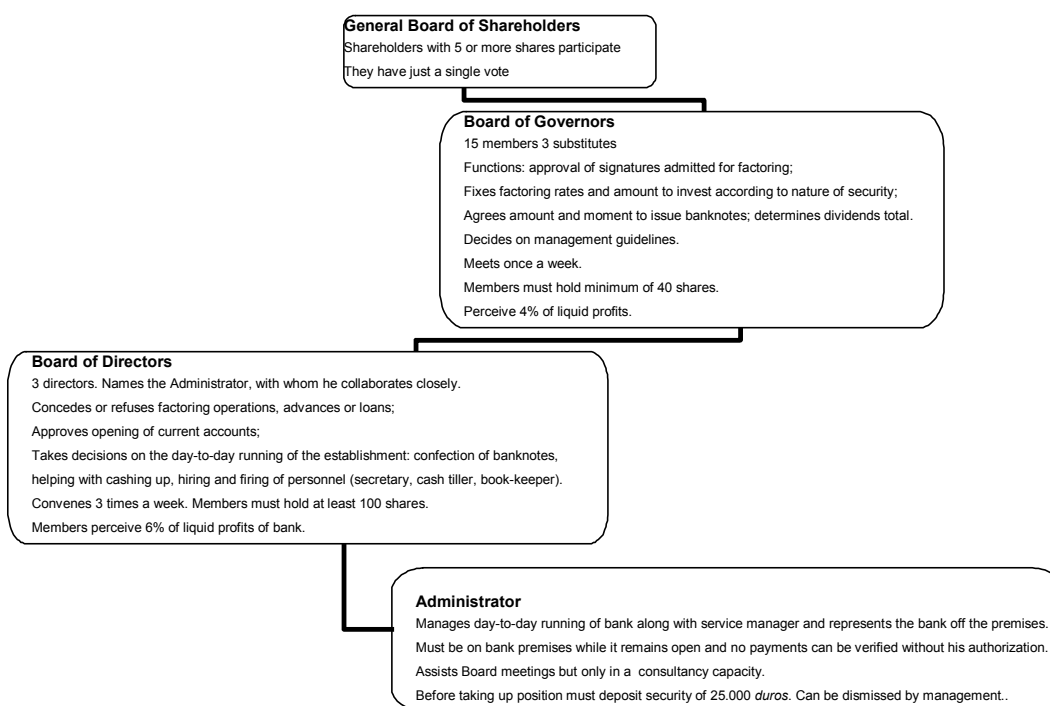
### ***ANALYSIS OF THE MANAGEMENT OF THE BANK OF BARCELONA***<sup>25</sup>

The Bank of Barcelona obtained royal approval for its constitution on the 1<sup>st</sup> May 1844, but a further year passed before it received definitive authorisation for setting up shop, which occurred in August 1845. Its shares were subscribed immediately and there were an initial 250 shareholders. The board of shareholders convened every 6 months and evaluated the activity and management of the institution as well as its board of governors and board of directors. The former of these comprised 15 members (mostly businessmen) who convened once a week whereas the latter consisted of 3 members who convened three times a week and worked in conjunction with the administrator. The government, with the bank's approval, named a royal commissioner entrusted with ensuring compliance with the rules. Furthermore, the bank had the possibility of opening branches, which it did in this period. However, after the 1848 crisis, one of them, the Reus branch, closed down and The Palma de Mallorca branch was also much weakened. In the following flowchart the functions of the entity's principal organs and executive positions can be observed.

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<sup>25</sup> The methodology applied in this section is based on: Kirchner Carlos A. (1974): *Una introducción a la Teoría Económica Bancaria*, Ed. Herder, Barcelona; Bachiller Alfredo (1993): *La Empresa Bancaria*,

## Organisational structure of the workings of the Bank of Barcelona, 1844-1856



The board of governors gave a commission made up of several board members the task of elaborating the semestral financial statements which were then presented at the general meetings of shareholders. These financial statements included the balance sheet, profit and loss account and an explanation of the operations realized. Furthermore, according to its statutes, the bank was obliged to send a fortnightly balance sheet to the government. Tortella's study (1973) is based on the Bank of Barcelona's financial statement of 1894 and the semestral financial statements; he also consulted the reports sent by the bank to the government, which are preserved today in the Archivo Histórico Nacional <sup>26</sup>. Cabana (1978) obtained the quantitative information of the 1894 financial statement and completed it with the qualitative information from documents of the time and the semestral financial statements of the bank<sup>27</sup>. This 1894 financial statement is

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*Operaciones y Gestión*, Ed. Gore, Zaragoza; Pedraja, Pedro (1999): *Contabilidad y análisis de balances en la Banca*. 2 volúmenes. Ed. Centro de formación del Banco de España. Madrid.

<sup>26</sup> Bank of Barcelona (1894): *Financial statement that the board of governors presented at the extraordinary general meeting of shareholders on 20<sup>th</sup> May. 50<sup>th</sup> anniversary of its foundation*. Imprenta de Heinrich y Cia, Barcelona. Archivo Histórico Nacional, Fondo Ministerio de Hacienda.

<sup>27</sup> Cabana collects data for December of the years comprised in the period 1845-1920: banknotes in

special for it briefly reviews the history of the institution and documents the evolution of large entries over the 50 years of existence of the entity in its appendices<sup>28</sup>.

Our aim is to carry out an accounting analysis of the Bank of Barcelona in relation to the harmonisation of the microeconomic objectives of the entity, i.e. solvency, liquidity and profitability. To this end, basing ourselves on the information in the semestral financial statements of the shareholders meetings, the minutes of these meetings, along with the minutes of the board meetings of governors and directors of the Bank of Barcelona, we have carried out a full analysis of the accounting state of affairs of the bank. The financial statements provide the quantitative information in a heterogeneous way; it has proved necessary to homogenize and systemize the data presentation. In appendix 1 a detailed explanation is given of the concepts included in the entries on the balance sheet and in the profit and loss account. In appendix 2 we present the data of the balance sheets and profit and loss accounts<sup>29</sup>. Appendix 3 provides quantitative

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circulation, current accounts, deposits, portfolio, equity of the institution, cash assets and profits. We have checked the data in Cabana's book against the 1894 financial statement and the two coincide, except in the case of the profits, which do not feature in the financial statements. We are not aware of the source he used since this data does not coincide with that provided in the semestral financial statements. There are certain presentational problems with the data: in the case of deposits, only two voluntary deposits are recorded up to 1848 and from this period on he produces the total figures since the financial statements do not break them down. When he records the owners equity of the institution, he warns that some columns (1,2,3,4) are in *duros* up until 1874 and that others are in pesetas for the entire period. This can create confusion. Cash assets are presented in pesetas, yet the banknote totals in cash assets are given in *duros* with no warning given to the reader.

<sup>28</sup> On checking this financial statement against the semestral financial statements a number of points must be explained: 1. The entry for notes in circulation corresponds to the concept of issued notes. However, in some years there are differences between the two concepts. For the period with which we are concerned, the greatest differences can be found in the first semester of 1848, the last of 1855 and first of 1856; 2. The entry for current accounts does not include the other payment obligations (cheques pending, transitory accounts, values pending, brokers, other non-specific payment obligations, correspondents etc.), hence there are always differences between the two; 3. It does not take into account certain concepts such as transitory accounts, balance of correspondents and effects in branches and values in amortization etc. which alter the value of the portfolio values entry. Furthermore, the figures for portfolio values in the semestral financial statements for the accounting periods of June 1846, June 1848 and December 1848 do not coincide with those which appear in the financial statement of 1894; 4. The entry for cash assets includes coins, notes and Catalan *calderilla*. Until now, the authors had not picked up on this detail. The entry for cash assets differs in the accounting periods of December 1846, June 1847 and December 1847 from the 1894 financial statement.

<sup>29</sup> The balances in the appendix are presented taking into account the entries for subscribed capital and shareholders with pending disbursements. However, given that the bank only demanded the disbursement of 25% of the underwritten capital, for the purposes of our analysis (except in the solvency study), we have eliminated the entry of uncalled up share capital in assets and we have placed the capital disbursed

information gathered from the financial statements, which we have elaborated for the purpose of the analysis.

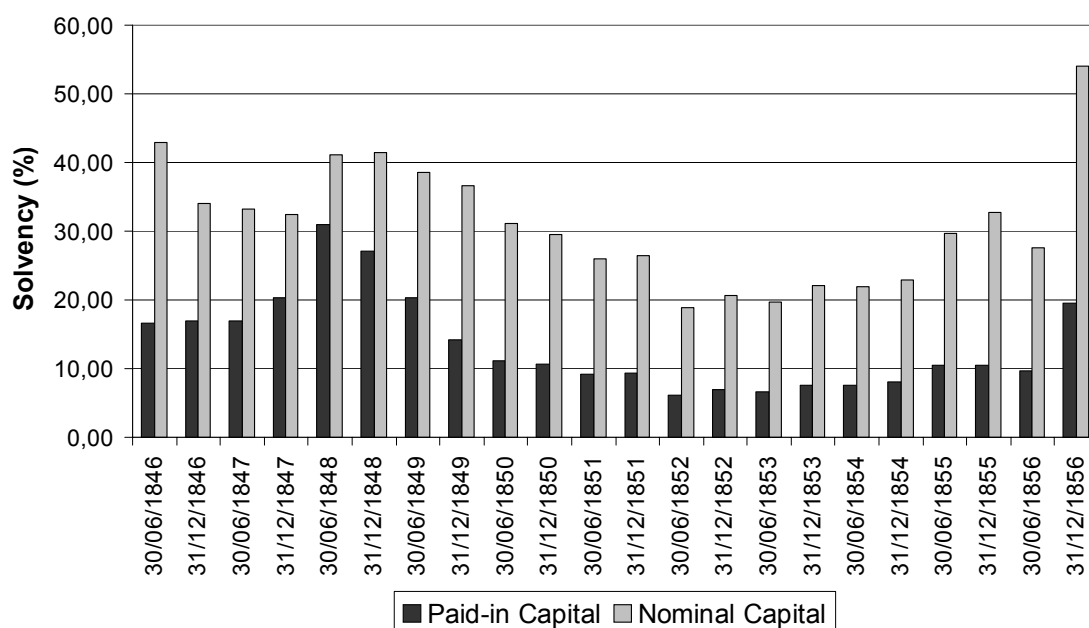
### Solvency.

Modern banking carries out the financial function of brokerage by means of the acquisition of savings and the posterior placement of them as credit investment. At the same time, the financing itself covers the investment in permanent assets and serves as an ultimate guarantee before creditors and as margin against eventualities.

The privilege of issuance allowed entities to increase the opportunities for investment beyond the acquisition of liabilities (current accounts and deposits). To this end the use of the bank's own resources acts as an ultimate guarantee of solvency: *"If the banks put notes in circulation, it is because they receive trade bills, IOUs and other securities or guarantees in exchange, in accordance with the proceedings laid down in their statutes and regulations. This surety in itself pacifies the business community since the most plentiful responsibility for the capital corresponding to each and every one of these establishments also remains."*<sup>30</sup>

In general terms, solvency determines the viability of the company in the long term. Solvency is determined by the difference between real assets and total liabilities, i.e. the proportion of owners equity. This viewpoint focuses on the central role of banking as a user of resources and as such this percentage shows us the subsidiary function that owners equity exercises as a guarantee fund.

In the case of the Bank of Barcelona, owners equity also acted as a guarantee of liquidity in the event of difficulties caused by bankruptcy protection. This last guarantee was made evident by the maintaining of 75% of the underwritten capital pending for disbursement; with this resource it was possible to avoid keeping idle money in the bank. Nonetheless, at the same time the bank had enough legal backup to execute non-disbursed capital if necessary. Due to this particularity of the entity, we have considered both potential solvency (over nominal capital) and real solvency (over disbursed capital). See graph 1.

**Graph 1: Solvency Indicator (%)**

$$\text{SOLVENCY (\%)} = \text{owners equity (\%)}$$

By analysing the evolution of solvency in the long term, it can be observed how the proportion of owners equity against total solvency was reduced once the 1848 crisis had been resolved. On initiating its activity this percentage was situated at slightly over 15%, whereas once the crisis was over, it was established at between 5 and 10% (reaching its minimum in June 1852). Therefore, in general terms, the solvency of the entity, analysed through the equilibrium of its financial assets and liabilities once the 1847-8 crises were resolved, was reduced by over 5%. This trend altered at the end of the period analysed: in the first semester of 1855, the first increase of capital was carried out, followed by two further increases in December 1855 and December 1856 respectively. These increases were a consequence of the new credit investment prospects triggered by the laws of 1855 (railways) and 1856 (banks and credit societies).

<sup>30</sup> Semestral financial statement of 6<sup>th</sup> August 1848, pg. 13.

Looking at the situation in the second semester of 1846, a disbursement of 37,7%, superior to the 25% stipulated in the statutes, was carried out<sup>31</sup>. This first “extra” disbursement is related to several credit operations which cloaked the acquisition of public debt securities<sup>32</sup>. To this disbursement was added a second of 12.5% in the second semester of 1847; a consequence of the problems occasioned by the “industrial and monetary” crisis of that year in the paying back of loans and factoring instalments owed to the bank<sup>33</sup>. The last addition to these disbursements was a third in March 1848 (of a further 12.5%) as a response to the financial panic in order to offset the withdrawal of current accounts and the presentation of notes for collection<sup>34</sup>. Subsequent to the crisis, the entity started to pay back the extraordinary disbursements, until the figure of 25% was once again reached in December 1849, a position that was maintained until the end of the period in question.

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<sup>31</sup> Minutes of the meeting of the board of governors of 18<sup>th</sup> November 1846.

<sup>32</sup> At its inception, the Bank of Barcelona did not realize operations explicitly with the Treasury. As Tortella points out (1973, pp. 44-45), it seems that the bank broke this norm from 1851 due to government pressure. Nevertheless, the loans made to the Treasury do not figure in balance figures for this period. Furthermore, between December 1845 and September 1846 the bank made several loans with guarantees of public-debt securities deposited in the Bank of San Fernando for a total amount superior to 350,000 *duros* (when the disbursed social capital amounted to 250,000 *duros*). Subsequently to carrying out these operations, the Treasury Minister, Alejandro Mon, reported the bank to parliament for realizing speculative operations. To this end, the bank’s administrator, Jaime Badia, explains in the *Diario de Barcelona (Barcelona Diary)* of 3<sup>rd</sup> February 1846 (pgs. 547-550) that the bank, “*has lent out its superfluous equity with the guarantee of public-debt securities at 3%.*” Nevertheless, these activities linked to the Treasury went above and beyond “superfluous equity. Because of this, when in November 1846 the bank decided to realize a further operation of these characteristics (a further 250,000 *duros* on top of the previously invested 350,000 *duros*), it felt obliged to demand a disbursement of 12.5%. These cloaked operations with public-debt securities, despite the increased risk they posed for the entity, supposed significant profits, as explained in the section on profitability.

<sup>33</sup> Extraordinary meeting of the board of governors of 6<sup>th</sup> May 1847. Minutes of the meeting of the board of governors of 28<sup>th</sup> June 1847. Semestral financial statement of 2<sup>nd</sup> February 1848, pg. 1. Financial statement read out in the general meeting of shareholders of the Bank of Barcelona, 1<sup>st</sup> August 1847. Pg. 4: “*One of the obligations which the board of governors also voluntarily imposed upon itself was that of preserving in its safe deposit [that of the bank] a third of its liabilities payable at sight. The principal banking entities in England and France, pressured by the monetary crisis, had to relax this principle in order to satisfy the principal needs of industry and commerce. Yet the predicament of some was nevertheless so grave that in England especially, factoring operations were refused even to respectable firms despite the premium on these operations having been raised considerably in order to discourage them. Despite all this, the Bank of Barcelona ended the semester with a cash reserve which differed very little from its habitual state. Elsewhere, boards convened on a daily basis to determine the amounts that should be designated for factoring since it was impossible for them to admit all the valid paper presented before them. The cash assets of the Bank of Barcelona naturally felt the effects of the common crisis. Nonetheless, since the board had other measures [disbursements] prepared, as can be seen, it was left unworried by the fact that a third of its liabilities were diminishing; but it has not refused for this motive any operation compliant with the conditions it has stipulated.*”

<sup>34</sup> On the measures adopted by the bank in dealing with the financial panic of 1848, see the minutes of the meeting of the board of directors of 28<sup>th</sup> February 1848, pages 143-144. If the worst came to the worst, the personal solvency of the directors played an important role. This role was not symbolic since during the 1848 crisis it was they who provided coins to meet the demand for changing notes. See minutes of the meeting of the board of governors of the Bank of Barcelona of March and April 1848.

### Liquidity

Liquidity determines the viability of the entity in the short term. It implies maintaining the level of current assets in harmony with the acquisition of short-term savings in such a way as to guarantee the immediate repayment of liabilities in the case of such demands being made by the public. In turn, the structure of current assets (cash assets + credit) is subject to a trade-off between greater liquidity (cash assets) and greater profitability (credit), since the level of cash reserve determines maximum liquidity in detriment to the expansion of credit, which has a negative effect on the increase of profits.

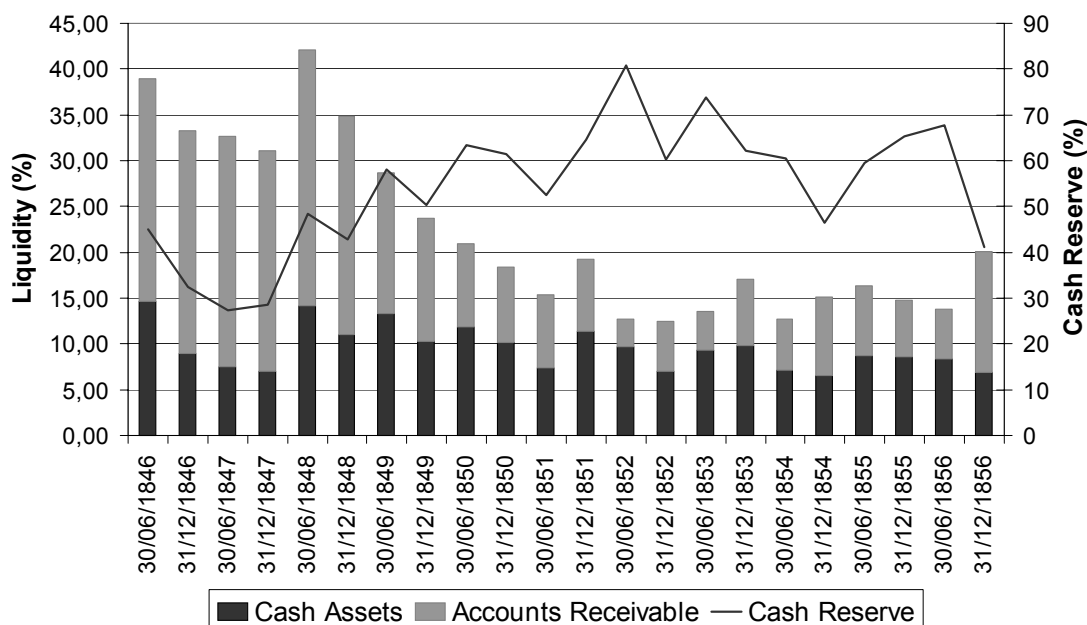
The literature has analysed liquidity through a study of the cash reserve. This is defined as the percentage of cash assets providing coverage for deposits, current accounts and issued notes. The Bank of Barcelona at its inception considered that the cash reserve must represent a third of external financing, thus: *“Well-run banks can consider themselves to be in a normal position when their portfolio securities are properly guaranteed and a third of their liabilities paid at sight, such as deposits, current accounts, issued notes and the like, are kept in cash form.”*<sup>35</sup>

The literature has argued that once the 1847-48 crisis was resolved, there was an increment in cash reserve. This indicator has served to qualify the credit policy of the entity as restrictive. Our primary focus has been to use financial assets (or the difference between assets and liabilities) as a general concept of liquidity, measured as the percentage difference between current assets and current liabilities. Graph 2 shows the cash reserve together with the circulating capital. At the same time, we have broken down this concept into two parts: the proportion of current liabilities covered by cash assets; and that which is employed in the concession of credit. With this, we wish to see what proportion of cash assets provides coverage for current liabilities. This proportion is broken down in the liquidity indicator in graph 2 and as a proportion of current assets in graph 3.

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<sup>35</sup> Semestral financial statement of 2<sup>nd</sup> February 1847, pg. 2

**Graph 2: Cash Reserve (%) and Liquidity Indicator (%)**



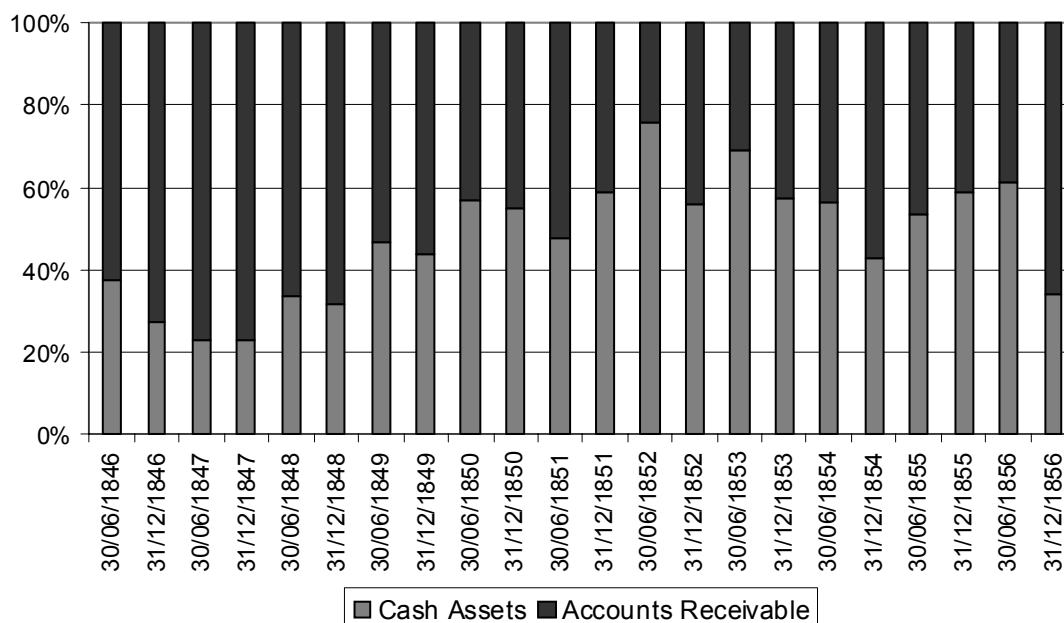
LIQUIDITY (%) = Current Assets – Current liabilities

CASH RESERVE (%) = Cash assets / Accounts Receivable

As graph 2 indicates, liquidity decreased substantially after the 1848 crisis. In the early years, circulating capital exceeded current liabilities by just over 30%. As we have indicated in the solvency analysis, this proportion is inflated due to the disbursements of capital of 1846, 1847 and 1848, which reduced the percentage of total liabilities represented by current liabilities. Once the “extraordinary” disbursements had been returned, the liquidity indicator places current assets in excess of current liabilities by 10-20%.

On analysis of the composition of liquidity, we can observe how the proportion of surplus cash assets covering current liabilities (notes and current accounts) for the whole period was situated between 5% and 15% (graph 2). Nevertheless, if we study the evolution of the composition of current assets, we see that the proportion of cash assets increased in respect of the current assets total (graph 3).

**Graph 3: Profitable Investment (Accounts Receivable) vs. Unprofitable Investment (Cash Assets)**



This same idea can be observed through the evolution of the cash reserve (graph 2). The cash reserve decreased in the early years, falling from an initial maximum of 45% to a minimum of 30% in December 1847. This decrease was mainly due to an increase in the issuing of banknotes. In 1848 an important increase in cash reserve was recorded, bringing the figure up to 50%. This jump was triggered by the massive withdrawals of current accounts and banknotes as a consequence of the financial panic of the first semester of 1848. From this moment on, cash assets grew at a rate superior to the acquisition of liabilities; the cash reserve reached a maximum of almost 80% in June 1852 (see graph 2). This same idea is embodied in graph 3, where we can observe how cash assets evolved in relation to the entry of credit. The question to be asked, therefore, is why unprofitable investment (cash assets) was proportionally superior to profitable investment (basically portfolio).

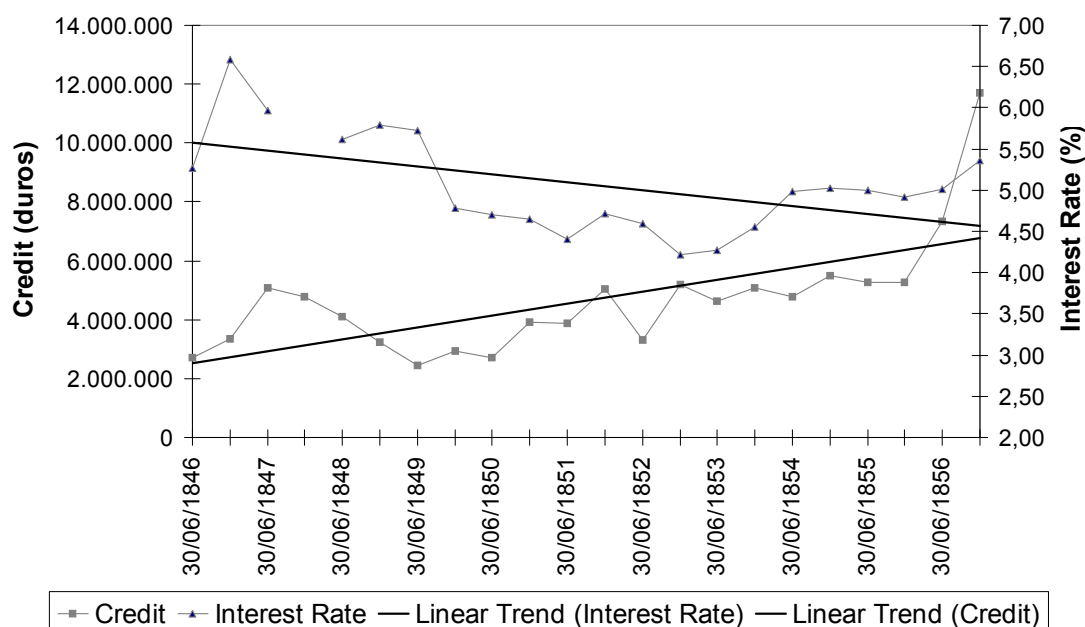
The cash reserve serves a double purpose. First of all, from a macroeconomic point of view, it is an instrument of monetary policy, the aim of which is to control the credit capacity of banking. Secondly, from a microeconomic standpoint, the cash reserve has the function of safeguarding the coverage of cash assets as a

guarantee of depositors. The literature has focused its interpretation through the macroeconomic function of credit control, accusing the bank of restricting liquidity on the market. Our microeconomic focus attempts to find an explanation for the management policy of the entity from the point of view of the safeguarding function of the cash reserve. From this angle, the increase in cash assets triggered by the 1848 crisis may be due to two motives: 1) that maintaining an elevated coefficient in cash assets constituted a measure of prudence faced with an eventual new crisis – the decrease in total liquidity and total solvency would lead the entity to adopt a policy of explicit restriction of credit policy; or 2) that despite the entity being interested in expanding credit, there was no formal credit demand on the market exceeding the increase of the provision made by the bank, which would make it difficult to reduce the cash coefficient in favour of increasing the entry of accounts receivable.

With the aim of testing quantitatively which of the causes is the likelier, we have linked the evolution of the credit volume granted by the entity to the interest rate (graph 4)<sup>36</sup>.

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<sup>36</sup> The data on interest rates and the volume of loans and factoring operations appears in appendix 3. The interest rate fixed by the bank on beginning its credit activities was 5% - see minutes of the meeting of the board of governors of 14<sup>th</sup> June 1845. From this point on, the entity adjusted credit volume and interest rates according to its perception of market needs. Until now, the interest rates most used in the literature have been those elaborated by Tortella (1973; Appendix C). This data was put together with information extracted from the same source as we have used. Therefore, our data coincides with his. The first calculation of the average weighted interest rate realized by Tortella is for 1850. Nevertheless, this estimation can be realized for the first semester of 1848 onwards, since from that moment on, the information on the factoring volume applied to each interest rate tranche is broken down. For the year 1846 and the first semester of 1847, we have estimated the interest rate as the quotient between income and total volume of credit granted in an average daily period; for the second semester of 1847, the financial statements do not hold data for the average period, thus making it impossible to estimate the interest rate.

**Graph 4: Volume of credit (*duros*) and interest rate (%)**

The data in graph 4 indicates that an increase in the volume of credit and a reduction in interest rates took place in the long term<sup>37</sup>. Evidence for this increase in the granting of credit in conjunction with a lowering of interest rates contradicts the hypothesis set out by the literature that the bank restricted credit on the market. As such, the data points to the lack of existence of any formal credit demand that did not have the coverage of the bank<sup>38</sup>.

<sup>37</sup> This tendency to increase volume and lower interest rates was altered in 1853, when interest rates were raised, as a response to exterior circumstances: *“The measures have been agreed [raise in interest rates] which it seems need to be adopted for the moment in order to assuage the monetary crisis which the poor state of affairs in Europe and the resolution taken by the Bank of England to raise factoring rates to 5% could presumably cause on our market. It is aimed to present the said measures to the commission named in the last session of the aforementioned meeting of the board of governors and, with its agreement, reach a common agreement on them to be approved by said board.”* Minutes of the meeting of the board of directors of 5<sup>th</sup> October 1853, page 163. See also the minutes of the meeting of the board of governors of 10<sup>th</sup> October 1853, page 105: *“First of all, to raise factoring rates to five percent in all operations where four percent is currently charged. Secondly, to make the single exception to this previous measure of loans made with the intervention of the Society of Warehouses and Commerce, which shall continue to be charged at the current four percent but the consignment of which shall be reduced to three quarters of its social capital, without affecting the renewal of IOUs currently pending, if the interested parties so require. Thirdly, to demand six percent, rather than five, on all new signature loans which are demanded or are presented as such, being also included in this category drafts drawn at more than eight days’ sight within the Catalan provinces. Fourthly, to enable the management to grant or refuse, according to circumstance, the surpluses resulting from the consignments of the different sectors on which loans are made.”*

<sup>38</sup> This formal credit which the bank granted was aimed at its rated clients. To achieve the rating the interested party had to make an application which the board of governors of the bank studied and then accepted or rejected. For approved ratings a maximum credit ceiling was determined according to the

From 1856 onwards, when new investment opportunities surfaced, a new era in the bank's history was inaugurated. This change in era is evident in the increase in capital realized by the bank from 1855, which we have explained in the solvency indicator. Furthermore, this approach was reinforced by the fact that in the year 1856 a substantial increase in the volume of credit occurred at the same time as an increase in interest rates, which indicates an increase in credit demand<sup>39</sup>.

### Profitability

Profitability is determined by the profits obtained from the credit granted, since the Bank of Barcelona did not reward the acquisition of liabilities (indeed, it even charged for it – see appendix 1).

Graph 5 shows the evolution of profits obtained by the bank<sup>40</sup>. The substantial increase in profits which occurred between the first semester of 1846 and December of 1847 was linked to the reward obtained from operations with State debt<sup>41</sup>. The sudden drop in profits which occurred from June 1848 was due to the

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solvency of the client. The minutes record this information in detail for the accounting periods of 1848 and 1851 and rejected clients were few and far between. In 1848, only 3.4% of applications were thrown out; there is no data on rejected applications for 1851. Between these two dates the number of ratings tranches increased, as did the maximum amount granted for each of them. Nonetheless, this increase was proportionally higher in the first classes, which led to a greater concentration of credit. From 1851 the documentation only includes the incorporation or expulsion of individual clients, which makes it difficult to provide an all-round vision of the individual risk analysis applied by the company. See Yolanda Blasco: *Los orígenes de la banca moderna en Cataluña. El banco de Barcelona 1844-1850*. Universidad de Barcelona. Departamento de Historia e Instituciones Económicas, Septiembre 2000, pgs. 80-86.

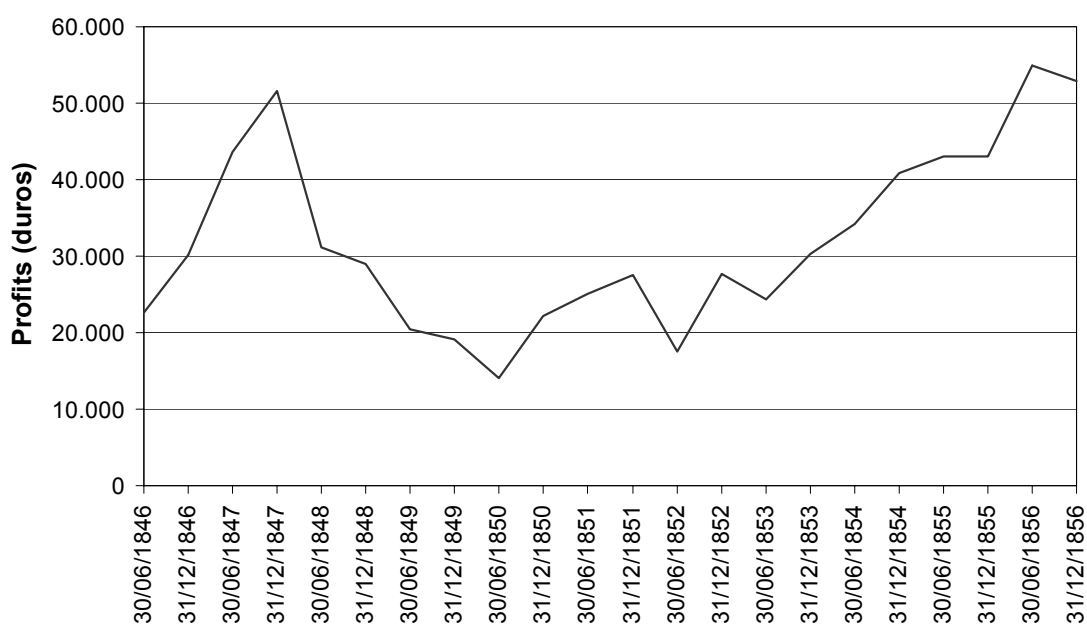
<sup>39</sup> This boom in the volume of credit granted for the year 1856 (graph 4) obeys the coming together of two elements: the increase in the total amount granted together with the reduction of the average payback period. The long-term trajectory of the increase in credit volume is maintained by discarding this last year. Likewise, if we consider the average volume of credit granted, the upward trend is also maintained, i.e. for the whole period under analysis (excepting 1856) the said trend basically obeys an increase in the average volume of credit and not significant changes in the average payback period of the credit granted. In appendix 3 the average weighted payback period is included. This data appears in the semestral financial statements for the accounting periods of 06/46, 12/46 and 06/47. For the rest, the calculation is based on the payback period and value given for each interest rate tranche. This information is unavailable for the accounting periods 12/47, 06/48, 06/49 and 06/50.

<sup>40</sup> Profits basically depended on the evolution of income since expenses were very stable in this period, except in the second semester of 1856 when expenses increased by 50%. This change in the level of spending is linked to adaptation of the new bank headquarters acquired in 1855.

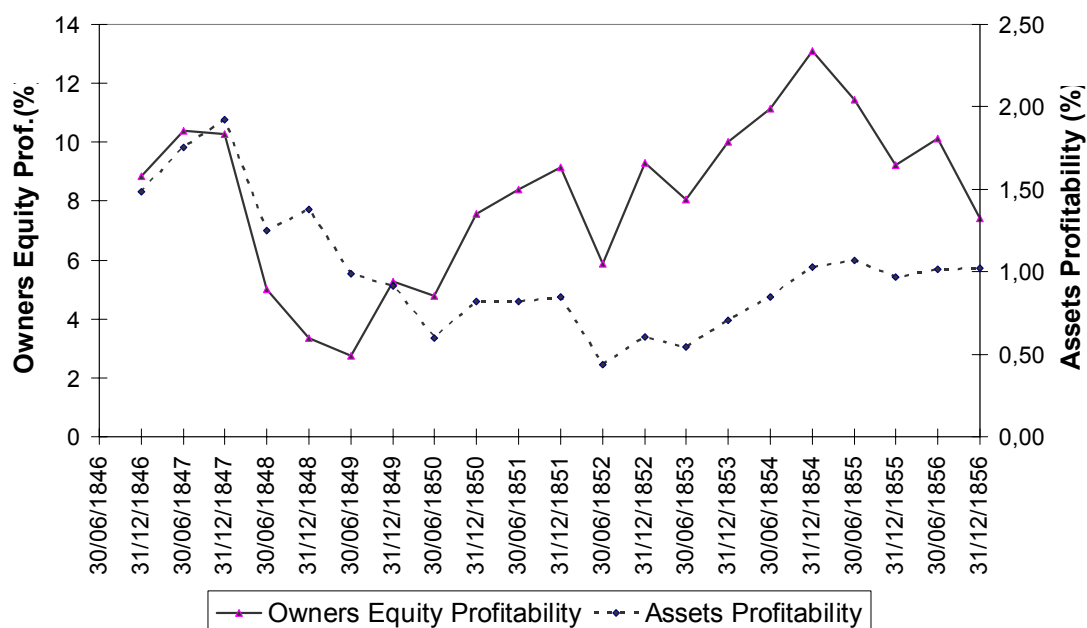
<sup>41</sup> See note 32. We have evidence that the profits obtained from operations of public debt underwritten in Madrid were taken to the profit and loss account, no doubt with the aim of demonstrating the potential of the business to shareholders. In the data of the financial statements, a total credit volume of 600,000 *duros* appears on top of the credit volume given in loans and factoring operations (710 documents with an average value of 3,785). This figure of 600,000 *duros* coincides with the amounts of public debt invested in Madrid. As such, the estimated interest rate for this accounting period surpasses the maximum rate stipulated in the statutes (6%). It has been calculated using the income figure. Because part of the income corresponds to public debt operations of greater profitability, the average estimated interest rate is placed above the legal maximum.

set of circumstances which originated in 1847. The portfolio could not present a clean bill of health until 1854. Nevertheless, from 1850, a sustained increase in profits was obtained, sustained by the increase in credit volume, which compensated for the reductions applied to interest rates. If we observe the increase which occurred between the minimum point reached in 1850 and the maximum obtained before the increase in capital of 1855, it can be confirmed that profits doubled in this period.

**Graph 5: Profits (*duros*)**



Once we have observed the evolution of profits in absolute terms, we can define profitability from two basic viewpoints: profitability over average total assets and profitability over average owners equity. The former shows us the yield that is obtained from profitable investment, dependent on the ratio existent between cash assets (unprofitable investment) and portfolio (profitable investment). The latter indicates the yield obtained from the capital which shareholders have deposited. Graph 6 shows the evolution of profitability.

**Graph 6: Profitability**

Shareholder Profitability (%) = Profits / Average Owners Equity

Average Total Assets Profitability (%) = Profits / Average Total Assets

Profitability over average total assets was reduced after the 1848 crisis. This downward trend began to reverse itself from 1853. This trajectory is a consequence of the evolution in the ratio of cash assets in respect of credit, as shown in graph 3: the times of greater cash-asset ratio in respect of total assets correspond to the times of lowest asset profitability, thus demonstrating the business trade-off which existed between liquidity and profitability. Nevertheless, as we have already seen in the analysis of liquidity, the apparent bank policy of prioritising liquidity over profitability was not a choice based on the prudent nature of the entity. The monopolist position which the bank found itself in allowed it to double profits by applying small reductions in interest rates which acted as an incentive to the increase in volume of credit granted.

This increase in profits in absolute terms was enough to sustain increasing shareholder profitability until 1855. This increase in profitability came about as a result of maintaining average solvency levels in half of the early years of activity. In 1855, the change in legislation obliged the bank to ready itself for operating on a competitive market<sup>42</sup>. The expectations of credit demand which the bank held, basically linked to the railway boom, led it to realize an increase in capital, which in the short term increased solvency significantly but meant a decrease in owners equity profitability.

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<sup>42</sup> See appendix 4, where there is an explanation proffered by the board of directors of the bank on the reasons which support an increase in capital.

***APPENDIX 1: DESCRIPTION OF FINANCIAL ASSETS AND LIABILITIES ON THE BALANCE SHEET AND ENTRIES IN THE PROFIT AND LOSS ACCOUNT***

1.1. FINANCIAL ASSETS

\* **Cash assets:** This entry is based on the institution's own definition of cash assets (**coins, notes and promissory notes of *calderilla***<sup>43</sup>) plus a small cash entry comprising the cash held by the expenses manager and the cash deposited in secondary branches<sup>44</sup>. Accordingly, the total amount of this concept includes coins (gold and silver coins of intrinsic value), the notes of the bank and, from 1852 onwards, the Catalan *calderilla* promissory notes which the bank negotiated<sup>45</sup>.

According to the statutes approved on the opening of the bank, the entity always had to keep in deposit and in coins a sum equivalent to one third of the banknotes issued (article 40 of the statutes) In the laws of 1849 and 1851, this requirement was altered as follows: “the quantity of coins [in deposit] must always be at least equivalent to one third of the value of banknotes in circulation.” (Article 3 Law of 15<sup>th</sup> December, 1851).

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<sup>43</sup> Catalan copper coin

<sup>44</sup> The bank was authorised to open branches; one was set up in Tarragona and later moved to Reus and another was opened in Mallorca. After the 1848 crisis the Reus branch closed down.

<sup>45</sup> The aim of issuing promissory notes of Catalan *calderilla* was to gradually withdraw the copper coin known as *calderilla catalana* from circulation in 1852. The notes were of legal tender in Catalonia and of compulsory admission in up to 20% of the total of any single cashing in or paying out operation, according to a Royal Decree of 5<sup>th</sup> August 1852 and lowered to 10% by a decree of 6<sup>th</sup> December. On this matter, see: Pascual, Pere (1987): “La Diputació i la modernització de la xarxa viària catalana: 1840-1868” in Borja de Riquer (edit), *Historia de la Diputació de Barcelona, I*. Barcelona, Diputació de Barcelona. The part played by the bank in this process was to both accept encashments and make payments with up to 10% of promissory notes of *calderilla*, which caused certain problems. In a meeting of the board of directors on 13<sup>th</sup> December 1852, the management took the decision that from that moment on, outward payments would be made using the same proportions of each “kind of money” – coins, banknotes and promissory notes of *calderilla* – as employed by the client when paying in the amount in the first place. Nevertheless, later on, on the 21<sup>st</sup> February 1853, the bank decided to impose a minimum reimbursement of 250 *duros* (*coins of 5 pesetas*) for the cashing in of cheques. This measure was an endeavour to put an end to the attempts of some clients of the bank to take advantage of the depreciation of promissory notes; according to the board of directors, many cheques for small quantities were brought to the bank to be cashed in, for which the entity could only use the lowest denomination promissory note of *calderilla* - with the lowest depreciation and, as such, those in most demand. In turn, individual clients paid in the highest denomination promissory notes - with the highest depreciation - into their current accounts. It was impossible for the bank later on to place them due to the fractioning of the amount of the cheques mentioned above.

\* **Accounts receivable**: The principal entry of this group is **equity holdings**. In this section two accounts of insignificant totals are also included: **Balance of correspondents** and **Effects in secondary branches**. Furthermore, as a result of the 1847-1848 crisis, several entries appear relating to the non-payment of the holdings account. Such entries peter out in the post-crisis period but acquire importance in this situation. **Equity holdings proceeding from appropriation, securities pending, balance of transitory accounts, outstanding payments on storage securities and amortization securities**. This section encompasses all bank assets proceeding from its lending and factoring operations (IOUs and payment instalments - two concepts impossible to differentiate here). Loans were authorised in exchange for security: accounts receivable (maximum 2 months renewable), fruits and effects (maximum 3 months renewable), and foreign currencies and precious metals (maximum 4 months). The borrower would sign an IOU which the bank made available to them. However, the security was kept in the bank's deposit. However, in the case of profit and effects and from the 1850s onwards (when the bank totally abandoned its own warehouses after the crisis), it was stored in the warehouse of the company with which the bank had reached a custody agreement. In the case of public debt, the borrower had to replenish what was necessary in the case of value being lost. Factoring operations were realized through instalments or IOUs not exceeding 4 months and had to be signed by three individuals vetted by the bank (which granted a maximum of 100,000 *duros*<sup>46</sup> in credit). Alternatively, 2 individuals vetted by the bank could sign but in this case had to leave shares, accounts receivable or other negotiable effects as security in the bank's power.

\* **Capital assets**: The bank accounted for capital assets in terms of net value. The following entries are encompassed: buildings, furniture and utensils, and installation costs. We have considered the entry of installation costs as an intangible asset; we have not felt it opportune to consider this entry a fictitious asset since it is maintained throughout the period of analysis. In December 1856 the bank substantially modified the structure of capital assets upon the acquisition of the most well-known headquarters of the bank; an old cannon factory known as the *Afinos*<sup>47</sup> building.

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<sup>46</sup> Coin worth five pesetas

\* **Uncalled up share capital**: In its statutes, the bank included the obligation of disbursing 25% of the nominal capital on initiating operations. At the same time, the statutes also envisaged that whenever possible this percentage should not be surpassed<sup>48</sup>. The part of the capital which was underwritten and not disbursed acted as a kind of “reserve as additional guarantee” in the hands of the shareholders<sup>49</sup>.

During the early years, several disbursements surpassing 25% were realized, including those triggered by the 1848 crisis. But from that time onwards, the disbursement excess was returned. From 1855 an increase in capital was made but the criterion of a maximum 25% disbursement was kept in place ( as can be seen in the balance of June 1856)<sup>50</sup>.

## 1.2. FINANCIAL LIABILITIES

\* **Banknotes**: The banknotes of the Bank of Barcelona began to circulate ninety days after the bank opened its doors in October, 1845. The notes of lowest and highest denomination were those of 10 and 100 *duros* respectively. Although an attempt was made to print them outside the country, they were finally produced in Barcelona following a laborious process to avoid forgery.

According to bank statutes, notes to the value of the nominal capital could be issued (1 million *duros* until 1855)<sup>51</sup>. However, a law of the 4th of May, 1849 modified this limit in that it restricted issuing in respect of the situation initially contemplated by the bank statutes<sup>52</sup>.

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<sup>47</sup> Referring to the process of purifying and refining metal

<sup>48</sup> Article 25 of the statutes. This was the novelty introduced by the Bank of Barcelona according to Tortella (1973) p. 36. This idea was applied by the Bank of Cadiz from 1848; it remained the case until 1860. See: Torrejón, Juan and Higuera, Rafael (2003): “Sociedades financieras en el Cádiz del siglo XIX (1842-1866)” in IV Encuentro de Trabajo de Historia de la Contabilidad. Carmona (Sevilla) December 2003; p. 26. We are grateful to Gáspar Feliu for this information.

<sup>49</sup> Financial statement read in the Shareholder Board Meeting of the Bank of Barcelona, 1<sup>st</sup> August 1847. p. 3. Also, the financial statement of 20th May, 1894 (50th anniversary) explains that “the strong reserves in the hands of the shareholders constitute a highly valuable resource for countering the effects of great crises that banks may be subject to, even making them impossible to bankrupt, in the face of one of those cataclysms against which human foresight can do nothing.

<sup>50</sup> This increase in capital would bring them several problems which became evident in the years subsequent to those covered by this study.

<sup>51</sup> There was a period, in 1847 and 1848, when the bank surpassed its legal issuing limit, although it always obeyed the other issuing requirement, namely to keep one third in cash of the notes issued in deposit. However, it was no exactly a legal infraction, because there was a statutory possibility to increase the issuing limit until double of nominal capital, in case of the bank maintained one third in cash of the banknotes.

<sup>52</sup> Article 6. “From now on, there will one sole issuing bank and in an attempt will be made to reach an

\* **Current accounts**: they accepted coins or notes of the bank, the amounts of effects payable whose collection was entrusted to the bank and with a maximum due date of 10 days, as well as the amount in cash of the factoring operations carried out by the bank <sup>53</sup>. The sums were available a day after their deposit in the account and current accounts could not be overdrawn. The bank requested that clients who contracted debenture bonds through their current account advise the administrator *ten days before their due date* with all the details of the debenture bond contracted <sup>54</sup>.

The opening of current account occurred very slowly initially and operations carried out through them only got going after the 1848 crisis and the restriction of banknotes produced by the laws of 1849-51. Once an agreement had been reached on the collection of *calderilla*, 10% the reimbursement of the amounts in current accounts could be realized with *calderilla*, although, at first, bank managers maintained the criterion of repaying deposits and current accounts with the same type of money that had been paid into the bank.

\* **Other payment commitments**: this groups together several entries of minor import, which are: **outstanding cheques** (or effects), **transitory accounts**, **securities pending**, **broker operations**, **balance of correspondents** and **balance of the Roads Commission of Catalonia**. This commission had opened a current account in 1848 designated for roads infrastructure in the Catalan provinces.

\* **Commitments to shareholders**: this corresponds to the entries of **dividends pending collection** on behalf of the shareholders and to the **refund of disbursed capital** above 25%.

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agreement between the Banks of San Fernando, Cadiz and Barcelona, in order to find a way of ensuring the union between the latter two and the former with no damage whatsoever to their respective interests and with the approval of the government. If the said union cannot be achieved, the acquired rights of the Banks of Cadiz and Barcelona will not be affected and their authority to issue notes to the value of the effective paid-out capital existent in the banks will be maintained.”

<sup>53</sup> Special Operations Regulations for the Bank of Barcelona, Chapter 4, article 50.

<sup>54</sup> Special Operations Regulations for the Bank of Barcelona, Chapter 4, article 56

\* **Deposits:** We have considered repayable at six months as long term. The types of deposits acknowledged by the bank between June 1846 and 1849 are: voluntary, judicial, by substitutes and that which the *Caja de Ahorros de Barcelona*<sup>55</sup> deposited. From December 1849 and until the end of the period encompassed by this study, the bank only considered deposits without breaking them down.

Deposits allowed: securities of domestic and foreign debt, bills of exchange, banknotes, shares, debentures of all kinds, gold and silver ingots and domestic and foreign gold or silver coins. Although they accepted precious stones in deposit, soon after beginning operations they decided not to accept deposits of jewels<sup>56</sup>. They were six months renewable and charged 0,12% annually. Exceptions were made, however, and there were periods when they omitted to collect for the custody of certain kinds of deposits, for example, voluntary ones, in 1854. The bank's notion of the deposits as insurance is expressed through a problem which it had in February 1853: "Having proliferated the abuse of taking out small loans and handing over items of considerable value as security as a way of avoiding the custody rights payments properly due to the entity if the operation were effected as fits, in the form of a sealed deposit, it was agreed that, in future, a maximum of double the amount borrowed may be accepted as security"<sup>57</sup>. This exemplifies somewhat the notion of the bank as a safe deposit charging a fee for the custody of items. The notion of a deposit understood as brokerage does not appear here and it seems that banks operated under the first notion. The odd exception does exist, such as the *Caja de Ahorros de Barcelona* which had a special approach. It charged 4% annually in interest, due to the character of the entity, which aimed to reward saving by the people and generate a culture propitious to this end. But this special approach was also aimed at avoiding competition<sup>58</sup>.

\* **Reserves:** The reserves were contemplated in article 44 of the bank statutes as follows: "A quarter of profits will constitute a reserve fund of which 1% will be invested in charity work to be decided on by the board of shareholders". Article 46 continues: "Once the reserve fund reaches quarter of the bank's capital, profits will

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<sup>55</sup> Savings Bank of Barcelona

<sup>56</sup> Special Operations Regulations for the Bank of Barcelona, Chapter 3, article 38.

<sup>57</sup> Minutes of Management Board Meeting, 3<sup>rd</sup> January, 1853.

<sup>58</sup> Minutes of Board of Directors Meeting, 8<sup>th</sup> October, 1845.

be shared". The law of the 4<sup>th</sup> May, 1849, in article 7, states: "The bank shall have a reserve fund equivalent to 10% of its effective capital", referring to the bank of San Fernando, but obliging those of Barcelona and Cadiz to bring their statutes into line with the new law. This is the reason why when they reached 10% of their effective capital (1850), they ceased to increase the reserves until capital was increased.

\* **Underwritten capital:** The nominal capital with which the bank began operations amounted to one million *duros*, which was underwritten in its entirety. In the first semester of 1855 this capital was increased by half a million *duros* and by a further half a million again in the second. As such, in December, 1855, it had a nominal capital of 2 million *duros*. In the second semester of 1856 this capital was doubled which meant that in December of that year it stood at 4 million *duros*. These successive increases of capital obeyed a change in circumstances. In 1854 a change of government came about (the so-called *bienio progresista*<sup>59</sup>) which paved the way for a new chapter in legislation encompassing the passing of both the Railways and Banks and Credit Societies laws, thus generating new investment prospects for the country.

### 1.3 ENTRIES IN THE PROFIT AND LOSS ACCOUNT

\* **Income:** for the year 1846 (1<sup>st</sup> and 2<sup>nd</sup> semesters), the source breaks down income into the following categories: **income proceeding from factoring operations and loans** (entry which accounts for practically all income), **profits and bankers drafts or instalments to be negotiated**, **profit from currency exchange** and **entitlements from appraised deposits**. In the first semester of 1847 the entry of **Forfeiture on account of pending securities** appeared. From 1847 (inclusively) the profit and loss account did not breakdown the source of income.

\* **Expenditure:** In the **Payment of interest and commissions** account the following are included: interest paid to the *Caja de Ahorros*, expenses and commissions paid to secondary branches, brokerage operations, diverse

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<sup>59</sup> The name given to the period from 1854-1856 in Spain which stood out due to the return to power of Espartero, Count of Luchana, a general and politician who had gained much prestige in the victory of the battle of Luchana in the first Carlist war.

commissions and guarantees paid, pending securities and bankers drafts. The pending securities entry, which only appears for the second semester of 1846 corresponds to “the levies imposed on this establishment which have not been satisfied and whose reduction was solicited from the government”<sup>60</sup>. The account entitled **other operating costs** covers the following concepts: office expenses, payments in due to currency weakness, leases (of the warehouses which the bank habilitated in order to store the items – mainly cotton – deposited as security in exchange for loans, which after 1848 they began to close down), along with an entry for temporary expenses. The accounts of **personnel expenses** and **endowment for the amortization of capital assets** are also included. Only one entry for taxes appears in the first semester of business, namely “levies” – accounting for 17% of the profit figures. From 1851 onwards everything was amalgamated and the payment of taxes was not broken down.

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<sup>60</sup> Minutes of Management Board meeting, 28<sup>th</sup> December, 1846

APPENDIX 2 :<sup>61</sup>

TABLE 2.1: BALANCE SHEET (data in DUROS)

	ASSETS	30/06/1846 <sup>62</sup>	%	31/12/1846	%	30/06/1847	%	31/12/1847	%	30/06/1848	%	31/12/1848	%
<b>A</b>	<b>Current Assets</b>	<b>1.626.127,453</b>	<b>68,24</b>	<b>2.407.764,394</b>	<b>79,16</b>	<b>2.543.931,275</b>	<b>80,07</b>	<b>2.802.797,642</b>	<b>84,64</b>	<b>2.166.584,089</b>	<b>84,96</b>	<b>2.030.228,958</b>	<b>79,96</b>
1.	CASH ASSETS	610.532,404	25,62	652.506,997	21,45	581.775,322	18,31	636.661,877	19,23	728.007,909	28,55	637.588,351	25,11
2.	ACCOUNTS RECEIVABLE	1.015.595,049	42,62	1.755.257,397	57,71	1.962.155,953	61,76	2.166.135,765	65,42	1.438.576,180	56,41	1.392.640,607	54,85
<b>B</b>	<b>Capital Assets</b>	<b>6.820,884</b>	<b>0,29</b>	<b>7.631,005</b>	<b>0,25</b>	<b>8.273,139</b>	<b>0,26</b>	<b>8.450,176</b>	<b>0,26</b>	<b>8.430,976</b>	<b>0,33</b>	<b>8.671,678</b>	<b>0,34</b>
1.	FIXED ASSETS	2.881,327	0,12	3.192,710	0,10	3.439,619	0,11	3.815,819	0,12	3.820,319	0,15	4.050,621	0,16
2.	INTANGIBLE ASSETS	3.939,557	0,17	4.438,295	0,15	4.833,520	0,15	4.634,357	0,14	4.610,657	0,18	4.621,057	0,18
<b>C</b>	<b>Uncalled up share capital</b>	<b>750.000,000</b>	<b>31,47</b>	<b>626.375,000</b>	<b>20,59</b>	<b>625.050,000</b>	<b>19,67</b>	<b>500.000,000</b>	<b>15,10</b>	<b>375.000,000</b>	<b>14,71</b>	<b>500.000,000</b>	<b>19,69</b>
	<b>TOTAL ASSETS</b>	<b>2.382.948,337</b>	<b>100,00</b>	<b>3.041.770,399</b>	<b>100,00</b>	<b>3.177.254,414</b>	<b>100,00</b>	<b>3.311.247,818</b>	<b>100,00</b>	<b>2.550.015,065</b>	<b>100,00</b>	<b>2.538.900,636</b>	<b>100,00</b>

	LIABILITIES	30/06/1846 <sup>63</sup>	%	31/12/1846	%	30/06/1847	%	31/12/1847	%	30/06/1848	%	31/12/1848	%
<b>A+B</b>	<b>Payable</b>	<b>1.360.386,737</b>	<b>57,09</b>	<b>2.006.411,531</b>	<b>65,96</b>	<b>2.121.414,222</b>	<b>66,77</b>	<b>2.238.188,722</b>	<b>67,59</b>	<b>1.502.844,978</b>	<b>58,93</b>	<b>1.485.799,232</b>	<b>58,52</b>
<b>A</b>	<b>Current liabilities</b>	<b>990.154,890</b>	<b>41,55</b>	<b>1.604.850,732</b>	<b>52,76</b>	<b>1.710.708,621</b>	<b>53,84</b>	<b>1.928.814,828</b>	<b>58,25</b>	<b>1.251.533,750</b>	<b>49,08</b>	<b>1.318.685,481</b>	<b>51,94</b>
1.	BANKNOTES ISSUED	541.000,000	22,70	1.000.000,000	32,88	1.160.000,000	36,51	1.492.500,000	45,07	1.097.500,000	43,04	1.097.500,000	43,23
2.	CURRENT ACCOUNTS	297.524,707	12,49	573.009,743	18,84	527.716,713	16,61	406.719,224	12,28	151.761,532	5,95	206.082,316	8,12
3.	PAYMENT COMMITMENTS	151.630,183	6,36	31.726,989	1,04	22.750,908	0,72	29.558,604	0,89	2.088,218	0,08	13.921,165	0,55
4.	COMMIT. TO SHAREHOLDERS		0,00	114,000	0,00	241,000	0,01	37,000	0,00	184,000	0,01	1.182,000	0,05
<b>B</b>	<b>Long-term liabilities</b>	<b>370.231,847</b>	<b>15,54</b>	<b>401.560,799</b>	<b>13,20</b>	<b>410.705,601</b>	<b>12,93</b>	<b>309.373,894</b>	<b>9,34</b>	<b>251.311,228</b>	<b>9,86</b>	<b>167.113,751</b>	<b>6,58</b>
1.	DEPOSITS	370.231,847	15,54	401.560,799	13,20	410.705,601	12,93	309.373,894	9,34	251.311,228	9,86	167.113,751	6,58
<b>C</b>	<b>Owners equity</b>	<b>1.022.561,600</b>	<b>42,91</b>	<b>1.035.358,868</b>	<b>34,04</b>	<b>1.055.840,192</b>	<b>33,23</b>	<b>1.073.059,096</b>	<b>32,41</b>	<b>1.047.170,087</b>	<b>41,07</b>	<b>1.053.101,404</b>	<b>41,48</b>
1.	PROFIT OR LOSS	22.561,600	0,95	30.104,192	0,99	43.560,050	1,37	51.567,045	1,56	31.191,477	1,22	28.977,165	1,14
2.	STATUTORY RESERVES		0,00	5.254,676	0,17	12.280,142	0,39	21.492,051	0,65	15.978,610	0,63	24.124,239	0,95
3.	UNDERWRITTEN CAPITAL	1.000.000,000	41,96	1.000.000,000	32,88	1.000.000,000	31,47	1.000.000,000	30,20	1.000.000,000	39,22	1.000.000,000	39,39
	<b>TOTAL LIABILITIES</b>	<b>2.382.948,337</b>	<b>100,00</b>	<b>3.041.770,399</b>	<b>100,00</b>	<b>3.177.254,414</b>	<b>100,00</b>	<b>3.311.247,818</b>	<b>100,00</b>	<b>2.550.015,065</b>	<b>100,00</b>	<b>2.538.900,636</b>	<b>100,00</b>

<sup>61</sup> Source: Half-yearly financial statements published by the Bank of Barcelona, 1846-1856.<sup>62</sup> Refers to the first 10 months of activity, from 1<sup>st</sup> September, 1845 to 30<sup>th</sup> June, 1846<sup>63</sup> Refers to the first 10 months of activity, from 1<sup>st</sup> September, 1845 to 30<sup>th</sup> June, 1846

	ASSETS	30/06/1849	%	31/12/1849	%	30/06/1850	%	31/12/1850	%	30/06/1851	%	31/12/1851	%
<b>A</b>	<b>Current Assets</b>	<b>2.088.290,065</b>	<b>76,73</b>	<b>2.105.678,862</b>	<b>73,51</b>	<b>2.587.922,307</b>	<b>77,33</b>	<b>2.791.076,964</b>	<b>78,61</b>	<b>3.283.264,865</b>	<b>81,21</b>	<b>3.227.383,795</b>	<b>80,96</b>
1.	CASH ASSETS	968.516,839	<b>35,58</b>	915.358,430	<b>31,95</b>	1.464.661,634	<b>43,77</b>	1.538.345,992	<b>43,33</b>	1.569.871,456	<b>38,83</b>	1.896.590,471	<b>47,57</b>
2.	ACCOUNTS RECEIVABLE	1.119.773,226	<b>41,14</b>	1.190.320,432	<b>41,55</b>	1.123.260,673	<b>33,56</b>	1.252.730,972	<b>35,28</b>	1.713.393,409	<b>42,38</b>	1.330.793,324	<b>33,38</b>
<b>B</b>	<b>Capital Assets</b>	<b>8.433,487</b>	<b>0,31</b>	<b>8.875,487</b>	<b>0,31</b>	<b>8.625,487</b>	<b>0,26</b>	<b>9.504,642</b>	<b>0,27</b>	<b>9.501,285</b>	<b>0,24</b>	<b>9.251,285</b>	<b>0,23</b>
1.	FIXED ASSETS	3.940,884	<b>0,14</b>	3.815,884	<b>0,13</b>	3.690,884	<b>0,11</b>	3.923,240	<b>0,11</b>	3.957,258	<b>0,10</b>	3.832,258	<b>0,10</b>
2.	INTANGIBLE ASSETS	4.492,603	<b>0,17</b>	5.059,603	<b>0,18</b>	4.934,603	<b>0,15</b>	5.581,402	<b>0,16</b>	5.544,027	<b>0,14</b>	5.419,027	<b>0,14</b>
<b>C</b>	<b>Uncalled up share capital</b>	<b>625.000,000</b>	<b>22,96</b>	<b>750.000,000</b>	<b>26,18</b>	<b>750.000,000</b>	<b>22,41</b>	<b>750.000,000</b>	<b>21,12</b>	<b>750.000,000</b>	<b>18,55</b>	<b>750.000,000</b>	<b>18,81</b>
	<b>TOTAL ASSETS</b>	<b>2.721.723,552</b>	<b>100,00</b>	<b>2.864.554,349</b>	<b>100,00</b>	<b>3.346.547,794</b>	<b>100,00</b>	<b>3.550.581,606</b>	<b>100,00</b>	<b>4.042.766,150</b>	<b>100,00</b>	<b>3.986.635,080</b>	<b>100,00</b>

	LIABILITIES	30/06/1849	%	31/12/1849	%	30/06/1850	%	31/12/1850	%	30/06/1851	%	31/12/1851	%
<b>A+B</b>	<b>Payable</b>	<b>1.670.654,572</b>	<b>61,38</b>	<b>1.814.689,046</b>	<b>63,35</b>	<b>2.307.492,211</b>	<b>68,95</b>	<b>2.503.404,712</b>	<b>70,51</b>	<b>2.992.693,335</b>	<b>74,03</b>	<b>2.934.055,701</b>	<b>73,60</b>
<b>A</b>	<b>Current liabilities</b>	<b>1.486.938,060</b>	<b>54,63</b>	<b>1.604.296,516</b>	<b>56,01</b>	<b>2.044.212,478</b>	<b>61,08</b>	<b>2.274.904,504</b>	<b>64,07</b>	<b>2.776.712,845</b>	<b>68,68</b>	<b>2.603.235,749</b>	<b>65,30</b>
1.	BANKNOTES ISSUED	886.430,000	<b>32,57</b>	661.280,000	<b>23,08</b>	490.490,000	<b>14,66</b>	471.140,000	<b>13,27</b>	452.130,000	<b>11,18</b>	422.230,000	<b>10,59</b>
2.	CURRENT ACCOUNTS	570.304,155	<b>20,95</b>	876.201,083	<b>30,59</b>	1.348.660,768	<b>40,30</b>	1.595.191,816	<b>44,93</b>	1.968.777,272	<b>48,70</b>	1.879.169,259	<b>47,14</b>
3.	PAYMENT COMMITMENTS	27.006,905	<b>0,99</b>	47.861,433	<b>1,67</b>	199.575,710	<b>5,96</b>	202.453,188	<b>5,70</b>	351.076,073	<b>8,68</b>	296.930,990	<b>7,45</b>
4.	COMMIT. TO SHAREHOLDERS	3.197,000	<b>0,12</b>	18.954,000	<b>0,66</b>	5.486,000	<b>0,16</b>	6.119,500	<b>0,17</b>	4.729,500	<b>0,12</b>	4.905,500	<b>0,12</b>
<b>B</b>	<b>Long-term liabilities</b>	<b>183.716,512</b>	<b>6,75</b>	<b>210.392,530</b>	<b>7,34</b>	<b>263.279,733</b>	<b>7,87</b>	<b>228.500,208</b>	<b>6,44</b>	<b>215.980,490</b>	<b>5,34</b>	<b>330.819,952</b>	<b>8,30</b>
1.	DEPOSITS	183.716,512	<b>6,75</b>	210.392,530	<b>7,34</b>	263.279,733	<b>7,87</b>	228.500,208	<b>6,44</b>	215.980,490	<b>5,34</b>	330.819,952	<b>8,30</b>
<b>C</b>	<b>Owners equity</b>	<b>1.051.068,980</b>	<b>38,62</b>	<b>1.049.865,303</b>	<b>36,65</b>	<b>1.039.055,583</b>	<b>31,05</b>	<b>1.047.176,894</b>	<b>29,49</b>	<b>1.050.072,815</b>	<b>25,97</b>	<b>1.052.579,379</b>	<b>26,40</b>
1.	PROFIT OR LOSS	20.391,643	<b>0,75</b>	19.187,966	<b>0,67</b>	14.055,583	<b>0,42</b>	22.176,894	<b>0,62</b>	25.072,815	<b>0,62</b>	27.579,379	<b>0,69</b>
2.	STATUTORY RESERVES	30.677,337	<b>1,13</b>	30.677,337	<b>1,07</b>	25.000,000	<b>0,75</b>	25.000,000	<b>0,70</b>	25.000,000	<b>0,62</b>	25.000,000	<b>0,63</b>
3.	UNDERWRITTEN CAPITAL	1.000.000,000	<b>36,74</b>	1.000.000,000	<b>34,91</b>	1.000.000,000	<b>29,88</b>	1.000.000,000	<b>28,16</b>	1.000.000,000	<b>24,74</b>	1.000.000,000	<b>25,08</b>
	<b>TOTAL LIABILITIES</b>	<b>2.721.723,552</b>	<b>100,00</b>	<b>2.864.554,349</b>	<b>100,00</b>	<b>3.346.547,794</b>	<b>100,00</b>	<b>3.550.581,606</b>	<b>100,00</b>	<b>4.042.766,150</b>	<b>100,00</b>	<b>3.986.635,080</b>	<b>100,00</b>

	ASSETS	30/06/1852	%	31/12/1852	%	30/06/1853	%	31/12/1853	%	30/06/1854	%	31/12/1854	%
<b>A</b>	<b>Current Assets</b>	<b>4.787.310,517</b>	<b>86,32</b>	<b>4.330.550,420</b>	<b>85,09</b>	<b>4.561.122,137</b>	<b>85,74</b>	<b>4.031.291,783</b>	<b>84,17</b>	<b>4.065.195,024</b>	<b>84,28</b>	<b>3.885.183,443</b>	<b>83,68</b>
1.	CASH ASSETS	3.640.817,224	65,64	2.427.118,909	47,69	3.150.843,345	59,23	2.317.777,875	48,39	2.279.505,924	47,26	1.665.253,612	35,87
2.	ACCOUNTS RECEIVABLE	1.146.493,293	20,67	1.903.431,511	37,40	1.410.278,792	26,51	1.713.513,908	35,78	1.785.689,100	37,02	2.219.929,831	47,82
<b>B</b>	<b>Capital Assets</b>	<b>9.001,285</b>	<b>0,16</b>	<b>8.751,285</b>	<b>0,17</b>	<b>8.501,285</b>	<b>0,16</b>	<b>8.251,285</b>	<b>0,17</b>	<b>8.001,285</b>	<b>0,17</b>	<b>7.501,035</b>	<b>0,16</b>
1.	FIXED ASSETS	3.707,258	0,07	3.582,258	0,07	3.457,258	0,06	3.332,258	0,07	3.207,258	0,07	2.832,008	0,06
2.	INTANGIBLE ASSETS	5.294,027	0,10	5.169,027	0,10	5.044,027	0,09	4.919,027	0,10	4.794,027	0,10	4.669,027	0,10
<b>C</b>	<b>Uncalled up share capital</b>	<b>750.000,000</b>	<b>13,52</b>	<b>750.000,000</b>	<b>14,74</b>	<b>750.000,000</b>	<b>14,10</b>	<b>750.000,000</b>	<b>15,66</b>	<b>750.000,000</b>	<b>15,55</b>	<b>750.000,000</b>	<b>16,15</b>
	<b>TOTAL ASSETS</b>	<b>5.546.311,802</b>	<b>100,00</b>	<b>5.089.301,705</b>	<b>100,00</b>	<b>5.319.623,422</b>	<b>100,00</b>	<b>4.789.543,068</b>	<b>100,00</b>	<b>4.823.196,309</b>	<b>100,00</b>	<b>4.642.684,478</b>	<b>100,00</b>

	LIABILITIES	30/06/1852	%	31/12/1852	%	30/06/1853	%	31/12/1853	%	30/06/1854	%	31/12/1854	%
<b>A+B</b>	<b>Payable</b>	<b>4.503.834,133</b>	<b>81,20</b>	<b>4.036.664,094</b>	<b>79,32</b>	<b>4.270.343,911</b>	<b>80,28</b>	<b>3.734.310,008</b>	<b>77,97</b>	<b>3.763.936,657</b>	<b>78,04</b>	<b>3.576.748,466</b>	<b>77,04</b>
<b>A</b>	<b>Current liabilities</b>	<b>4.176.565,886</b>	<b>75,30</b>	<b>3.787.495,381</b>	<b>74,42</b>	<b>3.941.784,173</b>	<b>74,10</b>	<b>3.343.669,246</b>	<b>69,81</b>	<b>3.547.260,846</b>	<b>73,55</b>	<b>3.295.066,705</b>	<b>70,97</b>
1.	BANKNOTES ISSUED	342.690,000	6,18	265.740,000	5,22	250.000,000	4,70	250.000,000	5,22	250.000,000	5,18	250.000,000	5,38
2.	CURRENT ACCOUNTS	3.489.242,152	62,91	3.247.698,765	63,81	3.384.484,832	63,62	2.843.978,898	59,38	3.078.963,255	63,84	2.982.866,751	64,25
3.	PAYMENT COMMITMENTS	340.196,234	6,13	269.674,866	5,30	303.888,091	5,71	247.467,848	5,17	216.644,341	4,49	58.307,204	1,26
4.	COMMIT. TO SHAREHOLDERS	4.437,500	0,08	4.381,750	0,09	3.411,250	0,06	2.222,500	0,05	1.653,250	0,03	3.892,750	0,08
<b>B</b>	<b>Long-term liabilities</b>	<b>327.268,247</b>	<b>5,90</b>	<b>249.168,713</b>	<b>4,90</b>	<b>328.559,738</b>	<b>6,18</b>	<b>390.640,762</b>	<b>8,16</b>	<b>216.675,811</b>	<b>4,49</b>	<b>281.681,761</b>	<b>6,07</b>
1.	DEPOSITS	327.268,247	5,90	249.168,713	4,90	328.559,738	6,18	390.640,762	8,16	216.675,811	4,49	281.681,761	6,07
<b>C</b>	<b>Owners equity</b>	<b>1.042.477,669</b>	<b>18,80</b>	<b>1.052.637,611</b>	<b>20,68</b>	<b>1.049.279,511</b>	<b>19,72</b>	<b>1.055.233,060</b>	<b>22,03</b>	<b>1.059.259,652</b>	<b>21,96</b>	<b>1.065.936,012</b>	<b>22,96</b>
1.	PROFIT OR LOSS	17.477,669	0,32	27.637,611	0,54	24.279,511	0,46	30.233,060	0,63	34.259,652	0,71	40.936,012	0,88
2.	STATUTORY RESERVES	25.000,000	0,45	25.000,000	0,49	25.000,000	0,47	25.000,000	0,52	25.000,000	0,52	25.000,000	0,54
3.	UNDERWRITTEN CAPITAL	1.000.000,000	18,03	1.000.000,000	19,65	1.000.000,000	18,80	1.000.000,000	20,88	1.000.000,000	20,73	1.000.000,000	21,54
	<b>TOTAL LIABILITIES</b>	<b>5.546.311,802</b>	<b>100,00</b>	<b>5.089.301,705</b>	<b>100,00</b>	<b>5.319.623,422</b>	<b>100,00</b>	<b>4.789.543,068</b>	<b>100,00</b>	<b>4.823.196,309</b>	<b>100,00</b>	<b>4.642.684,478</b>	<b>100,00</b>

	<b>ASSETS</b>	<b>30/06/1855</b>	<b>%</b>	<b>31/12/1855</b>	<b>%</b>	<b>30/06/1856</b>	<b>%</b>	<b>31/12/1856</b>	<b>%</b>
<b>A</b>	<b>Current Assets</b>	<b>4.158.931,341</b>	<b>78,51</b>	<b>4.752.403,871</b>	<b>75,03</b>	<b>6.050.307,943</b>	<b>80,05</b>	<b>4.197.428,657</b>	<b>55,37</b>
1.	CASH ASSETS	2.222.702,327	41,96	2.784.185,164	43,95	3.701.572,015	48,97	1.433.916,997	18,92
2.	ACCOUNTS RECEIVABLE	1.936.229,014	36,55	1.968.218,707	31,07	2.348.735,928	31,08	2.763.511,660	36,46
<b>B</b>	<b>Capital Assets</b>	<b>7.251,035</b>	<b>0,14</b>	<b>7.001,035</b>	<b>0,11</b>	<b>7.927,141</b>	<b>0,10</b>	<b>132.654,224</b>	<b>1,75</b>
1.	FIXED ASSETS	2.707,008	0,05	2.582,008	0,04	3.633,114	0,05	128.485,197	1,70
2.	INTANGIBLE ASSETS	4.544,027	0,09	4.419,027	0,07	4.294,027	0,06	4.169,027	0,05
<b>C</b>	<b>Uncalled up share capital</b>	<b>1.131.090,000</b>	<b>21,35</b>	<b>1.575.000,000</b>	<b>24,86</b>	<b>1.500.000,000</b>	<b>19,85</b>	<b>3.250.000,000</b>	<b>42,88</b>
	<b>TOTAL ASSETS</b>	<b>5.297.272,376</b>	<b>100,00</b>	<b>6.334.404,906</b>	<b>100,00</b>	<b>7.558.235,084</b>	<b>100,00</b>	<b>7.580.082,881</b>	<b>100,00</b>

	<b>LIABILITIES</b>	<b>30/06/1855</b>	<b>%</b>	<b>31/12/1855</b>	<b>%</b>	<b>30/06/1856</b>	<b>%</b>	<b>31/12/1856</b>	<b>%</b>
<b>A+B</b>	<b>Payable</b>	<b>3.729.217,492</b>	<b>70,40</b>	<b>4.263.481,159</b>	<b>67,31</b>	<b>5.469.166,893</b>	<b>72,36</b>	<b>3.488.160,441</b>	<b>46,02</b>
<b>A</b>	<b>Current liabilities</b>	<b>3.480.763,052</b>	<b>65,71</b>	<b>4.052.218,795</b>	<b>63,97</b>	<b>5.218.497,279</b>	<b>69,04</b>	<b>3.329.420,831</b>	<b>43,92</b>
1.	BANKNOTES ISSUED	250.000,000	4,72	527.850,000	8,33	1.000.000,000	13,23	1.400.000,000	18,47
2.	CURRENT ACCOUNTS	3.228.336,937	60,94	3.521.516,244	55,59	3.801.979,941	50,30	1.863.494,996	24,58
3.	PAYMENT COMMITMENTS	771,615	0,01	485,519	0,01	414.584,398	5,49	64.389,479	0,85
4.	COMMIT. TO SHAREHOLDERS	1.654,500	0,03	2.367,032	0,04	1.932,940	0,03	1.536,356	0,02
<b>B</b>	<b>Long-term liabilities</b>	<b>248.454,440</b>	<b>4,69</b>	<b>211.262,364</b>	<b>3,34</b>	<b>250.669,614</b>	<b>3,32</b>	<b>158.739,610</b>	<b>2,09</b>
1.	DEPOSITS	248.454,440	4,69	211.262,364	3,34	250.669,614	3,32	158.739,610	2,09
<b>C</b>	<b>Owners equity</b>	<b>1.568.054,884</b>	<b>29,60</b>	<b>2.070.923,747</b>	<b>32,69</b>	<b>2.089.068,191</b>	<b>27,64</b>	<b>4.091.922,440</b>	<b>53,98</b>
1.	PROFIT OR LOSS	43.054,884	0,81	43.064,044	0,68	54.881,387	0,73	52.935,807	0,70
2.	STATUTORY RESERVES	25.000,000	0,47	27.859,703	0,44	34.186,804	0,45	38.986,633	0,51
3.	UNDERWRITTEN CAPITAL	1.500.000,000	28,32	2.000.000,000	31,57	2.000.000,000	26,46	4.000.000,000	52,77
	<b>TOTAL LIABILITIES</b>	<b>5.297.272,376</b>	<b>100,00</b>	<b>6.334.404,906</b>	<b>100,00</b>	<b>7.558.235,084</b>	<b>100,00</b>	<b>7.580.082,881</b>	<b>100,00</b>

**TABLE 2.2: PROFIT AND LOSS ACCOUNT (data in DUROS)**

	PROFIT AND LOSS	30/06/1846 <sup>64</sup>	%	31/12/1846	%	30/06/1847	%	31/12/1847	%	30/06/1848	%	31/12/1848	%
<b>A</b>	<b>Income</b>	<b>33.068,740</b>		<b>41.019,324</b>		<b>51.396,646</b>		<b>60.988,648</b>		<b>41.400,287</b>		<b>37.926,623</b>	
<b>B</b>	<b>Expenditure</b>	<b>10.507,140</b>	<i>100,00</i>	<b>10.915,132</b>	<i>100,00</i>	<b>7.836,596</b>	<i>100,00</i>	<b>9.421,603</b>	<i>100,00</i>	<b>10.208,810</b>	<i>100,00</i>	<b>8.949,458</b>	<i>100,00</i>
1	PAYMENT OF INTEREST & COMMISSIONS	582,679	<i>5,55</i>	3.424,004	<i>31,37</i>	1.037,878	<i>13,24</i>	406,888	<i>4,32</i>	677,619	<i>6,64</i>	189,083	<i>2,11</i>
2	PERSONNEL COSTS	8.113,670	<i>77,22</i>	6.154,493	<i>56,38</i>	5.385,993	<i>68,73</i>	7.228,496	<i>76,72</i>	6.348,102	<i>62,18</i>	5.992,007	<i>66,95</i>
3	ENDOWMENT AMORTIZATION ASSETS	250,000	<i>2,38</i>	250,000	<i>2,29</i>	250,000	<i>3,19</i>	250,000	<i>2,65</i>	250,000	<i>2,45</i>	250,000	<i>2,79</i>
4	OTHER OPERATING COSTS	1.560,791	<i>14,85</i>	1.086,635	<i>9,96</i>	1.162,725	<i>14,84</i>	1.536,219	<i>16,31</i>	2.933,089	<i>28,73</i>	2.518,368	<i>28,14</i>
<b>A-B</b>	<b>PROFITS</b>	<b>22.561,600</b>		<b>30.104,192</b>		<b>43.560,050</b>		<b>51.567,045</b>		<b>31.191,477</b>		<b>28.977,165</b>	

	PROFIT AND LOSS	30/06/1849	%	31/12/1849	%	30/06/1850	%	31/12/1850	%	30/06/1851	%	31/12/1851	%
<b>A</b>	<b>Income</b>	<b>29.043,385</b>		<b>26.378,911</b>		<b>22.401,510</b>		<b>29.435,695</b>		<b>32.090,119</b>		<b>35.230,221</b>	
<b>B</b>	<b>Expenditure</b>	<b>8.651,742</b>	<i>100,00</i>	<b>7.190,945</b>	<i>100,00</i>	<b>8.345,927</b>	<i>100,00</i>	<b>7.258,801</b>	<i>100,00</i>	<b>7.017,304</b>	<i>100,00</i>	<b>7.650,842</b>	<i>100,00</i>
1	PAYMENT OF INTEREST & COMMISSIONS	120,286	<i>1,39</i>	148,572	<i>2,07</i>	111,758	<i>1,34</i>	250,702	<i>3,45</i>	253,956	<i>3,62</i>	275,167	<i>3,60</i>
2	PERSONNEL COSTS	5.429,567	<i>62,76</i>	5.377,251	<i>74,78</i>	5.125,066	<i>61,41</i>	5.677,321	<i>78,21</i>	5.669,330	<i>80,79</i>	5.686,598	<i>74,33</i>
3	ENDOWMENT AMORTIZATION ASSETS	250,000	<i>2,89</i>	250,000	<i>3,48</i>	250,000	<i>3,00</i>	250,000	<i>3,44</i>	250,000	<i>3,56</i>	250,000	<i>3,27</i>
4	OTHER OPERATING COSTS	2.851,889	<i>32,96</i>	1.415,122	<i>19,68</i>	2.859,103	<i>34,26</i>	1.080,778	<i>14,89</i>	844,018	<i>12,03</i>	1.439,077	<i>18,81</i>
<b>A-B</b>	<b>PROFITS</b>	<b>20.391,643</b>		<b>19.187,966</b>		<b>14.055,583</b>		<b>22.176,894</b>		<b>25.072,815</b>		<b>27.579,379</b>	

	PROFIT AND LOSS	30/06/1852	%	31/12/1852	%	30/06/1853	%	31/12/1853	%	30/06/1854	%	31/12/1854	%
<b>A</b>	<b>Income</b>	<b>25.586,130</b>		<b>35.914,034</b>		<b>32.381,427</b>		<b>38.797,211</b>		<b>42.561,399</b>		<b>50.151,328</b>	
<b>B</b>	<b>Expenditure</b>	<b>8.108,461</b>	<i>100,00</i>	<b>8.276,423</b>	<i>100,00</i>	<b>8.101,916</b>	<i>100,00</i>	<b>8.564,151</b>	<i>100,00</i>	<b>8.301,747</b>	<i>100,00</i>	<b>9.215,316</b>	<i>100,00</i>
1	PAYMENT OF INTEREST & COMMISSIONS	271,366	<i>3,35</i>	495,111	<i>5,98</i>	229,225	<i>2,83</i>	246,603	<i>2,88</i>	241,406	<i>2,91</i>	308,381	<i>3,35</i>
2	PERSONNEL COSTS	5.824,720	<i>71,84</i>	6.290,558	<i>76,01</i>	6.246,409	<i>77,10</i>	6.060,769	<i>70,77</i>	5.833,916	<i>70,27</i>	6.820,651	<i>74,01</i>
3	ENDOWMENT AMORTIZATION ASSETS	250,000	<i>3,08</i>	250,000	<i>3,02</i>	250,000	<i>3,09</i>	250,000	<i>2,92</i>	250,000	<i>3,01</i>	250,000	<i>2,71</i>
4	OTHER OPERATING COSTS	1.762,375	<i>21,74</i>	1.240,754	<i>14,99</i>	1.376,282	<i>16,99</i>	2.006,779	<i>23,43</i>	1.976,425	<i>23,81</i>	1.836,284	<i>19,93</i>
<b>A-B</b>	<b>PROFITS</b>	<b>17.477,669</b>		<b>27.637,611</b>		<b>24.279,511</b>		<b>30.233,060</b>		<b>34.259,652</b>		<b>40.936,012</b>	

	PROFIT AND LOSS	30/06/1855	%	31/12/1855	%	30/06/1856	%	31/12/1856	%
<b>A</b>	<b>Income</b>	<b>52.171,160</b>		<b>53.176,362</b>		<b>65.947,512</b>		<b>69.647,978</b>	
<b>B</b>	<b>Expenditure</b>	<b>9.116,276</b>	<i>100,00</i>	<b>10.112,318</b>	<i>100,00</i>	<b>11.066,125</b>	<i>100,00</i>	<b>16.712,171</b>	<i>100,00</i>
1	PAYMENT OF INTEREST & COMMISSIONS	175,158	<i>1,92</i>	251,480	<i>2,49</i>	849,332	<i>7,68</i>	1.583,391	<i>9,47</i>
2	PERSONNEL COSTS	6.715,604	<i>73,67</i>	7.420,639	<i>73,38</i>	7.780,519	<i>70,31</i>	8.386,069	<i>50,18</i>
3	ENDOWMENT AMORTIZATION ASSETS	250,000	<i>2,74</i>	250,000	<i>2,47</i>	250,000	<i>2,26</i>	250,000	<i>1,50</i>
4	OTHER OPERATING COSTS	1.975,514	<i>21,67</i>	2.190,199	<i>21,66</i>	2.186,274	<i>19,76</i>	6.492,711	<i>38,85</i>
<b>A-B</b>	<b>PROFITS</b>	<b>43.054,884</b>		<b>43.064,044</b>		<b>54.881,387</b>		<b>52.935,807</b>	

<sup>64</sup> Refers to the first 10 months of activity, from 1<sup>st</sup> September, 1845 to 30<sup>th</sup> June, 1846

**APPENDIX 3: ANNUAL INTEREST RATE (%), TOTAL VOLUME OF CREDIT (duros) AND WEIGHTED AVERAGE OF PAYMENT (days):<sup>65</sup>**

Half-year	Interest Rate (%)	Volume of credit (duros)	Payment (days)
30/06/1846	5,26	2.717.084,706	84
31/12/1846	6,58	3.332.335,357	68
30/06/1847	5,97	5.070.095,549	62
31/12/1847	---	4.771.592,000	---
30/06/1848	5,62	4.095.845,903	---
31/12/1848	5,79	3.228.873,796	65
30/06/1849	5,72	2.431.232,901	---
31/12/1849	4,78	2.946.819,767	67
30/06/1850	4,70	2.725.683,225	---
31/12/1850	4,65	3.915.288,333	59
30/06/1851	4,40	3.885.087,000	68
31/12/1851	4,72	5.026.758,436	55
30/06/1852	4,59	3.311.651,286	61
31/12/1852	4,22	5.175.616,070	58
30/06/1853	4,27	4.632.377,825	57
31/12/1853	4,56	5.068.245,613	59
30/06/1854	4,98	4.780.617,697	63
31/12/1854	5,03	5.479.730,466	65
30/06/1855	4,99	5.286.579,195	64
31/12/1855	4,92	5.283.451,996	61
30/06/1856	5,01	7.340.031,856	55
31/12/1856	5,36	11.693.847,809	41

<sup>65</sup> Source: Half-yearly financial statements published by the Bank of Barcelona, 1846-1856.

***APPENDIX 4: Report by the board of directors of the Bank of Barcelona on the increase of social capital, 4th December 1854.***

*“The simultaneous decrease in cash assets and increase in the portfolio, coinciding with the almost stationary permanence of obligations paid at sight, demonstrate the fundamental and even urgent need to place the bank in a position where it may avoid, under critical circumstances, in an attack of panic, the undesirable situation of possessing an overly inflated portfolio and the not unlikely danger, in respect of this, that if a part of the portfolio superior to the value of disbursed capital were to prove impossible to collect, the current guarantee in the hands of the shareholders might prove insufficient.*

*The board of directors feel that there are three measures to be implemented in order to achieve the above objective.*

- 1. System of contraction, based on reducing credit, raising factoring rates, limiting consignments and increasing loan guarantees.*
- 2. Exaction of passive dividends.*
- 3. Increase of capital.*

*Let us examine them.*

*The first measure provides positive, although slow, results. However, in its origin and trends, its application would upset and disturb commercial transactions on the market, would give rise to complaints and demands which would lay open either the imprecision and hesitant approach of the bank, or the insufficiency of its current resources to meet the objectives of its foundation.*

*While the burden involved in the second measure, somewhat opposed in spirit to article 14 of the statutes, does suppose an increase in resources, providing the greatest shareholder disbursement, it does not carry with it, however, a real and positive increase in guarantee since the capital of one million duros would not be modified in its totality. Being recommendable in this case the prudent action of reducing the portfolio, the securities of which amount to approximately double that sum, herein lies the inefficiency and inopportune nature of this second measure.*

*The management believes it risks nothing in stating that the third measure is the only one which meets all the desired criteria without suffering from any of the drawbacks expressed above. Indeed, on top of the greater guarantee which the issuance of new shares would represent, an increase in disbursed capital would be achieved, without going beyond the limits of prudence, by demanding twenty-five*

*percent of their nominal capital in order to level them with the original shares. Far from reducing the portfolio, its amount could be raised to two million duros with no risk or harm done to the shareholders. Finally, the bank will remain solidly constituted, without great loss of semestral profits, which will necessarily be reduced to a reasonable proportion if fuel is not to be fed to rivals and competitors.*

*One objection could perhaps be lodged against the appropriateness of increasing the capital of the bank, which is the impossibility of later reducing it to its original state in the event of a widespread commercial standstill and the subsequent decrease in the portfolio. The management does not hesitate to qualify such an argument as weak, since if the data here exposed did not shed sufficient light on the matter, related as it is to a short period of time, it would be enough to study the upward trend of the portfolio since the opening of the bank.*

*The surprise, and even distrust, with which the novelty of any institution is greeted, however useful that institution may be, ignorance of the theories of credit and their huge advantages, routine and limited business sense, all contributed to deprive the entity initially of the basic sustenance which a bank in the capital of the kingdom needs. This initial hesitancy overcome and following the gradual acclimatisation, so to speak, of the institution, the business community gradually overcame its distrust and began to accustom itself to the granting and circulating of fixed-term IOUs. Businessmen now approach the bank without embarrassment in search of help, on the security of which they count in order to satisfy the spirit of speculation which has been engendered under the tutelage of the establishment. Every day new companies of service to the public are created, which by giving greater impetus to transactions increase public and private wealth and flow back to the bank itself increasing its portfolio.*

*The management does not believe impossible, however, the presence of extraordinary causes, although transitory, such as a marked paralysis of business or an exaggerated influence of the working medium in the market, which hinder the development of the operations of the bank. However, it is convinced that even in the face of such circumstances, it would be within its power to halt the drop in portfolio, employing a series of measures and in the last instance reducing interest rates to 3%, in the extreme case of which, and supposing a portfolio of two million duros, the shareholders may still find themselves with substantial funds.”*