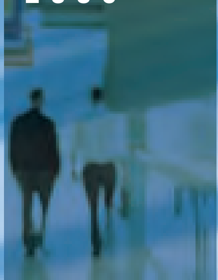
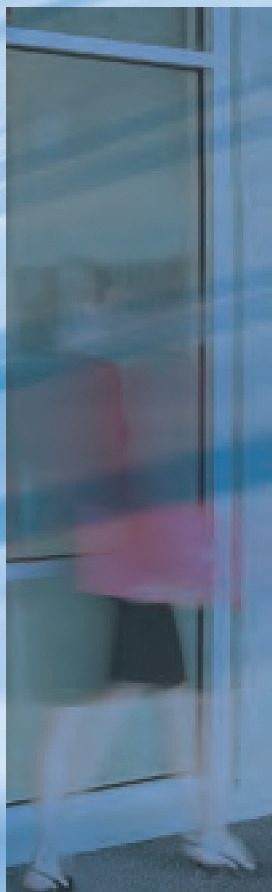
ANNUAL REPORT 2008





CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

Contents

Presentation 01

Letter from the Chairman

Professor Samuelson, with his usual wit, noted recently that economic science has made some progress since the Great Depression of the 1930s, in allusion to a scenario that has been called to mind lately as many of the symptoms of that crisis are similar to those being seen today (or that lie ahead).

Given my background and passion for economics, I agree with him. Economic science must have advanced in the last 70 years. Having heard it countless times, I have grown tired of the joke about how economists are experts in predicting the past. As far as I know, we have never received instruction in divinatory sciences. Our job is to analyse the past and interpret the present. And with the wealth of knowledge contributed by several generations of economists, today we can identify, with a degree of certainty, the right policies for dealing with the crisis.

From this platform, I would like to put forward two ideas that are general in nature, but still decisive for policymaking. First: all measures should seek to restore confidence, which is crucial for domestic demand to rebound. Second: a broad collective agreement is needed, so that there is a reasonable degree of consensus on the reforms required. Nowadays, many forums are clamouring for the spirit of the Moncloa Accords. I am convinced that consensus is the only way to overcome the crisis quickly and emerge from it stronger than before.

In this context, I want to stress the role that savings banks should play. This is not the sector's first economic crisis, nor will it be the last. Savings banks went through the Great Depression of the 1930s, not to mention the crises at the end of the nineteenth century. Their social responsibility and corporate model, based on continuing interaction with stakeholders and close relationships with customers and the community, has proved resilient to all sorts of predicaments.

This does not mean, however, that savings bank regulation does not need to adapt to changes. Current legislation governing savings banks arose from the push for reform by Enrique Fuentes Quintana that was characteristic of the first years of the transition to democracy in Spain and the unique economic context within which the transition took place. This regulatory framework, which culminated in the 1985 Law (known as the "LORCA Law"), was an enormously useful instrument for savings banks, among other reasons because it did away with outdated restrictions and allowed savings banks to expand throughout the country.

However, nearly a quarter of a century later our financial system's needs are different, and regulations must be adapted accordingly. The time has come to amend the LORCA Law, making the necessary adjustments so that it offers an appropriate response to the demands of an advanced financial system. Some of the most prominent international organisations (e.g. the International Monetary Fund) have indicated in what direction some of the reforms need to go. Therefore, we won't be taking shot in the dark; we know where adjustments must be made. It's just time to get down to work, as was emphasised by CECA's Board of Directors in its Institutional Statement on 21 January, when it lobbied for the Spanish government and parliamentary groups to carry out the legal reforms to preserve the constitutional principle of entrepreneurial autonomy, as exemplified in the savings banks.

In this complex context, CECA has constantly defended the interests of Spanish savings banks. It has been particularly active at the international level. The growing importance of international affairs has made it necessary for CECA to leverage all of its influence and optimise how it manages and coordinates procedures regarding the international agenda internally. As a result of these efforts, in June the Board of Directors approved the Action Plan for the International Representation of Interests. This plan includes the steps taken before the European Parliament in 2008 regarding the European Commission's inquiry in retail banking. In its July resolution, the European Parliament defended the savings banks' corporate model and their role in promoting local economies.

Work has been equally intense in Spain. CECA's participation in the new State Corporate Social Responsibility Board, the negotiations on the 2009-2012 Housing Plan, the monitoring of the fiscal reform agenda, and the defence of the sector's interest vis-à-vis regulatory proceedings as important as the amendment to the Mortgage Market Law, are merely a few examples of this activity, which is explained in greater detail throughout this report.

As a financial and technological service provider, the levels of compliance with the targets set forth by the General Assembly have been highly satisfactory. The start-up of the Central Risk Unit, the training services provided by Escuela Superior de Cajas de Ahorros (school for advanced studies on savings banks), the adjustment efforts regarding the Single Euro Payments Area (SEPA), the intense activity regarding treasury and capital markets, and the provision of services for EURO6000 are clear examples. This report details the achievements in these and other areas.

The complexity of the current crisis means any short-term forecast would be rash. In searching for a degree of certainty, it is enough to know that the crisis requires a maximum degree of effort and creativity from all of us. Fortunately, the conclusion that we should draw from this report is that CECA is perfectly equipped to cope with the demands placed upon us by the savings banks, as well as the Spanish financial system as a whole.

Juan R. Quintás Seoane

Letter from the Managing Director

The financial crisis, unparalleled in history for its scale, global nature and intensity, is having a considerable impact on our institutional and regulatory framework. The structural failures in managing the financial markets, made starkly clear by the crisis, are drawing the attention of the leading international agencies.

In 2008, the Confederation worked intensely to defend the interests of Spanish savings banks by devising a new regulatory agenda. Key in this respect was the Board of Director's approval of the International Action Plan, which calls for a series of measures with a clear objective: to enhance CECA's and Spanish savings banks' influence in the international arena. Noteworthy for its importance was the OECD's report on the Spanish economy. Rather than proposing a restructuring of the savings bank corporate model, the report's final recommendations call for regulatory adjustments that are similar to those once formulated by the IMF, which were intended to fine-tune and modernise their legal regime.

CECA also worked intensely in Spain. Firstly, it carried out important work in handling and applying the Bank of Spain's Circulars regarding both equity and accounting. CECA also collaborated with the government on designing and executing the measures to address the financial crisis adopted in 2008: the Financial Asset Acquisition Fund (FAAF), the regulation of state guarantees of debt issues, and ICO financing programs for families and companies. Other important initiatives included the amendment to the mortgage market law, the revision of the Bankruptcy Law, the transposition of the Directive on Payment Services (and its consequent adaptation to the SEPA) and the implementation of the rules for current account switching approved recently in Brussels.

As is well known, CECA is, in addition to an association, a credit institution that provides services -primarily technological, operational and financial- to savings banks and other market agents. From this standpoint, this Annual Report shows that the efforts of all of the entity's professionals in 2008 were rewarded with a favourable income statement.

Despite the worsening of the market crisis, profit after provisioning for taxes in 2008 was EUR 40.34 million, 6.35% or EUR 2.41 million above budget. This level of profitability was possible thanks to adequate revenue and lower-than-budgeted administrative expenses. Gross operating income, which indicates the sum of all revenue from the activity, played an especially important role in enabling CECA to post a net profit of EUR 261.26 million for the year, EUR 31.42 million above the amount included in the budget. Of this amount, EUR 19.30 million corresponds to net interest income, against a difficult backdrop characterised by high volatility and turbulence in markets.

Regarding operating expenses, the implementation of the plans designed to enhance efficiency enabled the Confederation to clamp down on overhead expenses, which were EUR 8.4 million lower than estimated in the budget. This freed up a total of EUR 39.4 million to strengthen the institution by recording general and specific provisions.

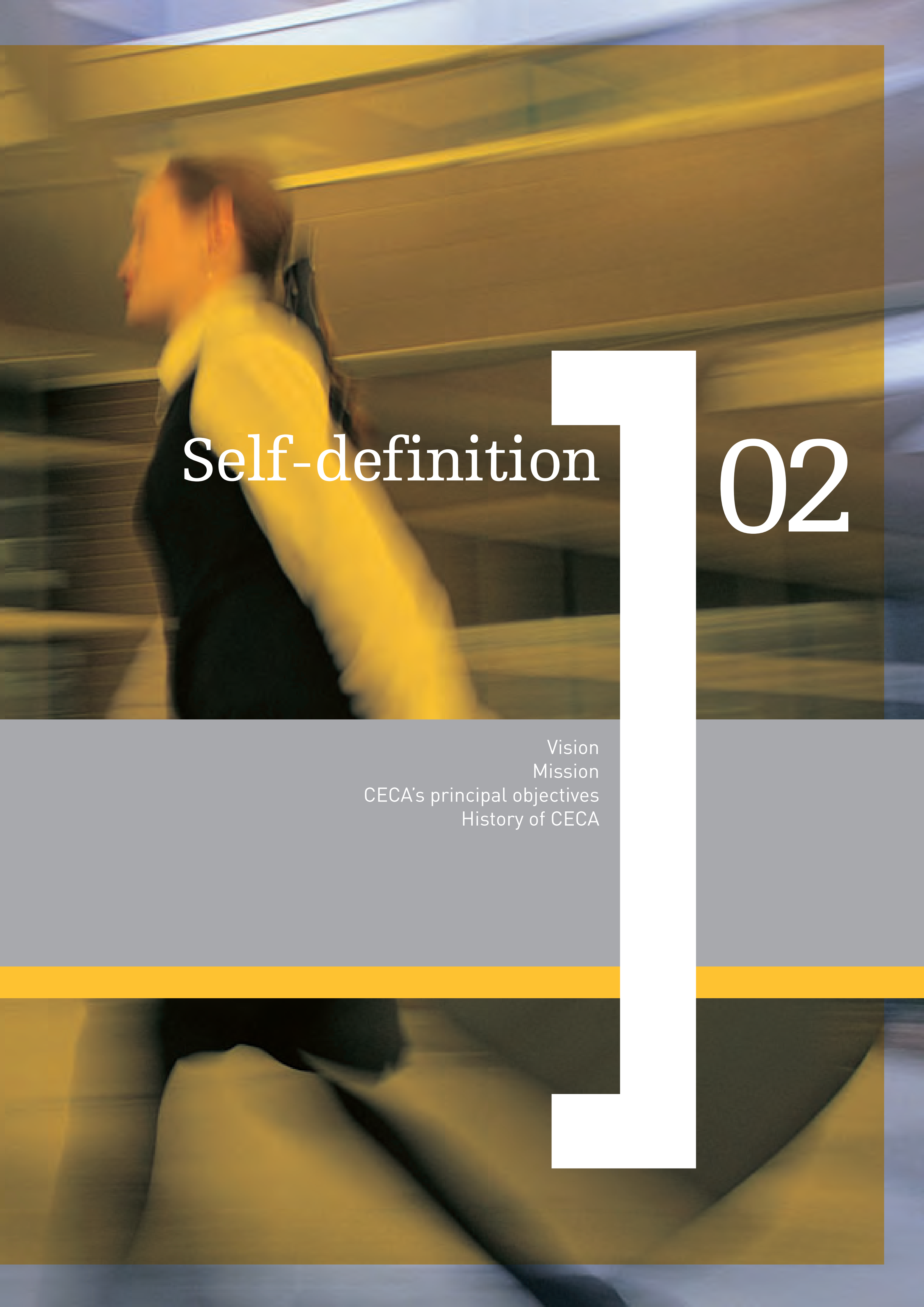
Because of the international crisis, strategies need to be adapted to the new paradigm. In 2008, the Confederation elected to focus more on innovation. It continued to design and develop new products with a view to providing operational coverage and solutions that allow savings banks and their customers to better manage their financial services.

CECA leveraged its high rating to sharply increase its financial activity so as to provide service for the member savings banks, developing new financing structures and products, most notably the first market-oriented issue in 2008, for EUR 1.48 billion, placed by the CECA and four large international institutions. Related to this innovation, the information provided to customers on gains or losses on their securities deposits represents a major step forward.

In addition, the information-exchange capabilities to support the EURO6000 network and the issuing activity of the savings banks were improved. At CECA, we remained committed to promoting new card technologies and e-billing platforms, and expanding e-banking and Internet services. Similarly, with the participation of all 45 savings banks, we completed the signature-digitisation project, replacing hardcopy with electronic documents. This set a new standard for the Spanish financial system.

The current context has unquestionably meant substantial changes to the priorities and strategies of all economic agents. This Annual Report shows that CECA is a responsive and flexible organization, capable of adapting to changes as quickly as they arise. Under the conditions imposed by the crisis, as well as those that will exist once the crisis has ended, and convinced that any crisis also generates import opportunities, CECA will continue to seek and take advantage of the best solutions so as to meet the needs of the savings banks, whatever those needs might be, in the new scenario. Undoubtedly, we are prepared.

José Antonio Olavarrieta Arcos



Self-definition 02

Vision

CECA's strategic goal is to strengthen Spanish savings banks' position among the most significant and highly valued institutions of the Spanish and international financial system, in terms of both financial activity and performance their welfare duties.

Besides its activity as an association, CECA is a private credit institution providing competitive financial and technological products and services to the Spanish savings banks and to other entities in the market.

Mission

To achieve this goal, the Confederation is a forum of strategic reflection for all the savings banks and it is committed to disseminating, upholding and representing their interests, as well as to providing them with guidance, and furnishing them with the most competitive products and services.

The Confederation boosts the brand image of savings banks and highlights their community welfare projects, in both instances linking the image with the attributes of efficiency, professionalism, innovation, soundness, modernity, competitiveness, and corporate social responsibility.

2.1 CECA's principal objectives

As described in its bylaws, CECA's purpose is:

- To promote, facilitate and increase the domestic and international operations of its member savings banks. Its philosophy is based on the huge socio-economic importance of savings, and on safeguarding the general and reciprocal interests of its members and the markets in which they are active.

CECA provides competitive products and services to both savings banks and other entities in the market

- To represent its member savings banks, individually and collectively, before public authorities, facilitating their support for government actions in matters of economic and social policy, without prejudice to any powers of representation that the savings banks may decide to exercise individually or may confer on the related federations in connection with matters that are not of general interest for member savings banks, but which specifically affect a particular savings bank or federation. In order to achieve these objectives, CECA may:

    - Encourage savings banks to fulfil the important role they perform for society.

    - Work with member institutions to spread and promote the virtue of saving as effectively as possible.

    - Work directly or indirectly to educate all social classes about savings and the effective use of personal and collective wealth.

    - Report on such issues as the government decides to study, whether voluntarily or in response to official requests.

- To represent savings banks internationally, in particular before the World Savings Bank Institute, the European Group of Savings Banks and other international organisations.

- To provide to member savings banks such financial and other services as they may deem appropriate, as well as to facilitate the drawing and transfer of funds and notes between members and to provide the support required for members to make optimal use of their resources and to overcome management difficulties.

- Without prejudice to the above, the Confederation may provide financial, technological, administrative and advice services to the public authorities, and to any other public or private sector body.

> **The Confederation represents its members before the World Savings Bank Institute and the European Group of Savings Banks**

History of CECA

2.2

Confederación Española de Cajas de Ahorros, the Spanish confederation of savings banks (hereinafter the "Confederation" or "CECA") was formed in 1928 at the initiative of Federación de Cajas de Ahorros Vasco Navarra, to enable its members to join forces and for it to act as a representative body for them in different forums.

In 1971, the Confederation took over many of the duties of the Savings Bank Credit Institute (*Instituto de Crédito de las Cajas de Ahorros* - ICCA), including: purchasing and trading securities and investing funds on behalf of savings banks, drawing and transferring funds and passbooks between members, and acting as a subsidiary agent of the savings banks in deposits and withdrawals by their customers. At the same time, the Confederation inherited ICCA's principal coordination function, which consisted of granting loans to savings banks, using the funds that they had voluntarily deposited.

As a result, CECA ceased to be the merely representative institution that it had been until then and a new phase began in which it took on the services, operations and financial functions of a credit institution. In 1976, a research unit was set up, the work of which subsequently served as the basis for the reform of the Spanish financial system.

In 1976, a research unit was set up at CECA, the work of which subsequently served as the basis to reform the Spanish financial system

At that time, in addition to recruiting new types of staff, new training policies were introduced in the sector and the ESCA (*Escuela Superior de Cajas de Ahorros*) college was opened.

With the liberalisation of the Spanish financial system in 1977, savings banks returned to their traditional model of independence and full operational capacity (having been significantly undermined by the interventionist attitude taken by public authorities from 1940 onwards, which was especially evident in the regulation of obligatory investments). The legislative changes implemented in the late 1970s and early 1980s had a significant effect on savings banks' operating procedures and organisation. Savings banks and banks were placed on an equal operational footing, deposit interest rates were liberalised, the process to eliminate compulsory investment ratios began and a new structure for governing bodies was implemented with the participation of depositors, employees, founding bodies and local institutions.

Royal Decree 2290/1997, of 27 August, for the first time clearly defined the scope of Confederation Española de Cajas de Ahorros in relation to its member institutions; it defined CECA as the national association of all federated savings banks and as their financial services provider.

The Law passed in 1985 concerning the governing bodies of savings banks (LORCA) definitively established the model initiated with the 1970s reforms. In the light of the major expansion of the savings bank sector within the Spanish financial system as a whole, since then cooperation among savings banks within the Confederation had to be reconciled with the increasing commercial competition among them in the market.

In response to this new situation and at the proposal of the Board of Directors, in 1990 the General Assembly approved a strategic and organisational shift that consisted basically of redefining the Confederation's objectives in order to adapt its services to the demands of its members in free market conditions. Under this new arrangement, it became general practice to set rates for the operating, financial and technological services offered to savings banks and voluntarily purchased by them, with the ultimate aim of making them self-financing. Apart from this, the growth in productivity of membership functions has made it possible to steadily reduce membership fees since 1995. The amount is currently set at EUR 0.109 for every EUR 6,010 of deposits.

The most recent milestone was the Financial Law of 2002 and the Transparency Act of 2003. The Financial Law had two objectives: to achieve further progress in professionalising savings banks' management and to facilitate their access to capital markets. The Transparency Act increased savings banks' disclosure requirements to the State, regulatory bodies and the public. Since its entry into force, savings banks have published annual corporate governance reports to communicate and explain their governing bodies' decision-making processes.

The most recent milestones in CECA's history were the Financial Law of 2002 and the Transparency Act of 2003

In December 2007, the 96th Ordinary General Assembly approved the new Confederation bylaws. The redrafting had three objectives: (1) to adapt the bylaws to the de facto procedures that CECA had been following for several years, and that were not restricted solely to savings banks; (2) to clarify that the status of the positions of General Assembly member or member of the Board of Directors belonged to the individual (Chairmen and Managing Directors) and not to a body corporate (the confederated savings banks); and (3) to reduce the bureaucratic load in the Confederation's bodies of corporate governance and to ensure the internal consistency of its regulations.


JAPAN
AUSTRALIA

03 Corporate Governance: Governing Bodies

Corporate governance
Structure and functions of the governing bodies
Changes in senior management at the savings banks
Corporate shareholdings
Other information regarding governance

Corporate Governance

3.1

This chapter of the report provides wide coverage of the corporate governance structures and practices in place at CECA. The objective is to provide all stakeholders with a general overview of how the Confederation operates internally, the structure and operation of its governing bodies, the group's business structure, its risk control systems, and all other information relating to the Confederation's corporate governance. Accordingly, CECA, despite not being an issuer of securities, enthusiastically supports the wide ranging desire for transparency demonstrated throughout the savings bank sector.

CECA redesigned the "Corporate Information" section of its website (www.ceca.es) in 2008 to include more details relating to the Confederation's Corporate Governance.

> **CECA supports the wide-ranging desire for transparency demonstrated throughout the savings bank sector**

Structure and Functions of the Governing Bodies

3.2

The General Assembly, comprising all the federated savings banks, is the Confederation's highest governing and decision-making body. Its members, who are known as General Assembly Members, represent the interests of the savings banks and the interests of savings and savers in general.

Each savings bank is represented at the General Assembly by its Chairman or a member of its Board of Directors and its Managing Director. The Managing Director of the Confederation is also a member of the General Assembly.

At 31 December, 2008, the General Assembly of CECA comprised the following members:

Vicente Sala Belló	Jordi Blanch Garitonandía
Roberto López Abad	Antonio Mª. Claret García García
Agustín González González	Ramón Martín López
José Manuel Espinosa Herrero	José Luis Ros Maorad
Jose Manuel Sánchez Rojas	Alejandro García Balcones
José Antonio Marcos Blanco	Dionisio Martín Padilla
Narcís Serra Serra	José Antonio Arcos Moya
Adolfo Todó Rovira	Jose Luis Méndez López
Isidro Fainé Casas	Mauro Varela Pérez
Juan María Nin Génova	Juan Manuel García Falcón
Xabier de Irala Estévez	Antonio Marrero Hernández
Guillermo Ibáñez Calle	José Ignacio Lagartos Rodríguez
José Ignacio Mijangos Linaza	Santos Llamas Llamas
Santiago Ruíz Díez	Jorge Albajar Barrón
José María Arribas Moral	Fernando Beltrán Aparicio
Leoncio García Núñez	Miguel Blesa de la Parra
Jesús Medina Ocaña	Ildefonso Sánchez Barcoj
Miguel Ángel Ibarra Quesada	Braulio Medel Cámara
Santiago Gómez Sierra	Miguel Ángel Cabello Jurado
Carlos Senet Sales	Joan Contijoch Pratdesaba
Juan Pedro Hernández Moltó	Didac Herrero Autet
Ildefonso Ortega Rodríguez-Arias	Valentín Roqueta Guillamet
Arcadi Calzada Salavedra	Feliú Formosa Prat

Each savings bank is represented at CECA's General Assembly by its Chairman or a member of its Board of Directors and its Managing Director

Jaume Boter de Palau i Rafols	Atilano Soto Rábanos
José Ibern i Gallart	Manuel Escribano Soto
Carlos Egea Krauel	Antonio Pulido Gutiérrez
Rafael Soriano Cairols	Rafael Ramón López-Tarruella
Vicente Penadés Torró	Gabriel Ferraté Pascual
Manuel Menéndez Menéndez	Rafael Jené Villagrasa
Felipe Fernández Fernández	Francesc Astals Coma
Fernando Alzamora Carbonell	Enric Mata Tarragó
Pedro J. Batle Mayol	José Luis Olivas Martínez
Miguel Sanz Sesma	Aurelio Izquierdo Gómez
Enrique Goñi Beltrán de Garizurieta	Julio Fernández Gayoso
Josep Cifre Rodríguez	José Luis Pego Alonso
Jaime Amengual Llompart	Josep Colomer Rafols
Salvador Soley i Junoy	Ricardo Pagés Font
Jordi Mestre González	Gregorio Rojo García
Julio Fermoso García	Joseba Barrena Llorente
Lucas Hernández Pérez	Amado Franco Lahoz
Xabier Iturbe Otaegui	José Luis Aguirre Loaso
Xabier Alkorta Andonegui	Antonio Aznar Grasa
David José Cova Alonso	Tomás García Montes
Álvaro Arvelo Hernández	Juan Ramón Quintás Seoane
Enrique Manuel Ambrosio Orizaola	José Antonio Olavarrieta Arcos
Víctor Javier Eraso Maeso	

The General Assembly is responsible for defining each year the general lines of the entity's action plan

The CECA General Assembly is responsible, among other functions laid down in its bylaws, for defining each year the general lines of the entity's action plan, appointing the members of the Board of Directors and the members of the Monitoring Committee, confirming the appointment of the Managing Director proposed by the Board of Directors, approving the annual report, the annual balance sheet and income statement, and the allocation of earnings in line with the purposes of the Confederation.

CECA's General Assembly meets twice yearly, once in each calendar half of the year. It also holds an extraordinary meeting whenever such a meeting is called by the Board of Directors or at the request of the Monitoring Committee, two savings bank federations or a group of federated savings banks representing at least one-tenth of the total votes of the savings banks belonging to the Confederation.

In 2008, the General Assembly of CECA held two ordinary meetings, on 16 April and 8 October. All CECA members were represented at the two Assemblies held in 2008.

A fortnight before the first Ordinary General Annual Assembly was held, the General Assembly members were provided with a report detailing the Confederation's progress in 2007, as well as the annual balance sheet, income statement and proposed allocation of earnings.

In 2007, the CECA General Assembly approved, inter alia, the following resolutions:

16 April 2008

- Approval of the Chairman's Report
- Approval of the Monitoring Committee Reports
- Approval of economic-financial performance
- Approval of the annual financial statements for 2007

A fortnight before the first Ordinary General Annual Assembly was held, the General Assembly members were provided with a report detailing the Confederation's progress in 2007

- Approval of the individual and consolidated financial statements (balance sheet, income statement, statement of changes in equity and notes to the financial statements), management report and the allocation of earnings, for the 2007 financial year, in line with the purposes of the Confederation and the Board of Directors' work, and submission of the previous year's financial statements

- Approval of the out-turn of the Welfare fund budget for 2007 and the Welfare fund maintenance budget for 2008

- Ratification and appointment of Directors to the Board

- Appointment of controllers to approve the minutes of the Assembly

8 October 2008

- Approval of the Chairman's Report

- Ratification and appointment of Directors to the Board

- Ratification of the appointment of the entity's Managing Director

- Approval of the Monitoring Committee report on the first half of 2008

- Definition of CECA's strategy for 2009

- Approval of annual budget and CECA membership fees for 2009

- Appointment of controllers to approve the minutes for the Assembly
- Appointment of the external auditor for the organisation’s 2009 financial statements

3.2.1 Board of Directors

The administration and representation of Confederación Española de Cajas de Ahorros is entrusted to the Board of Directors. Therefore, the Board of Directors is responsible for the governance and administration of the entity, as well as for representing it regarding all matters relative to its business operations and in the event of litigation, with the powers expressly conferred to it in the bylaws.

> The Board of Directors is responsible for the governance, administration and representation of CECA

CECA’s Board of Directors has a minimum of seventeen members and a maximum of thirty-five, elected by the General Assembly, pursuant to the following criteria:

- One member for each of Spain's Autonomous Communities
- A larger number of other members for Autonomous Communities where savings banks have registered offices and administer a given amount of customer funds, according to the scale laid down in the bylaws
- The Managing Director of the Confederación Española de Cajas de Ahorros

- A member proposed by the Board of Directors of the Confederación Española de Cajas de Ahorros from among the Chairman and Directors of the savings banks

A single savings bank may not be represented simultaneously on the Board of Directors and the Monitoring Committee, nor by more than one representative on each. Each member of the Board of Directors is entitled to one vote, and the resolutions are approved by the voting majority in attendance, with the Chairman holding the casting vote in the event of a tie.

CECA's Board of Directors is responsible, among other duties set forth in the bylaws, for choosing its Chairman, ensuring that the bylaws are faithfully upheld and proposing such modifications as it deems advisable; executing and enforcing the resolutions approved by the General Assembly; defining and modifying the Confederation's internal structure and administrative organisation; and appointing the Managing Director and proposing his ratification to the Assembly, as well as agreeing his removal.

The meetings of the Board of Directors are attended by the General Secretary of the Confederation, but without voice or vote

According to the bylaws, the Board of Directors must hold at least six meetings per year, called by the Chairman, and sessions must be held:

a) Whenever the Chairman deems it necessary

b) When the Chairman is requested to do so by five members of the Board or the Executive Committee

c) When the Monitoring Committee requests an extraordinary session of the Assembly

In 2008, the Board of Directors met on eleven occasions, at the initiative of its Chairman.

The Chairman of the Board of Directors attended all the meetings held in 2008. The Confederation's General Secretary also attended the sessions of the Board in his capacity as Non-Executive Deputy-Secretary, but without voice or vote.

At 31 December 2008, the composition of the Board of Directors was as follows:

Chairman:

Juan Ramón Quintás Seoane

Deputy Chairmen:

Isidro Fainé Casas
Miguel Blesa de la Parra
Braulio Medel Cámara
José Luis Olivas Martínez

Secretary:

Carlos Egea Krauel

Board members:

Vicente Sala Belló
Miguel Sanz Sesma
Manuel Menéndez Menéndez
Pedro Batle Mayol
Amado Franco Lahoz
Fernando Beltrán Aparicio
Jesús Medina Ocaña
Álvaro Arvelo Hernández
José Luis Ros Maorad
Enrique Manuel Ambrosio Orizaola
Ricard Pagés Font
Antonio Pulido Gutiérrez
Xabier De Irala Estévez
Adolf Todó Rovira
Feliú Formosa Prat
Josep Ibern Gallart
Leoncio García Núñez
Julio Fernández Gayoso
José Antonio Olavarrieta Arcos

3.2.2 Executive Committee

The reform introduced in December 2007 changed the composition of the Executive Committee of CECA's Board of Directors. Hence, the traditional "Council Panel", which had met on a monthly basis, became the Executive Committee.

It is composed of the Chairman, the Deputy Chairmen and the Secretary of the Board of Directors, as well as the Managing Director. At 31 December 2008, the composition of the Executive Committee was as follows:

Juan Ramón Quintás Seoane	Braulio Medel Cámara
José Antonio Olavarrieta Arcos	José Luis Olivas Martínez
Isidro Fainé Casas	Carlos Egea Krauel
Miguel Blesa de la Parra	

The Board of Directors delegates its powers to the Executive Committee, with the exception of powers relative to executing proposals to the General Assembly and those especially delegated the Board, unless the Board is expressly authorised to do so.

The traditional "Council Panel" was transformed into the Executive Committee in December 2007

3.2.3 Remunerations committee

CECA's Remunerations Committee is responsible, among other duties, for being aware of the following matters and reporting on them: the system and amount of payment of attendance fees and per diem allowances to CECA's governing bodies; the designation of those bodies' senior executives; the general criteria for remunerating said senior executives and the general system of annual incentives or variable remuneration applicable to CECA's employees.

The Remunerations Committee is responsible for determining the general criteria for remunerating senior executives

The Committee's operating regime is set out in CECA's bylaws and in its internal code of conduct, which were approved by the Board of Directors on 18 June 2004.

In 2008, the Remunerations Committee met three times and submitted reports to the Board of Directors on the following subjects:

- Award of the Order of Merit for Savings (*Medalla al Mérito en el Ahorro*)
- Variable remuneration at the Confederation
- Remuneration to the Confederation's Directors, and pensionable earnings implications
- Appointment of the Managing Director

CECA's Remuneration Committee had the following members at 31 December 2008:

Miguel Blesa de la Parra	(Chairman)
Vicente Sala Belló	(Board member)
Pedro Batle Mayol	(Board member and secretary)

3.2.4 Investment Committee

CECA's Investment Committee is responsible, among other duties, for reporting to the Board of Directors on the strategic and stable investments and disposals performed by the unit either directly or via entities belonging to the same group, as well as regarding the financial viability of said investments and their suitability for the Confederation's budgets and strategic plans.

The Investment Committee reports to the Board of Directors on strategic investments and disposals

The Committee's operating regime is set out in CECA's bylaws and in its internal code of conduct, which were approved by the Board of Directors on 18 June 2004.

In 2008, the Investment Committee met three times and issued three reports, which analysed, among other issues, the activity performed by the Confederation's Assets and Liabilities Committee. It also submitted to the Board of Directors the required annual report for 2008, in which it stated that:

- There were no strategic or stable investments or disposals in listed companies exceeding 5% of the capital of the listed company or multiples thereof.

- The Confederation did not participate in business projects where they had a presence in the management or governing bodies, with investments which imply the gaining of control of the company and which were in excess of 5% of CECA's equity.

CECA's Investment Committee had the following members at 31 December 2008:

Amado Franco Lahoz	(Chairman)
Manuel Menéndez Menéndez	(Board member and Secretary)
José Ibern i Gallart	(Member)

3.2.5 Monitoring Committee

The purpose of the Monitoring Committee is to ensure that the Board of Directors conducts its activities with the maximum efficiency and precision, within the general course of action set by the General Assembly and in compliance with financial regulatory provisions. In performing its duties the Monitoring Committee may request from the Board of Directors such background information and data as it deems appropriate.

Specifically, its tasks include the following:

- To analyse the institution's economic and financial management and submit a half-yearly report thereon to the Bank of Spain and the General Assembly.

- To examine the audit of the financial statements summarising the year's activities and to submit a report on this examination to the General Assembly.

- To inform the General Assembly of the budgets and allowances allocated to community welfare projects, and to monitor compliance with projected investments and expenses.

The Monitoring Committee ensures that the Board conducts its activities with maximum efficiency and precision

- To propose the suspension of the enforceability of resolutions adopted by the Board of Directors, when the Committee deems that they violate current legislation or unfairly and seriously affect the asset situation, results or standing of the Confederation or member savings banks.

- To ask the Chairman of the Confederation to hold an extraordinary General Assembly, in the aforementioned circumstances and in any circumstances in which it considers this to be necessary.

- To perform the duties of the Audit Committee.

- To ensure the transparency of the procedures for the appointment and renewal of members of the Monitoring Committee and the Board.

CECA's Monitoring Committee consists of six members elected by the General Assembly from among the Chairmen and Managing Directors of the savings banks (Committee members may not belong to the savings banks which are represented on the Board of Directors).

No savings bank may be represented at the same time on the Board of Directors and the Monitoring Committee

The term of office of the members of the Committee is four years. At 31 December 2008, the composition of CECA's Monitoring Committee was as follows:

Chaiman:	**Rafael Jené Villagrasa**
Deputy Chairman:	**Rafael Soriano Cairols**
Secretary:	**Antonio Mª. Claret García García**
Member:	**Atilano Soto Rábanos**
	Xabier Alkorta Andonegi
	Tomás García Montes

The Monitoring Committee meets whenever it is called upon to do so by its Chairman, and at least once per quarter.

In 2008, the Monitoring Committee met monthly on eleven occasions.

In 2008, the following individuals appeared before this body:

- CECA's external auditor, to report to the Committee on the main regulatory changes which affect the framework in which the financial statements were drawn up and to explain the content of the audit reports concerning the Confederation's 2007 individual and consolidated financial statements.
- The Internal Audit Director, to present to the Committee the information required for it to draft the required half-yearly reports.
- The Head of Regulatory Management to explain the lines of action undertaken in 2008 in compliance risk management, as well as those planned for 2009, and to present the annual report on CECA's compliance with regulations.

3.3 Changes in Senior Management at the Savings Banks

Independently of the structure of CECA's governing bodies, the Confederation keeps a register of the Chairmen and Directors of all the savings banks.

In 2008, the following appointments were made:

- At Caja de Ahorros y Monte Piedad de Extremadura

Miguel Ángel Barra Quesada

Managing Director

- At Caja de Ahorros y Monte de Piedad de Córdoba

Carlos Senent Sales

Managing Director

- At Caixa d'Estalvis de Girona

Jordi Blanch Garitonandía

Managing Director

- At Caja de Ahorros de Granada

Ramón Martín López

Managing Director

- At Caja de Ahorro Provincial de Guadalajara

Alejandro García Balcones

Managing Director

- At Caja de Ahorros y Monte Piedad de Madrid

Ildefonso Sánchez Barcoj

Managing Director

- At Caixa d'Estalvis de Manresa

Feliú Formosa Prat

Managing Director

- At Caixa d'Estalvis Laietana

José Ibern i Gallart

Managing Director

- At Caja de Ahorros de Pollença

Josep Cifre Rodríguez

Chairman

- At Caja de Ahorros y Monte de Piedad de Guipúzcoa y San Sebastián

Xabier Iturbe Otaegui

Chairman

- At Caja de Ahorros de Canarias

David José Cova Alonso

Managing Director

- At Monte de Piedad y Caja de Ahorros de San Fernando de Huelva, Jerez y Sevilla

Rafael Ramón López-Tarruella

Managing Director

- At Caja de Ahorros de la Inmaculada de Aragón

Antonio Aznar Grasa

Chairman

Corporate Shareholdings

3.4

CECA's corporate shareholdings are intended to further its strategic mission. Its main investees are:

AFIANZAMIENTOS DE RIESGO EFC, S. A.: 1,27 %

Credit institution whose corporate purpose is to issue guarantees

AHORRO CORPORACIÓN, S.A.: 14,44 %

Financial services holding company and securities broker-dealer

AHORRO Y TITULIZACIÓN, SOCIEDAD GESTORA DE FONDOS DE TITULIZACIÓN, S.A.: 50,00 %

Mortgage securitisation funds manager

CAJA ACTIVA, S.A.: 99,99 %

Internet and other network links

CASER GRUPO ASEGURADOR: 1,71 %

Insurance

CEA TRADE SERVICE, TSL.: 100 %

Credit document management

CECA's corporate shareholdings are intended to further its strategic mission

TRIONIS: 10,74 %

Development, management and maintenance of financial services with a special focus on payment systems

EURO 6000, S.A.: 10,00 %

Administration of credit and debit card programmes

LICO CORPORACIÓN, S.A.: 8,85 %

Leasing and banking services

MASTERCAJAS, S.A.: 0,61 %

Payment systems

SOCIEDAD ESPAÑOLA DE SISTEMAS DE PAGOS: 19,18 %

Issuance, settlement and clearing of transfer orders

TEVEA INTERNACIONAL: 20,00 %

Support for the international activity of savings banks and their clients

TINSA TASACIONES INMOBILIARIAS, S.A.: 11,93 %

Real estate appraisal

Except for AHORRO Y TITULIZACIÓN, CAJA ACTIVA, S.A., and CEA TSL, the Confederation owns less than 20% of the companies detailed above, none of which is listed. The list of investee activities highlights how all of them are focused on complementing and expanding the range of financial activities and services provided by the Confederation.

Since 1988, CECA has had one operative branch in London

CECA does not have a branch network in Spain. Its only operative branch is located at Calle Alcalá, 27 in Madrid. Since 1988, the Confederation has had one operative branch in London, which channels savings banks' transactions in international markets, and a number of field offices in various European capitals.

3.5 Other Information Regarding Governance

In the area of corporate governance, various bodies are involved in CECA's main decision-making processes. The Management Committee plays a pivotal role here, assisting the Managing Director, as does the Assets and Liabilities Committee, which is responsible for information, management, monitoring and control of risks.

In addition, there is a Compliance Committee, which specialises in the management of CECA's compliance risk.

3.5.1 The Management Committee

CECA's Management Committee is the most senior body assisting the Confederation's General Management. As well as providing this assistance, the Management Committee has the following basic responsibilities, without prejudice to the other duties assigned to it by the Board of Directors:

a) To decide on matters directly submitted to it by the Board of Directors.

b) To decide on matters which, before being approved by the Board of Directors, are submitted to it by the Managing Director.

c) To decide on matters submitted to it by the Managing Director on his own initiative.

d) To approve those of the Confederation's rules of conduct and internal regulations which the Board of Directors is not responsible for approving.

The Management Committee is the most senior body assisting the Confederation's General Management

The Committee comprises the Confederation's senior executives. However, all other employees so requested by the Chairman of the Committee may also attend the Committee's meetings, and may speak, but not vote.

The Chairman of the Management Committee is the Managing Director. The Confederation's Secretary General is the Secretary to the Management Committee, and is responsible for preparing the minutes of meetings.

The Management Committee has its own Internal Regulations, which were approved on 19 February 2007.

The Management Committee meets prior to the Board of Directors' meetings and as many times as it is called upon to do so by its Chairman. In 2008, it met eleven times.

The Executive Committee is the body in which the most important functions of the Management Committee are delegated

3.5.2 The Executive Committee

The Executive Committee is the body in which the most important functions of the Management Committee are delegated. It performs these functions when the Managing Director of the entity deems necessary based on the urgency or nature of the issue at hand.

The Executive Committee comprises the Chairman of the Management Committee, who is also the Chairman of the Executive Committee, the Deputy General Managers and Directors.

In 2008, the Executive Committee met on 16 occasions.

3.5.3 The Assets and Liabilities Committee

The Assets and Liabilities Committee (ALCO) is the body designated by the Board to carry out the policies established by it regarding both products and activities and to oversee the information, management, monitoring and control of the institution's financial risks.

The policies and procedures for risk analysis, authorisation, monitoring and control are set forth in the ALCO manual, which is approved by the Board of Directors and revised annually.

As part of these responsibilities, the ALCO has the following duties, among others:

- To monitor and analyse the Confederation's balance sheet, assessing the underlying risk in its structure, in line with monetary, economic and currency exchange variables, and in accordance with the policies issued by the Board of Directors.
- To make recommendations to the Board on the general risk-management policy.

- To report to the Board on the progress of the company's risk policy, in line with market trends and conditions.
- To evaluate the risks deriving from the likely performance of the balance sheet items and, consequently, to assess their influence on the Confederation's net interest income.
- To establish the management, monitoring and control procedures for credit, market (interest rate, foreign currency and price) and liquidity risk approved by the Board of Directors.
- To issue general policies within the framework of the Confederation's risk policy, in relation to credit, market (interest rate, exchange rate and price) and balance sheet liquidity risk, in their entirety.

The Assets and Liabilities Committee is in charge of monitoring the entity's financial risks

- To study and issue unique, concrete policies on significant balance-sheet items.
- To decide on proposed transactions and credit risk limits exceeding the level of attributions conferred in the Risk Committee, and the ratification of those attributions authorised within the framework of the delegation of powers.
- To evaluate and authorise any new financial activity or product that the institution intends to undertake or carry out.
- To make proposals to the Board on matters referred to in legislation applicable to credit institutions.

- To evaluate market conditions.
- To be aware of cash positions in euros and other currencies.
- To prevent liquidity pressures.
- To analyse public data.
- To submit proposals to the Board on the institution's risk profile, cash adequacy target and equity in relation to the internal process of self-assessment of capital adequacy. The ALCO will also report on any issue that might jeopardise meeting the cash adequacy target.
- To ensure that the procedures and methodologies used in the self-assessment of capital are appropriate for the entity's risk profile.

The ALCO is chaired by the Managing Director of the Confederation, whilst the Vice-Chairman acts as Deputy General Manager of the Operating-Financial Area. It has eight members and the Head of the Legal Department acts as Secretary.

The ALCO Manual of Policies, Methods and Procedures: Risk Control System" sets forth the procedures for analysing, authorising, monitoring and controlling risks. It is approved by the Board and revised annually.

The ALCO holds ordinary sessions once a month, as well as whenever a market situation or the Confederation's performance requires, with prior notice being given by the Chairman via the Secretary. In 2008, ALCO met on 24 occasions.

The ALCO has the following support units to help it meet its objectives:

- The **Risk Committee**, which aims to ensure that exposure to risk remains within the limits established by the Board of Directors and the ALCO, to continuously adapt risk management to the ever-increasing sophistication of the financial market, and to ensure that it is in line with capital requirements at all times.

> **ALCO has three support units: the Risk Committee, the Financial Committee and the New Products Committee**

- The **Financial Committee**, which is in charge of ordinary management of market risk, in accordance with the policy approved by the Board and the guidelines issued by the ALCO, providing the latter with the necessary information to make decisions concerning said policy and guidelines and, as necessary, also informing the Investment Committee. Furthermore, it is also responsible for the management and monitoring of the investment of equity, customer funds and various items on the balance sheet and for reporting the relevant information to the ALCO.

- The **New Products Committee**, whose objective is to ensure that in CECA's operations in financial products and markets:

  - There is full awareness of all the risks incurred.

  - Appropriate infrastructure is in place for their management, control and administration.

- Capital consumption from risk, exposure and potential losses is sufficiently well known and quantified.

- Progress is made on the standardisation of the financial products in which it operates from the point of view of systems and procedures.

3.5.4 Regulatory Compliance

CECA is fully aware that the current regulatory environment, characterised by a constant increase in regulatory pressure, entails a risk which must be managed efficiently, considering its qualitative nature and its connection with other risks, particularly reputational risk; hence, it has rolled out plans and completed the necessary actions to implement a compliance function. This function has a specific statute and basic guidelines for action which are established in the compliance policy approved by the Board of Directors.

CECA has a dual-level committee structure in order to ensure adequate coordination of all the Confederation's units involved in compliance risk management and to guarantee efficient information flows:

At the lower level there are specialist committees for specific issues: the Money Laundering Prevention Committee, the Ad Hoc Committee to Ensure Compliance with the Internal Code of Conduct in the Securities Markets and the Data Protection Committee.

At the higher level there is a Compliance Committee with horizontal competencies in compliance risk. Members of this committee are CECA executives appointed by the Board of Directors.

3.5.4.1 Compliance Committee

The Compliance Committee has the following powers and responsibilities:

- To promote the implementation of compliance risk control at the Confederation.
- To identify and evaluate, with the assistance of the Regulatory Management Department, matters relating to compliance risk and plans to manage it. Within the framework of this process:
    - To perform periodic monitoring of compliance risk management. To this end, the Compliance Committee meets at least once a quarter.
    - To review the standard management of compliance risk by the Regulatory Management Department. For this purpose, it analyses information and supervises documentation concerning compliance risk management submitted by the Department.

The members of the Compliance Committee are CECA executives appointed by the Board of Directors

- To ensure that the compliance policy is upheld. This involves the responsibility of ensuring that the competent units implement corrective measures in the event of breaches of compliance.

- To submit the internal rules and codes concerning regulatory compliance required by legislation and applicable standards to the Management Committee for proposal to the Board of Directors.

- To propose procedures and action plans for compliance risk management at the Confederation to the Management Committee.

- To report to the Monitoring Committee, at least once a year, through the Head of the Regulatory Management Department, on compliance risk management, so that this body may form a well-founded opinion on the efficiency of the management.

- To execute the guidelines and implement the actions established by the Managing Director in connection with regulatory compliance.

The Committee met four times in 2008. The Compliance Committee supervised the process of adapting to the new regulations governing the Internal Code of Conduct and the related enacting circulars. It also supervised the implementation of the control of internal policies relating to the provision of investment services carried out by the Regulatory Management Department.

3.5.5 The Operational Risk Committee

The organisational structure developed within the Control Framework includes an Operational Risk Committee. This Committee is responsible for periodically monitoring operational risk management and analysing information on operational risk management received from the institution's Operational Risk Unit, and for informing the Management Committee of the activities carried out in relation to this risk.

To carry out these duties, the Operational Risk Committee has a support body: the Operational Risk Identification Commission (ORIC):

In addition, the Committee is entrusted with the following duties:

- To promote the implementation of operational risk control in the organisation.
- To supervise the documentation provided by the Operational Risk Unit on operational losses.

This Operational Risk Committee is responsible for periodically monitoring the management of operational risk

- To monitor the degree of compliance with the Operational Risk Control Framework.
- To approve procedures for the institution's operational risk management.
- To propose procedures and systems for transferring risk so as to offset operational risk based on CECA's risk profile.
- To establish the maximum permitted limits in relation to residual operational risk.

The Committee met three times in 2008.

Management Report 04

Confederación Española de Cajas de Ahorros (CECA) is the Parent of the Confederación Española de Cajas de Ahorros Group. The companies composing the Group are detailed in Note 1 to the consolidated financial statements for the year ended 31 December 2008.

The main aim of this Directors' report is to provide information on the most significant initiatives developed by CECA in 2008, present the actual results obtained, in comparison with the budget, and disclose both the most significant matters relating to risk management and the activities that will be carried out within the framework of the strategic lines of action defined for 2009. Since CECA represents approximately 99.95% of the Group's assets and 96.58% of the profit attributable to the Group at 31 December 2008, the data and comments herein relate only to CECA, since they are applicable to and representative of the Group of which the Confederación is head.

4.1 Business Performance and Achievement of Targets in 2008

In this section relating to business performance and the results obtained in the development of the business, comment will be made, on the one hand, on the most significant actions undertaken during 2008 in order to comply with the main objectives set by the 96th General Assembly on 19 December 2007, within the framework of the permanent strategic lines of action which direct CECA's activities, and, on the other, on the attainment of the profitability targets through the various items of the income statement.

The development of industry-wide projects saw intense activity in 2008

In the area of institutional representation, CECA channelled the interests of the savings banks in connection with fiscal matters and coordinated the position of the sector vis-à-vis European initiatives

In relation to the first of these matters and within the framework of the contents of each strategic line, worthy of mention was the performance of the following actions:

Institutional representation and development: in the area of institutional representation, CECA channelled the interests of savings banks in connection with fiscal matters relating to the reform of VAT on financial transactions, related party transactions, the tax base to which personal income tax deductions can be applied and the analysis of the fiscal information obligations; coordinated the position of the sector vis-à-vis the initiatives launched at European level, improved communication mechanisms with the ECB and other European institutions and provided representative support to the savings banks before MASTERCARD, EPC and EAPS; also, a study of matters relating to the legal regime of savings banks was performed.

In relation to the adaptation of the sector to regulatory requirements, an analysis was performed of the impacts of the implementing regulations of the Basel II Capital Accord and of the amendments to accounting standards; also, models were developed for the public disclosure of the information required by Pillar III and those relating to the annual financial statements were updated. As regards to cooperation through COAS (CECA's Organisation, Automation and Service Committee) to enhance the efficiency and effectiveness of savings banks, various projects were carried out aimed at improving productivity, the creation of methodologies applicable to the technology and communication areas, electronic certification and operating efficiency, among others.

Significant resources were assigned to the development of human capital and to the social and dissemination areas by placing greater emphasis on social responsibility and launching initiatives such as the celebration of the 2nd Savings Banks' Strategic Forum, the promotion of welfare projects and the model for the implementation of the human resources project.

Efficiency: improvements continued to be made to the dealing room operating processes, such as the integration of electronic platforms and the streamlining of transaction management processes, with the aim of facilitating access to the ECB and Bank of Spain's credit facilities and the arrangement of financial transactions. In technological services, CECA reduced the unit costs of interchange and PECA transactions by more than 10%, and by more than 17% for electronic banking and Internet portal transactions. Also, the target of reducing IT production costs were achieved as expected.

The efficiency of the dealing room increased significantly as a result of the improvements in its operating processes

Growth: in operating and financial services, CECA achieved the objectives set regarding the increase in direct purchases and sales of banknotes at customer's offices and in foreign currency and interest rate options, the volume of capital market operations and the distribution of operations through the Treasury room.

In technological services, the growth target in New Channels and Information Systems was met in terms of number of transactions, billings and new customers, and a satisfactory percentage of the amounts forecast in Means of Payment was achieved, in spite of a decrease in the growth of transactions. In relation to the Risk Area, the number of products, projects and customers using the services, tools and systems offered to improve risk management efficiency increased as expected for 2008.

The number of products, projects and customers using the services, tools and systems of the Risk Area increased

Effectiveness: in relation to the level of satisfaction displayed by customers in relation to the services offered by CECA, the level obtained in external customer evaluations was almost the maximum forecast in the objectives. In relation to technological services, the forecast levels of satisfaction were exceeded for Means of Payment, Information Systems and the products related to electronic banking. As regards services for federated savings banks, improvements were made to the regulatory database and to the legislation for savings banks in CD format and a new financial data application was developed.

The level of satisfaction of the customers that use CECA's services was almost the maximum forecast

New card technologies, mobile channel on the Internet, electronic billing platform and electronic banking

Innovation: in this strategic line the Confederación continued with the design and development of new products in order to provide operating coverage in Europe and solutions which facilitate financing in euros and foreign currencies and allow for better management of financial products and services. Also, the interchange functionalities supporting the Euro 6000 network and the issuance and acquisition activity of saving banks were improved. Additionally, new card technologies were boosted, the mobile channel on the Internet was developed, the electronic billing platform was launched, new electronic and Internet banking services were offered and management and business intelligence support services were provided.

Capabilities development: information systems were improved, adapting the analyses and the CAPTURA programme to the regulations on capital requirements and implementing a system for the control of compliance risk, which was applied specifically to fiscal legislation, financial markets legislation (MIFID) and the best practices relating to competition law.

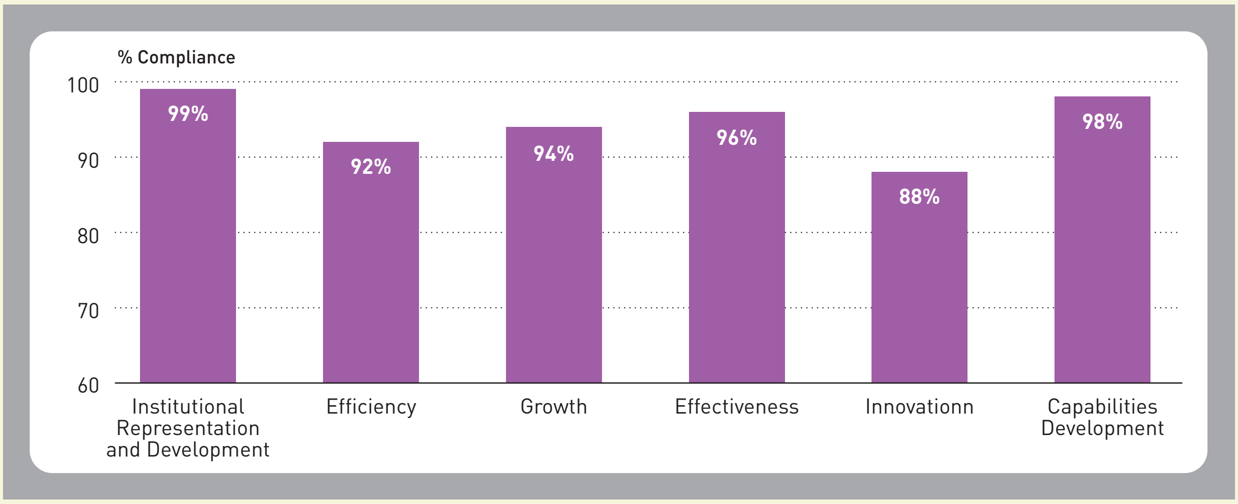
As regards management systems, new versions were implemented and improvements were made to the Treasury applications, an optimised collateral management centre was set up, the valuation unit was expanded and the master plan for the inclusion of financial transactions in accounting and back-office processes was finalised. Also, the functionality of the internal management website was expanded, incorporating new indicators and new analytical billing and budget management modules.

With respect to control systems, work has commenced on the development of an application for the monitoring of primary controls and the treatment and information of secondary controls; all the operational risk management procedures were implemented and the first qualitative evaluation thereof was performed. As regards the control of financial risks, efforts focused mainly on the improvement of the measurement of structural balance sheet risk, of market risk and of results, and the update of the rating system, the calculation of limits, the methodologies for the measurement of counterparty risk and the monitoring of outstanding risk exposure. With respect to the adaptation to the new capital requirements, work has been performed for the preparation of the new financial statement formats and of the internal capital adequacy assessment report.

Adaptation of the analysis and of the Captura programme to the regulations on capital requirements

In the area of optimisation of structural capacity, a Central Risk Unit was created in which the loan approval and risk monitoring tools and procedures were implemented with the quality and response times expected. As regards the enhancement of technological capabilities, virtual servers were installed in the operating environment, the network architecture was adapted, control systems were revamped and new methodologies were used in the development of applications to be implemented in the services offered by CECA. Additionally, management systems for the treatment of financial transactions and the integrated electronic trading system SICE were optimised, and payments via the SEPA integrated platform improved both in terms of volume and diversification of destinations. Also, the asset discount procedures in clearing houses at international level were boosted with the aim of streamlining processes and offering support to customers in obtaining liquidity.

Expressed as a percentage, the degree of compliance with the strategic lines discussed above in 2008 was as follows:



Management systems for the treatment of financial transactions and the electronic trading system SICE were integrated

Profit before tax exceeded the budget by 1.54 %

Income Statement

4.2

INCOME STATEMENT

	Thousands of Euros			
	2008	Budget	Variance	%
Financial margin (*)	101,007	81,708	19,299	23,62
Net fee and commission income	78,365	77,797	568	0,73
Other operating income and expenses (net)	81,888	70,335	11,553	16,43
Gross income	261,260	229,840	31,420	13,67
Operating expenses	-208,904	-178,283	-30,621	17,18
Profit from operations	52,356	51,557	799	1,55
Other losses (net)	-4	0	-4	-
Profit before tax	52,352	51,557	795	1,54
Income tax	-12,017	-13,630	1,613	-11,83
Profit for the year	40,335	37,927	2,408	6,35

(*) Includes net interest income, income from equity instruments, the gains and losses on financial assets and liabilities and exchange differences.

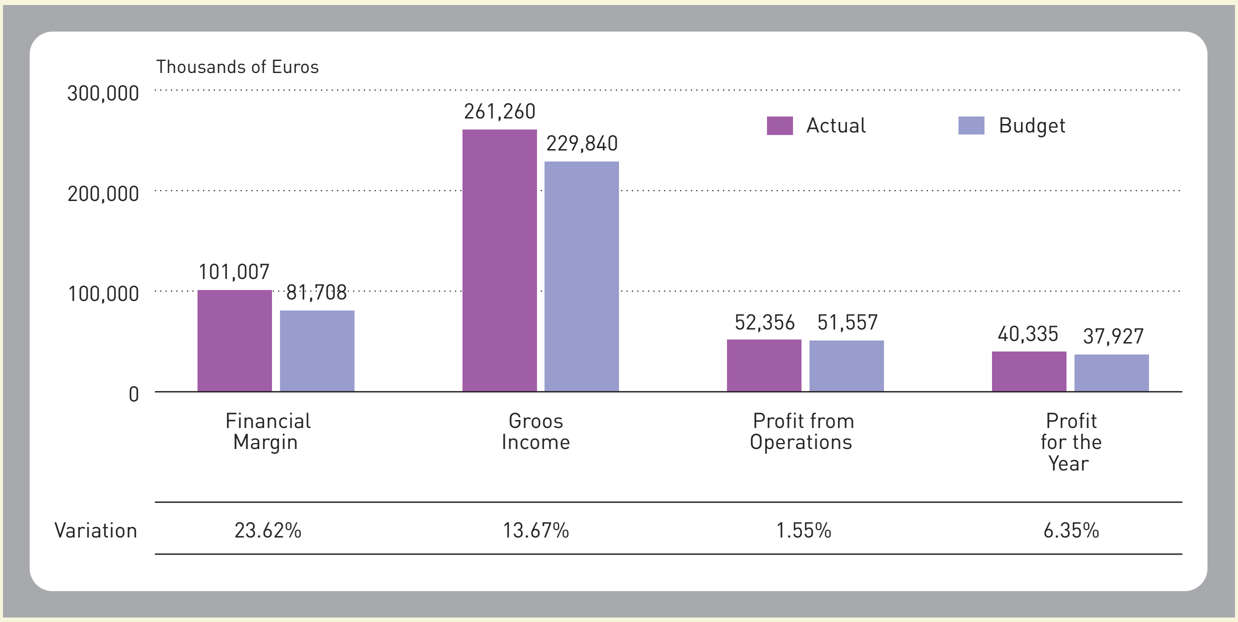
Profit before tax for 2008 exceeded the budget by 1.54% and after-tax profit for the year by 6.35%.

In spite of financial turbulence and the high level of market volatility, the financial margin for 2008 rose by EUR 53.7 million with respect to 2007, and exceeded the budget by EUR 19.3 million, representing increases of 113.59% and 23.62%, respectively.

The improvement in efficiency led to a EUR 8.4 million positive variance in general administrative expenses

Gross income, which reflects in full the net income obtained from operating activities, reached EUR 261.3 million, exceeding the budget by EUR 31.4 million. In addition to the aforementioned positive variance in by the financial margin, also worthy of note is the contribution made by the activities carried out by the operating, technological and training services through ESCA.

In relation to operating expenses, the ongoing improvement in efficiency led to a positive variance in general administrative expenses of EUR 8.4 million with respect to budget, of which EUR 4.6 million relate to staff costs and EUR 3.8 million to other general expenses; there was also a positive variance of EUR 0.8 million with respect to budget in the depreciation and amortisation charge. This allowed general and specific provisions amounting to EUR 39.4 million to be recognised, with the principal aim of financially strengthening the entity.



Proposed Distribution of Profit

The distribution of profit proposed to the General Assembly is as follows:

		Thousands of Euros
Return on participation certificates		2,089
To Welfare Fund		4,800
Fundación de las Cajas de Ahorros (FUNCAS)	4,000	
Savings Bank's Forum and Tercer Sector	510	
Assessment report on the impact of the welfare fund on savings banks	290	
To reserves		33,446
Profit for the year (profit after tax)		**40,335**

External Credit Ratings

The ratings assigned to the Confederación at 31 December 2008 by the international agencies Fitch Ratings, Moody's and Standard & Poor's ratified in all cases the high ratings obtained in 2007.

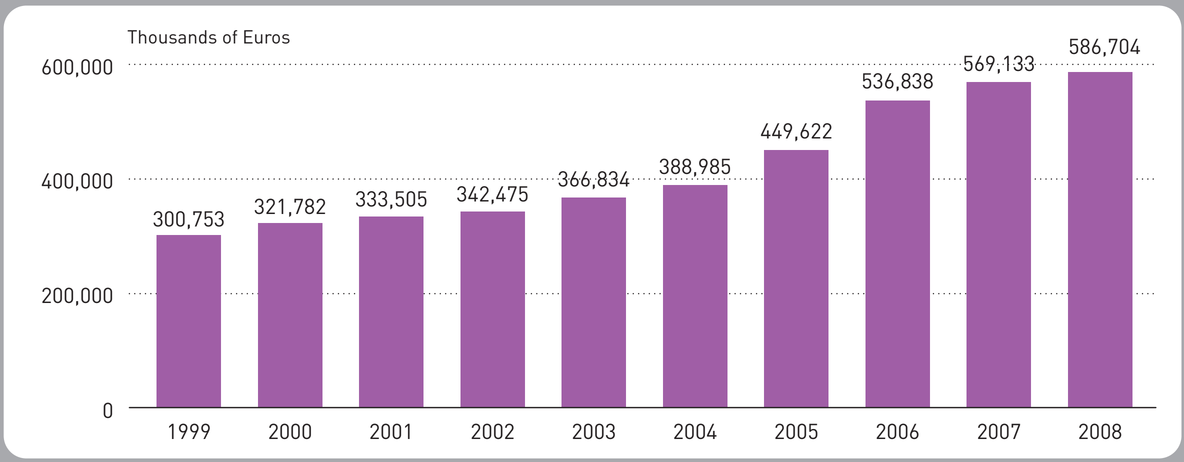
The international rating agencies have ratified the high ratings obtained by CECA in 2007

The Confederacion's capital increased by 3.09% with respect to 2007

FITCH RATINGS	Short term: F1+	Long term: AA-	Individual: B	Legal: 2
MOODYS	Short term: P1	Long term: Aa2	Solvency: B-	
STANDAR & POOR'S	Short term: A-1+	Long term: AA-	Solvency:	

Capital

Eligible capital amounted to EUR 586,704 thousand at 31 December 2008, up 3.09% on 2007. The variations in the last ten years were as follows:



The data on capital in the foregoing table do not take into account the portion of the profit for each year appropriated to reserves.

4.3 Risk Management

The basic principles on which CECA's corporate risk culture is based are established and promoted by the Board of Directors, and can be summarised as follows:

- An organisational structure adapted to the efficient management of risk. Risk management is a shared task involving the different organisational levels: the governing bodies, senior executives, the control units and the rest of the entity.

- Independence of the risk function and visibility vis-à-vis senior executives.

- A detailed framework of the risk management policies and procedures. CECA has a series of policies containing the basic structural principles which guide risk management. Risk management, in turn, consists of a series of well-defined procedures which are communicated to all staff involved within the organisation.

The risk management policies and procedures are available to all the staff involved in risk management.

- A series of specific methodologies and tools for the measurement, control and monitoring of risk. CECA considers it necessary to perform recurring reviews of all the matters relating to the measurement of any significant risks to which the entity is or could be exposed, through an analysis of the suitability of the methodologies and tools used, and of market practices. Robust risk measurement methodologies are applied, which are in line with good market practices and the calculations and processes are continually reviewed as part of an ongoing process to improve risk management.

- In defining its risk profile, the entity establishes limits for each relevant risk in order to ensure that the related exposures fall within accepted and authorised risk tolerance levels. The action procedures in the event that these limits are surpassed are also defined.

Limit monitoring, the effective implementation of the methodologies used, such as VaR, stress testing and others, and risk control are supported by information systems which allow for efficient management based on the speed, contents and accuracy of the risk reports.

Risk management is a shared task involving the different organisational levels

The suitability of the methodology and the management capabilities of the tools guarantee the reliability of results, the representativeness of the limits established and the adaptability of the models/measures to the performance of financial instruments.

- An internal control framework. Pursuant to the entity's Internal Control Framework, CECA's control environment is structured in three levels:

    - Tertiary controls, assigned to the Internal Audit Division, which focus on the following functions: (1) to guarantee to senior executives that the entity's actual risk profile is the same as that defined by them; (2) to verify that the secondary control structure fulfils its role; (3) to establish a continuous feed-back with these units, informing them of the conclusions drawn from the work performed.

- Secondary controls. Secondary controls are based on a decentralised structure which allows for a specialised management of risk based on type (the Risk Area, the Internal Control Department and the Operational Risk Management Unit, located in the Audit and Control Area, and the Regulatory Management Division, integrated into the General Secretariat.

- Primary controls. All the units in charge of CECA's business activities must guarantee, through their own controls, that these activities are performed in accordance with the applicable internal and external regulations.

4.4 Operational Risck

Continuing with the planning approved by the Operational Risk Committee, the work team in charge of the identification of operational risks continued with its analysis of the entity's processes, products and systems as foreseen in the established work schedule. As a result, 2,404 check-points and 176 risk indicators were identified.

In relation to operational risk management, the report required by the Bank of Spain in the guidelines for the implementation of the standardised approach was prepared, including the information required to justify compliance with the requirements established in these guidelines; the specific report on internal audit was also prepared, as required in Annex II. The first qualitative internal adequacy assessment process was performed in 2008.

Along with the use of the tools that form the technological platform for operational risk management, the entity's products and activities were identified and allocated, for cost accounting purposes, to the business lines established for the calculation of capital requirements for operational risk. Also, as a result of the entry into force of the Bank of Spain Circular on minimum capital requirements, the control framework and the internal documentation specifying the operational risk management procedures were adapted to this Circular and will be submitted for approval in early 2009.

> **In relation to operational risk, the report required by the Bank of Spain in the guidelines for the implementation of the standardised approach was prepared**

Significant Events Subsequent to Year-end

4.5

No significant events have occurred subsequent to year-end.

Research and Development 4.6

4.6.1 Business Intelligence

In recent years, investments have been made in the development of new business intelligence solutions, and this is an area of ever increasing strategic importance in banking activity. Specifically, a system named Geomarketing was developed, which allows socio-economic information obtained from the census by municipalities to be used for commercial purposes. The entity also collaborated with EURO 6000 and its associated savings banks to develop a commercial datamining system for the segmentation, benchmarking and identification of opportunities in the area of means of payment.

In recent years, investments have been made in the development of new business intelligence solutions

4.6.2 Interactive Services

Nowadays electronic banking services are faced with the challenge of improving the interactive added value for customers, which should lead to a closer link with the financial institution.

In this context, CECA is committed to a strategy which led to the development of the following modules and services: inVenta, service aimed at assisting businesses in their sales management efforts and customer loyalty programmes; Broker 2.0, new version of the online broker incorporating new techniques for interacting with customers and collaborative solutions; electronic billings, a platform which has already been installed for various important clients.

Content integration tools were also boosted and were connected to the offering and arrangement of remote banking products which are strongly advocated by the Information Society Law. These tools include digital authentication, electronic signatures and custody under the legal terms established.

The technology used in electronic banking services was revamped in two important areas: an SOA architecture was implemented to increase efficiency, availability and reuse; and important security initiatives, such as artificial intelligence aimed at supervising online operations to detect fraud, customer identification systems through mobile telephony and authentication via electronic National Identity Card, were adopted.

4.6.3 New Payment Technologies

CECA maintained its traditional efforts to innovate in the testing and updating of technologies which may be used in the process of card payments. Pilot tests have been carried out at savings banks in the use of cards without magnetic strips; an innovative solution has been developed for the authorisation of payments in toll highways thus minimising the fraud to which this means of payment has traditionally been exposed; the Espía artificial intelligence platform for the prevention of online fraud was perfected, performing especially well when applied to ATMs; new platforms and business connectivity standards of the type "always on" have been implemented; and the entity collaborated with suppliers of point-of-sale terminals in order to integrate its dataphones therein.

The Espía artificial intelligence platform for the prevention of online fraud was perfected, performing especially well when applied to ATMs

4.6.4 Integrated Cost Management

The SAP platform, through which CECA provides support services to savings banks for the management of human resources and suppliers, was complemented with the establishment of an overall cost management model and new tools supporting human resources management and development.

The overall cost management model provides a powerful budget management and generation mechanism; automatic digitalisation and workflow procedures for the management of orders and invoices; and efficiency indicators and scorecards with the option of benchmarking between participating entities.

4.6.5 SEPA Integrated Payments Platform

The evolution of SEPA, which will allow for the greatest integration of the European payments market, the convergence of technological standards and the growth in international commerce are important challenges for the renovation of the current payments platforms at the Interchange and Settlement Centre (CIL) through which CECA is totally committed to savings banks. In this connection, in recent years CECA has pioneered the creation of a powerful integrated payments platform, which provides the savings banks with a single portal for connection and exchange for all types of payment, irrespective of the channels, destinations, regulations and standards thereof.

The evolution of SEPA, the convergence of technological standards and the growth in international commerce are important challenges for the renovation of the current payments platforms

COAS played an intense role in the management and administration of various research and development initiatives among federated savings banks

The platform provides a wholly transparent means for the processing of payments between savings banks and with important clients, Iberpay, EBA, correspondents, etc., through CIL. As a result of a specific project, certain pan-European payments joined this platform in anticipation of the SEPA direct debit scheme.

4.6.6 Active innovation through COAS

In 2008, COAS played an even more intense role than in previous years in the management and administration of various cooperational research and development initiatives among federated savings banks. Many projects gave rise to the creation of high-potential knowledge in relation to business and technological trends. Especially good tangible results are being obtained in three specific initiatives.

Research and design work and tests were performed for the creation of a new shared platform for the implementation of digital signatures in savings banks' branches to replace paper copies of documents requiring signatures with electronic documentation ensuring their legal validity.

A methodology for the preparation and management of business continuity plans (PCN) was developed, followed by an IT tool which will allow savings banks to input risk, resources assigned, type of incidences and impacts.

CECA analysed and checked the technological trends which may have a special impact on banking activity, particularly the use of Web 2.0 and SOA architecture. This latter project offered a technological solution based on this architecture for the development of new financial applications and their integration with other existing applications. This project will allow full advantage to be taken of the enormous potential offered by service-oriented models, particularly their flexibility, scalability and reusability, with which savings banks will be able to react quicker to the increasingly rapid changes in the financial sector.

Business Outlook

4.7

The targets set by CECA for 2009 focus on the ongoing strategic lines of action that represent the cornerstones of the balanced scorecard implemented in all units of the organisation. In order to meet these targets, CECA defined a series of action plans which were approved by the 98th General Assembly on 8 October 2008. The content of these plans can be outlined as follows:

In the strategic line of **institutional representation and development**, regulatory risks will be monitored, paying special attention to the areas of tax, mortgage market, bankruptcy laws, directive on payment services and community proposals for account mobility. In order to increase the visibility of the savings bank sector, an international action plan will be implemented, increasing the number of community interlocutors and the participation in work groups, a Spanish financial education network will be launched, a knowledge database containing the work performed by savings banks will be created and the prospective study on corporate social responsibility in the financial sector will be disseminated.

> **In 2009 an international action plan will be implemented, a Spanish financial education network will be launched and the work performed by savings banks will be disseminated**

The cooperation projects through COAS for the increase in efficiency and effectiveness will focus on the strategic positioning of savings banks in the face of the new channels, the reduction of operating costs, predictive business development systems, the implementation of the European Payments Directive and of European direct debits, and the coordination in the agreement reached with the Government of Spain to reduce administrative costs and improve regulations.

In terms of efficiency, financial and operational procedures will be revised and rationalized

As regards the **improvement of efficiency**, procedures for operating and financial services will be reviewed and streamlined, a tool for equities volatility trading will be developed, the management and communication processes in the dealing room and the capital market indicators will be improved, and the second phase of disclosure of unrealised gains and losses on securities of retail customers will be developed.

In line with the commitment assumed by General Management in the General Assembly held in October 2008, all services will be subjected to a redefinition of processes to gain in efficiency and transfer this gain to savings banks through a reduction in the unit cost of the prices of transactions and services performed by the Confederation. Central services and the office network will also be improved through the design and implementation of a new model for their optimisation, and value-added services related to welfare projects will be promoted.

Within growth objectives, it is planned to increase activity in operational and financial services

CECA's targets focused on enhancing the quality of its services

Within the strategic line of growth, the entity plans to expand the activity of operating and financial services, increasing financing with collateral, the purchase and sale of banknotes and the volume of distribution of operations, and boost the savings banks' access to the various financial markets, making new liquidity products and mechanisms available to them to enable them to increase their competitiveness vis-à-vis their customers, and attract new clients in foreign trade and operating services, especially in the securities business, at both domestic and international level. Also, the entity has set growth targets for new contracts and volume of transactions using technological services in the areas of means of payment, new channels, information systems and SAP. Additionally, new benefits will be derived from the development of applications for the preparation of financial statements.

In other areas, the entity plans to increase the offering of services related to risk management products, to consolidate the activity of the Central Risk Unit, to diversify consultancy products and to increase projects aimed at supporting savings banks in the face of a changing environment.

As regards effectiveness, CECA's strategy focused on enhancing the quality of its services, evidenced by an increase in the level of satisfaction perceived by users, and achieving high availability and quality of technological services.

The aims of the **innovation** strategic line are based, on the one hand, on the launch and development of new operating and financial products and services, such as the adaptation of transfer and debit systems and procedures to the new payment systems law and the design of products that facilitate the mobilisation of lending and funding sources; and, on the other hand, on the improvement of technological services supporting customers needs and the development of new services in the areas of marketing and welfare projects.

Finally, in the strategic line of **capability development**, the entity aims to continue increasing its ability to manage the measurement and reporting of financial and operational risks, and the accounting information and control systems that allow procedures to be adapted to the new accounting and capital requirements. In this context, the framework for the management of reputational risk will be designed and the systems providing information and analysis of the economic and financial situation will be improved.

As part of the implementation of the comprehensive human resources programme, CECA will implement remuneration policy, professional development and performance management systems, as well as the internal communication tool, and will address the renewal of the human resources advisory services. As regards the improvement of technological capabilities, new architecture will be incorporated for the support of information systems, the network servers will begin to be expanded and gradually converted and other ongoing improvements will be made that will allow for a continued improvement in the capacity for dealing with the increase in transactions and the provision of high value-added services.

As part of the implementation of the comprehensive human resources programme, CECA will implement remuneration policy, professional development and performance management systems

ceca
CONFEDERACION ESPAÑOLA DE CAJAS DE AHORROS

FINANCIAL STATEMENT AUDIT

The Control Committee of the Spanish Confederation of Savings Banks, being familiar with the Entity's financial statements as of December 31, 2008 and the auditor's report prepared by Deloitte, S.L. resolved unanimously at its meeting today to inform the General Assembly that it has approved the aforementioned financial statements and also propose that they be approved by the General Assembly.

March 26, 2009

The Secretary,

Signed: Antonio María Claret García

CONFEDERACION ESPAÑOLA DE CAJAS DE AHORROS
SECRETARIA GENERAL

Approved
The Chairman

Signed: Rafael Jené Villagrasa

Consolidated Financial Statements

05

Balance sheet and income statements
Auditor's report

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS AND SUBSIDIARIES COMPOSING THE CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2008 AND 2007 (NOTES 1 to 6)

ASSETS

	Thousands of Euros	
	2008	2007 (*)
1 **Cash and balances with central banks** (Note 7)	**319,441**	**640,201**
2 **Financial assets held for trading** (Note 8)	**8,248,015**	**3,182,346**
2.1 Loans and advances to credit institutions	-	-
2.2 Loans and advances to customers	-	-
2.3 Debt instruments	6,228,460	1,528,008
2.4 Equity instruments	23,877	118,641
2.5 Trading derivatives	1,995,678	1,535,697
Memorandum item: Loaned or advanced as collateral	4,020,092	1,143,579
3 **Other financial assets at fair value through profit or loss** (Note 8)	**4,817,944**	-
3.1 Loans and advances to credit institutions	4,421,974	-
3.2 Loans and advances to customers	395,970	-
3.3 Debt instruments	-	-
3.4 Equity instruments	-	-
Memorandum item: Loaned or advanced as collateral	3,244,151	-
4 **Available-for-sale financial assets** (Note 9)	**561,222**	**490,142**
4.1 Debt instruments	437,442	341,620
4.2 Equity instruments	123,780	148,522
Memorandum item: Loaned or advanced as collateral	116,930	152,297
5 **Loans and receivables** (Note 10)	**3,902,431**	**9,956,910**
5.1 Loans and advances to credit institutions	3,321,356	9,480,752
5.2 Loans and advances to customers	299,325	476,158
5.3 Debt instruments	281,750	-
Memorandum item: Loaned or advanced as collateral	112,338	2,961,761
6 **Held-to-maturity investments**	-	-
Memorandum item: Loaned or advanced as collateral	-	-
7 **Changes in the fair value of hedged items in portfolio hedges of interest rate risk**	-	-
8 **Hedging derivatives** (Note 11)	-	-
9 **Non-current assets held for sale** (Note 12)	161	161
10 **Investments** (Note 13)	-	-
10.1 Associates	-	-
10.2 Jointly controlled entities	-	-
11 **Insurance contracts linked to pensions**	-	-

Continued

LIABILITIES AND EQUITY

	Thousands of Euros 2008	Thousands of Euros 2007 (*)
LIABILITIES		
1 **Financial liabilities held for trading** (Note 8)	**2,396,595**	**1,856,279**
1.1 Deposits from central banks	-	-
1.2 Deposits from credit institutions	-	-
1.3 Customer deposits	-	-
1.4 Marketable debt securities	-	-
1.5 Trading derivatives	2,119,152	1,544,184
1.6 Short positions	277,443	312,095
1.7 Other financial liabilities	-	-
2 **Other financial liabilities at fair value through profit or loss** (Note 8)	**7,085,827**	-
2.1 Deposits from central banks	20,502	
2.2 Deposits from credit institutions	2,282,949	-
2.3 Customer deposits	4,782,376	-
2.4 Marketable debt securities	-	-
2.5 Subordinated liabilities	-	-
2.6 Other financial liabilities	-	-
3 **Financial liabilities at amortised cost** (Note 17)	**7,744,465**	**11,845,995**
3.1 Deposits from central banks	286,750	1,028,533
3.2 Deposits from credit institutions	3,850,190	5,431,911
3.3 Customer deposits	2,776,290	4,482,611
3.4 Marketable debt securities	-	-
3.5 Subordinated liabilities	-	-
3.6 Other financial liabilities	831,235	902,940
4 **Changes in the fair value of hedged items in portfolio hedges of interest rate risk**	-	-
5 **Hedging derivatives** (Note 11)	-	**3,996**
6 **Liabilities associated with non-current assets held for sale**	-	-
7 **Liabilities under insurance contracts**	-	-
8 **Provisions** (Note 18)	**55,671**	**22,458**
8.1 Provisions for pensions and similar obligations	7,561	5,829
8.2 Provisions for taxes and other legal contingencies	-	-
8.3 Provisions for contingent liabilities and commitments	6	6
8.4 Other provisions	48,104	16,623
9 **Tax liabilities** (Note 22)	**49,184**	**59,029**
9.1 Current	8,615	767
9.2 Deferred	40,569	58,262

Continued

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS AND SUBSIDIARIES COMPOSING THE CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS GROUP

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2008 AND 2007 (NOTES 1 to 6)

ASSETS

Continuation

	Thousands of Euros	
	2008	2007 (*)
12 Reinsurance assets	-	-
13 Tangible assets (Note 14)	**108,954**	**111,790**
13.1 Property, plant and equipment	107,714	110,514
13.1.1 For own use	107,714	110,514
13.1.2 Leased out under an operating lease	-	-
13.1.3 Assigned to welfare projects	-	-
13.2 Investment property	1,240	1,276
Memorandum item: Acquired under a finance lease	-	-
14 Intangible assets (Note 15)	**4,747**	**8,093**
14.1 Goodwill	-	-
14.2 Other intangible assets	4,747	8,093
15 Tax assets	**37,425**	**27,506**
15.1 Current	604	508
15.2 Deferred (Note 22)	36,821	26,998
16 Other assets (Note 16)	**26,671**	**76,857**
16.1 Inventories	-	-
16.2 Other	26,671	76,857
TOTAL ASSETS	**18,027,011**	**14,494,006**
MEMORANDUM ITEMS		
1 Contingent liabilities (Note 30)	**189,832**	**162,305**
2 Contingent commitments (Note 30)	**716,569**	**818,630**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 44 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2008.

LIABILITIES AND EQUITY

Continuation

	Thousands of Euros 2008	2007 (*)
10 Welfare fund (Note 29)	363	480
11 Other liabilities	47,324	39,204
TOTAL LIABILITIES	17,379,429	13,827,441
EQUITY		
1 Own funds	622,614	589,379
1.1 Endowment fund	-	-
1.1.1 Registered capital	-	-
1.1.2 Less: Uncalled capital	-	-
1.2 Share premium	-	-
1.3 Reserves	550,802	519,046
1.3.1. Accumulated reserves (losses) (Note 21)	550,802	519,098
1.3.2. Reserves (losses) of entities accounted for using the equity method	-	(52)
1.4 Other equity instruments	30,051	30,051
1.4.1 Equity component of compound financial instruments	-	-
1.4.2 Non-voting equity units and associated funds (Note 20)	30,051	30,051
1.4.3 Other equity instruments	-	-
1.5 Less: Treasury shares	-	-
1.6 Profit for the year	41,761	40,282
1.7 Less: Dividends and remuneration	-	-
2 Valuation adjustments	24,968	77,186
2.1 Available-for-sale financial assets (Note 19)	24,968	79,983
2.2 Cash flow hedges (Note 19)	-	(2,797)
2.3 Hedges of net investments in foreign operations	-	-
2.4 Exchange differences	-	-
2.5 Non-current assets held for sale	-	-
2.6 Entities accounted for using the equity method	-	-
2.7 Other valuation adjustments	-	-
3 Minority interests		
3.1 Valuation adjustments	-	-
3.2 Other	-	-
TOTAL EQUITY	647,582	666,565
TOTAL LIABILITIES AND EQUITY	18,027,011	14,494,006

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 44 and Appendixes I and II are an integral part of the consolidated balance sheet at 31 December 2008.

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS AND SUBSIDIARIES COMPOSING THE CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS GROUP

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (NOTES 1 to 6)

		Thousands of Euros	
		Income / (Expense)	
		2008	2007 (*)
1	**Interest and similar income** (Note 31)	**611,339**	**716,552**
2	**Interest expense and similar charges** (Note 32)	**(520,536)**	**(675,700)**
A	**NET INTEREST INCOME**	**90,803**	**40,852**
4	**Income from equity instruments** (Note 33)	**31,627**	**29,898**
5	**Share of results of entities accounted for using the equity method**	-	-
6	**Fee and commission income** (Note 34)	**107,780**	**108,786**
7	**Fee and commission expense** (Note 35)	**(29,105)**	**(27,596)**
8	**Gains/losses on financial assets and liabilities (net)** (Note 36)	**(71,749)**	**(39,975)**
	8.1 Held for trading	(92,071)	(58,697)
	8.2 Other financial instruments at fair value through profit or loss	28,337	-
	8.3 Financial instruments not measured at fair value through profit or loss	(8,015)	18,722
	8.4 Other	-	-
9	**Exchange differences (net)**	**50,409**	**14,313**
10	**Other operating income** (Note 37)	**90,551**	**86,306**
	10.1 Income from insurance and reinsurance contracts issued	-	-
	10.2 Sales and income from the provision of non-financial services	-	-
	10.3 Other operating income	90,551	86,306
11	**Other operating expenses** (Note 40)	**(1,204)**	**(1,856)**
	11.1 Insurance and reinsurance contract expenses	-	-
	11.2 Changes in inventories	-	-
	11.3 Other operating expenses	(1,204)	(1,856)
B	**GROSS INCOME**	**269,112**	**210,728**
12	**Administrative expenses**	**(164,850)**	**(154,787)**
	12.1 Staff costs (Note 38)	(73,441)	(69,549)
	12.2 Other general administrative expenses (Note 39)	(91,409)	(85,238)
13	**Depreciation and amortisation** (Note 42)	**(10,385)**	**(11,682)**
14	**Provisions (net)** (Note 18)	**(33,839)**	**5,588**
15	**Impairment losses on financial assets (net)** (Notes 24 and 41)	**(5,553)**	**695**
	15.1 Loans and receivables	(5,558)	1,208
	15.2 Other financial instruments not measured at fair value through profit or loss	5	(513)

Contunued

Contunuation

		Thousands of Euros	
		Income / (Expense)	
		2008	2007 (*)
C	**PROFIT FROM OPERATIONS**	**54,485**	**50,542**
16	**Impairment losses on other assets (net)**	-	-
	16.1 Goodwill and other intangible assets	-	-
	16.2 Other assets	-	-
17	**Gains (losses) on disposal of assets not classified as non-current assets held for sale**	**(14)**	**3,704**
18	**Negative goodwill on business combinations**	-	-
19	**Gains (losses) on non-current assets held for sale not classified as discontinued operations** (Note 12)	**10**	-
D	**PROFIT BEFORE TAX**	**54,481**	**54,246**
20	**Income tax** (Note 22)	(12,720)	(13,964)
21	**Mandatory transfer to welfare projects and funds**	-	-
E	**PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS**	**41,761**	**40,282**
22	**Profit/Loss from discontinued operations (net)**	-	-
F	**CONSOLIDATED PROFIT FOR THE YEAR**	**41,761**	**40,282**
	F.1 Profit attributable to the Parent	41,761	40,282
	F.2 Profit attributable to minority interests	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 44 and Appendixes I and II are an integral part of the consolidated income statement for 2008.

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS AND SUBSIDIARIES COMPOSING THE CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (NOTES 1 to 6)

I. CONSOLIDATED STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

	Thousands of Euros	
	2008	2007 (*)
A) CONSOLIDATED PROFIT FOR THE YEAR	**41,761**	**40,282**
B) OTHER RECOGNISED INCOME AND EXPENSE	**(52,218)**	**11,719**
1. Available-for-sale financial assets	**(78,593)**	**17,273**
1.1. Revaluation gains (losses)	(86,608)	35,995
1.2. Amounts transferred to income statement	8,015	(18,722)
1.3. Other reclassifications	-	-
2. Cash flow hedges	**3,996**	**(3,996)**
2.1. Revaluation gains (losses)	1,362	(3,996)
2.2. Amounts transferred to income statement	-	-
2.3. Amounts transferred to the initial carrying amount of hedged items	2,634	-
2.4. Other reclassifications	-	-
3. Hedges of net investments in foreign operations	-	-
3.1. Revaluation gains (losses)	-	-
3.2. Amounts transferred to income statement	-	-
3.3. Other reclassifications	-	-
4. Exchange differences	-	-
4.1. Revaluation gains (losses)	-	-
4.2. Amounts transferred to income statement	-	-
4.3. Other reclassifications	-	-
5. Non-current assets held for sale	-	-
5.1. Revaluation gains (losses)	-	-
5.2. Amounts transferred to income statement	-	-
5.3. Other reclassifications	-	-
6. Actuarial gains (losses) on pension plans	-	-
7. Entities accounted for using the equity method	-	-
7.1. Revaluation gains (losses)	-	-
7.2. Amounts transferred to income statement	-	-
7.3. Other reclassifications	-	-
8. Other recognised income and expense	-	-
9. Income tax	**22,379**	**(1,558)**
C) TOTAL RECOGNISED INCOME AND EXPENSE (A+B)	**(10,457)**	**52,001**
C 1) Attributable to the Parent	**(10,457)**	**52,001**
C 2) Attributable to minority interests	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 44 and Appendixes I and II are an integral part of the consolidated statement of changes in equity for 2008.

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS AND SUBSIDIARIES COMPOSING THE CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (NOTES 1 to 6)

II. CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007(*)

	Thousands of Euros				
	OWN FUNDS				
	Endowment Fund	Share Premium	Reserves	Reserves (Losses) of Entities Accounted for Using the Equity Method	Other Equity Instruments
1 Ending balance at 31/12/07	**-**	**-**	**519,098**	**(52)**	**30,051**
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-
2 Adjusted beginning balance	**-**	**-**	**519,098**	**(52)**	**30,051**
3 Total recognised income and expense	**-**	**-**	**-**	**-**	**-**
4 Other changes in equity	**-**	**-**	**31,704**	**52**	**-**
4.1. Increases in endowment fund	-	-	-	-	-
4.2. Reductions of endowment fund	-	-	-	-	-
4.3. Conversion of financial liabilities into equity	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
4.7. Remuneration of shareholders	-	-	-	-	-
4.8. Transactions involving own equity instruments	-	-	-	-	-
4.9. Transfers between equity items	-	-	31,521	52	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-
4.12. Equity-instrument-based payments	-	-	-	-	-
4.13. Other increases (decreases) in equity	-	-	183	-	-
5 Ending balance at 31/12/08	**-**	**-**	**550,802**	**-**	**30,051**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 44 and Appendixes I and II are an integral part of the consolidated statement of equity for 2008.

Thousands of Euros							
OWN FUNDS							
Less: Treasury Shares	Profit for the Year Attributable to the Parent	Less: Dividends and Remuneration	Total Own Funds	VALUATION ADJUSTMENTS	Total	Minority Interests	TOTAL EQUITY
-	40,282	-	589,379	77,186	666,565	-	666,565
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	40,282	-	589,379	77,186	666,565	-	666,565
-	41,761	-	41,761	(52,218)	(10,457)	-	(10,457)
-	(40,282)	-	(8,526)	-	(8,526)	-	(8,526)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	(2,281)	-	(2,281)	-	(2,281)	-	(2,281)
-	-	-	-	-	-	-	-
-	(31,573)	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	(6,428)	-	(6,428)	-	(6,428)	-	(6,428)
-	-	-	-	-	-	-	-
-	-	-	183	-	183	-	183
-	41,761	-	622,614	24,968	647,582	-	647,582

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS AND SUBSIDIARIES COMPOSING THE CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS GROUP

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (NOTES 1 to 6)

II. CONSOLIDATED STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007(*)

	Thousands of Euros				
	OWN FUNDS				
	Endowment Fund	Share Premium	Reserves	Reserves (Losses) of Entities Accounted for Using the Equity Method	Other Equity Instruments
1 1. Ending balance at 31/12/06	**-**	**-**	**472,611**	**(43)**	**30,051**
1.1. Adjustments due to changes in accounting policies	-	-	-	-	-
1.2. Adjustments made to correct errors	-	-	-	-	-
2 Adjusted beginning balance	**-**	**-**	**472,611**	**(43)**	**30,051**
3 Total recognised income and expense	**-**	**-**	**-**	**-**	**-**
4 Other changes in equity	**-**	**-**	**46,487**	**(9)**	**-**
4.1. Increases in endowment fund	-	-	-	-	-
4.2. Reductions of endowment fund	-	-	-	-	-
4.3. Conversion of financial liabilities into equity	-	-	-	-	-
4.4. Increases in other equity instruments	-	-	-	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-	-	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-	-	-	-
4.7. Remuneration of shareholders	-	-	-	-	-
4.8. Transactions involving own equity instruments	-	-	-	-	-
4.9. Transfers between equity items	-	-	46,487	(9)	-
4.10. Increases (decreases) due to business combinations	-	-	-	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-	-	-	-
4.12. Equity-instrument-based payments	-	-	-	-	-
4.13. Other increases (decreases) in equity	-	-	-	-	-
5 Ending balance at 31/12/07	**-**	**-**	**519,098**	**(52)**	**30,051**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 44 and Appendixes I and II are an integral part of the consolidated statement of equity for 2008.

Thousands of Euros							
OWN FUNDS							
Less: Treasury Shares	Profit for the Year	Less: Dividends and Remuneration	Total Own Funds	VALUATION ADJUSTMENTS	Total	Minority Interests	TOTAL EQUITY
-	54,253	-	556,872	65,467	622,339	-	622,339
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	54,253	-	556,872	65,467	622,339	-	622,339
-	40,282	-	40,282	11,719	52,001	-	52,001
-	(54,253)	-	(7,775)	-	(7,775)	-	(7,775)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
		-					
-	-		-	-	-	-	-
		-					
-	-	-	-	-	-	-	-
-	(3,288)	-	(3,288)	-	(3,288)	-	(3,288)
-	-	-	-	-	-	-	-
-	(46,478)	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	(4,487)	-	(4,487)	-	(4,487)	-	(4,487)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	40,282	-	589,379	77,186	666,565	-	666,565

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS AND SUBSIDIARIES COMPOSING THE CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS GROUP

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007 (NOTES 1 to 6)

	Thousands of Euros	
	2008	2007 (*)
A) A) CASH FLOWS FROM OPERATING ACTIVITIES	**(314,233)**	**593,147**
1 Consolidated profit for the year	**41,761**	**40,282**
2 Adjustments made to obtain the cash flows from operating activities	**160,711**	**60,716**
2.1. Depreciation and amortisation	10,385	11,682
2.3. Other adjustments	150,326	49,034
3 Net (increase)/decrease in operating assets	**(4,061,653)**	**675,247**
3.1. Financial assets held for trading	(5,195,005)	1,519,077
3.2. Other financial assets at fair value through profit or loss	(4,896,537)	-
3.3. Available-for-sale financial assets	(71,073)	(66,734)
3.4. Loans and receivables	6,048,919	(729,811)
3.5. Other operating assets	52,043	(47,285)
4 Net (increase)/decrease in operating liabilities	**3,553,601**	**(167,230)**
4.1. Financial liabilities held for trading	540,316	(1,348,190)
4.2. Other financial liabilities at fair value through profit or loss	7,085,827	-
4.3. Financial liabilities at amortised cost	(4,101,530)	1,272,547
4.4. Other operating liabilities	28,988	(91,587)
5 Collections/(Payments) of income tax	**(8,653)**	**(15,868)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**(4,246)**	**(4,195)**
6 Payments	**(4,256)**	**(8,681)**
6.1. Tangible assets	(3,539)	(5,771)
6.2. Intangible assets	(717)	(2,910)
6.3. Investments	-	-
6.4. Other business units	-	-
6.5. Non-current assets held for sale and associated liabilities	-	-
6.6. Held-to-maturity investments	-	-
6.7. Other payments related to investing activities	-	-
7 Collections	**10**	**4,486**
7.1. Tangible assets	-	4,486
7.2. Intangible assets	-	-
7.3. Investments	-	-
7.4. Other business units	-	-
7.5. Non-current assets held for sale and associated liabilities	10	-
7.6. Held-to-maturity investments	-	-
7.7. Other payments related to investing activities	-	-

Continued

Continuation

	Thousands of Euros 2008	2007 (*)
C) C) CASH FLOWS FROM FINANCING ACTIVITIES	**(2,281)**	**(3,235)**
8 Payments	**2,281**	**3,235**
8.1. Dividends	2,281	3,235
8.2. Subordinated liabilities	-	-
8.3. Redemption of own equity instruments	-	-
8.4. Acquisition of own equity instruments	-	-
8.5. Other payments related to financing activities	-	-
9 Collections	-	-
9.1. Subordinated liabilities	-	-
9.2. Issuance of own equity instruments	-	-
9.3. Disposal of equity instruments	-	-
9.4. Other collections related to financing activities	-	-
D) D) EFFECT OF CHANGES IN EXCHANGE RATES	-	-
E) E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(320,760)**	**585,717**
F) F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**640,201**	**54,484**
G) G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**319,441**	**640,201**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
1.1. Cash	32,396	30,762
1.2. Cash equivalents at central banks	287,045	609,439
1.3. Other financial assets	-	-
1.4. Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**319,441**	**640,201**
of which: held by consolidated entities but not drawable by the Group	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 44 and Appendixes I and II are an integral part of the consolidated cash flow statement for 2008.

Introduction, basis of presentation of the consolidated financial statements and other information

01

1.1 Introduction

Confederación Española de Cajas de Ahorros ("the Confederación") is an entity subject to the rules and regulations applicable to credit institutions operating in Spain. The Confederación operates mainly in Spain and it has a branch in London. Its registered office is at calle Alcalá, 27, Madrid. Public information on the Confederación can be consulted both on the Confederación's official website (www.ceca.es) and at its registered office.

The Confederación is the national association of all member, or potential member, general popular savings banks, whether or not they are grouped together in federations, and provides them with financial services. It is a community welfare institution governed by current legislation and regulations in this connection and, particularly, by its bylaws.

In addition to the operations carried on directly by it, the Confederación is the head of a group of subsidiaries that engage in various business activities and which compose, together with it, the Confederación Española de Cajas de Ahorros Group ("the Group"). Therefore, the Confederación is obliged to prepare, in addition to its own individual financial statements, the Group's consolidated financial statements, which also include the interests in joint ventures (jointly controlled entities) and the investments in associates, if any.

The Confederación Española de Cajas de Ahorros Group comprised the following companies at 31 December 2008:

Subsidiaries

- Caja Activa, S.A., incorporated in 1997 to facilitate the access of savings bank customers to new technologies.

- Cea Trade Services Limited, formed in 2004 to encourage the provision of foreign trade services to savings banks.

Jointly controlled entity

- Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., incorporated in 1993 in order to establish, manage and legally represent asset-backed bond SPVs and mortgage-backed security SPVs.

At 31 December 2008 the Group did not have any ownership interests in companies which, in accordance with applicable legislation, should be considered as associates.

The accompanying Appendixes I and II include salient financial information relating to these companies. Also, Note 3 contains the Confederación's summarised financial statements for 2008, including comparative information for 2007, and details the percentage that its assets and profit represent in relation to those of the Group.

The Group's consolidated financial statements for 2007 were approved at the Confederación's Annual General Assembly on 16 April 2008. The 2008 consolidated financial statements of the Group have not yet been approved by the General Assembly. However, the Confederación's Board of Directors considers that they will be approved without any material changes.

1.2 Basis of presentation of the consolidated financial statements

The Group's consolidated financial statements for 2008 were authorised for issue by the Confederación's directors at the Board of Directors meeting held on 18 March 2009.

The Group's consolidated financial statements are presented in accordance with International Financial Reporting Standards as adopted by the European Union at 31 December 2008 ("EU-IFRSs"), taking into account Bank of Spain Circular 4/2004, of 22 December, on public and confidential financial reporting rules and financial statement formats for credit institutions, amended by Bank of Spain Circular 6/2008, of 26 November. Bank of Spain Circular 4/2004 implements and adapts for the Spanish credit institution industry the International Financial Reporting Standards approved by the European Union.

The abbreviations "IASs" and "IFRSs" are used in these notes to the consolidated financial statements to refer to the International Accounting Standards and International Financial Reporting Standards, respectively, as approved by the European Union, on the basis of which these consolidated financial statements were prepared.

The Group's consolidated financial statements for 2008 were prepared taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements and, accordingly, they present fairly the Group's consolidated equity and financial position at 31 December 2008, and the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

Neither IFRS 3 Business Combinations, as revised in 2008, nor the amendments made to IAS 27 Consolidated and Separate Financial Statements in January 2008 were taken into account in the preparation of the consolidated financial statements for 2008, since their application is obligatory for fiscal years beginning on or after 1 July 2009 because their contents have not yet been included in Bank of Spain Circular 4/2004. In view of the nature of the aspects addressed in the these standards and as the final wording that will be adopted by the European Union is not yet known, it is not possible to determine at present the effect of their implementation on the potential transactions and events to which they might be applicable in the future.

The amendment adopted by the European Union in 2008 to IAS 1 Presentation of Financial Statements was not applied either in the preparation of these consolidated financial statements, since it is mandatorily applicable for fiscal years beginning on or after 1 January 2009. Group management is carrying out the analyses and modifications required to complete adaptation to this standard and, therefore, it is not possible to determine at present the effects that will arise from its implementation, although it is estimated that it will entail the modification of certain information and disclosures to be included in the consolidated financial statements for future years.

The principal accounting policies and measurement bases applied in preparing the Confederación's consolidated financial statements for 2008 are summarised in Note 2.

The consolidated financial statements were prepared from the accounting records kept by the Confederación and by the other Group entities. However, since the accounting policies and measurement bases used in preparing the Group's consolidated financial statements for 2008 may differ from those used by certain Group entities, the required adjustments and reclassifications were made on consolidation to unify such policies and bases and to make them compliant with the EU-IFRSs used by the Confederación in the preparation of its consolidated financial statements.

1.3 Responsibility for the information and use of estimates

The information in these consolidated financial statements is the responsibility of the Confederación's directors.

In the preparation of the Group's consolidated financial statements for 2008 estimates were made by the Group's directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (see Notes 2.9, 2.13, 2.14 and 2.17).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term obligations to employees (see Note 2.11).
- The calculation of any provisions required for contingent liabilities (see Notes 2.10 and 2.15).
- The useful life of the tangible and intangible assets (see Notes 2.13 and 2.14); and
- The fair value of certain unquoted assets (see Note 2.2.3).

Although these estimates were made on the basis of the best information available at 31 December 2008 on the events analysed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Any required changes in accounting estimates would be applied prospectively in accordance with the applicable standards, recognising the effects of the change in estimates in the consolidated income statements for the years in question.

1.4 Information relating to 2007

As required by IAS 1, the information relating to 2007 contained in these notes to the consolidated financial statements is presented with the information relating to 2008 for comparison purposes only and, accordingly, it does not constitute the Group's statutory consolidated financial statements for 2007.

The consolidated balance sheets, consolidated income statements, consolidated statements of changes in equity (comprising the consolidated statements of recognised income and expense and the consolidated statements of changes in total equity) and consolidated cash flow statements presented in the Group's consolidated financial statements for 2008 were prepared using the formats contained in Bank of Spain Circular 4/2004, which were amended by Bank of Spain Circular 6/2008 in 2008. These formats differ, as regards the basis of presentation of certain items and margins, from those presented in the Group's statutory consolidated financial statements for 2007.

As a result of this change, which has no effect on the Group's consolidated equity or consolidated profit, in accordance with the EU-IFRS in force, the Group's consolidated financial statements for 2007, which are presented in these consolidated financial statements for 2008 for comparison purposes, were modified with respect to those authorised for issue by the Group, in order to adapt them to the new formats contained in Bank of Spain Circular 4/2004, as amended by Bank of Spain Circular 6/2008.

Following is a reconciliation between the Group's consolidated balance sheet at 31 December 2007, presented by its directors as an integral part of its statutory consolidated financial statements for 2007, and the consolidated balance sheet for 2007 presented for comparison purposes in these consolidated financial statements for 2008, which was prepared using the new format amended by Bank of Spain Circular 6/2008, as mentioned above:

CONSOLIDATED BALANCE SHEET- ASSETS:

CONSOLIDATED BALANCE SHEET PER BANK OF SPAIN CIRCULAR 4/2004 FORMAT PRESENTED IN THE STATUTORY CONSOLIDATED FINANCIAL STATEMENTS FOR 2007

Thousands of Euros

	Balance at 31 December 2007	Adjustments
CASH AND BALANCES WITH CENTRAL BANKS	640,201	-
FINANCIAL ASSETS HELD FOR TRADING	3,182,346	-
Loans and advances to credit institutions	-	-
Money market operations through counterparties	-	
Loans and advances to customers	-	-
Debt instruments	1,528,008	-
Other equity instruments	118,641	-
Trading derivatives	1,535,697	-
Memorandum item: Loaned or advanced as collateral	1,143,579	-
OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
Loans and advances to credit institutions	-	-
Money market operations through counterparties	-	-
Loans and advances to customers	-	-
Debt instruments	-	-
Other equity instruments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
AVAILABLE-FOR-SALE FINANCIAL ASSETS	490,142	-
Debt instruments	341,620	-
Other equity instruments	148,522	-
Memorandum item: Loaned or advanced as collateral	152,297	-
LOANS AND RECEIVABLES	9,956,910	-
Loans and advances to credit institutions	9,409,343	71,409
Money market operations through counterparties	-	-
Loans and advances to customers	185,108	291,050
Debt instruments	-	-
Other financial assets **(REFERENCE 2)**	362,459	(362,459)
Memorandum item: Loaned or advanced as collateral	2,961,761	-
HELD-TO-MATURITY INVESTMENTS	-	-
Memorandum item: Loaned or advanced as collateral	-	-

CONSOLIDATED BALANCE SHEET PER THE FORMAT OF BANK OF SPAIN CIRCULAR 4/2004 AS AMENDED BY BANK OF SPAIN CIRCULAR 6/2008 PRESENTED IN THESE CONSOLIDATED FINANCIAL STATEMENTS FOR COMPARISON PURPOSES

Balance at 31 December 2007	
640,201	CASH AND BALANCES WITH CENTRAL BANKS
3,182,346	FINANCIAL ASSETS HELD FOR TRADING
-	Loans and advances to credit institutions
-	Loans and advances to customers
1,528,008	Debt instruments
118,641	Equity instruments
1,535,697	Trading derivatives
1,143,579	Memorandum item: Loaned or advanced as collateral
	OTHER FINANCIAL ASSETS AT FAIR VALUE
-	THROUGH PROFIT OR LOSS
-	Loans and advances to credit institutions
-	Loans and advances to customers
-	Debt instruments
-	Equity instruments
-	Memorandum item: Loaned or advanced as collateral
490,142	AVAILABLE-FOR-SALE FINANCIAL ASSETS
341,620	Debt instruments
148,522	Equity instruments
152,297	Memorandum item: Loaned or advanced as collateral
9,956,910	LOANS AND RECEIVABLES
9,480,752	Loans and advances to credit institutions **(REFERENCE 2)**
476,158	Loans and advances to customers **(REFERENCE 2)**
-	Debt instruments
2,961,761	Memorandum item: Loaned or advanced as collateral
-	HELD-TO-MATURITY INVESTMENTS
-	Memorandum item: Loaned or advanced as collateral

Continued

CONSOLIDATED BALANCE SHEET- ASSETS:

CONSOLIDATED BALANCE SHEET PER BANK OF SPAIN CIRCULAR 4/2004 FORMAT PRESENTED IN THE STATUTORY CONSOLIDATED FINANCIAL STATEMENTS FOR 2007

Thousands of Euros

	Balance at 31 December 2007	Adjustments
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
HEDGING DERIVATIVES	-	-
NON-CURRENT ASSETS HELD FOR SALE	161	-
Loans and advances to credit institutions	-	-
Loans and advances to customers	-	-
Debt instruments	-	-
Equity instruments	-	-
Tangible assets **(REFERENCE 3)**	161	(161)
Other assets	-	-
INVESTMENTS	-	-
Associates	-	-
Jointly controlled entities	-	-
Group companies	-	-
INSURANCE CONTRACTS LINKED TO PENSIONS	-	-
REINSURANCE ASSETS	-	-
TANGIBLE ASSETS	111,790	-
Memorandum item: Acquired under a finance lease	-	-
INTANGIBLE ASSETS	8,093	-
Goodwill	-	-
Other intangible assets	8,093	-
TAX ASSETS	27,506	-
Current	508	-
Deferred	26,998	-
PREPAYMENTS AND ACCRUED INCOME **(REFERENCE 1)**	9,008	(9,008)
OTHER ASSETS **(REFERENCE 1)**	67,849	9,008
TOTAL ASSETS	14,494,006	-

Continued

CONSOLIDATED BALANCE SHEET PER THE FORMAT OF BANK OF SPAIN CIRCULAR 4/2004 AS AMENDED BY BANK OF SPAIN CIRCULAR 6/2008 PRESENTED IN THESE CONSOLIDATED FINANCIAL STATEMENTS FOR COMPARISON PURPOSES

Balance at 31 December 2007	
-	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK
-	HEDGING DERIVATIVES
161	NON-CURRENT ASSETS HELD FOR SALE
-	INVESTMENTS
-	Associates
-	Jointly controlled entities
-	Group companies
-	INSURANCE CONTRACTS LINKED TO PENSIONS
-	REINSURANCE ASSETS
111,790	TANGIBLE ASSETS
-	Memorandum item: Acquired under a finance lease
8,093	INTANGIBLE ASSETS
-	Goodwill
8,093	Other intangible assets
27,506	TAX ASSETS
508	Current
26,998	Deferred
76,857	OTHER ASSETS **(REFERENCE 1)**
-	Inventories
-	Other
14,494,006	TOTAL ASSETS

CONSOLIDATED BALANCE SHEET- LIABILITIES:

CONSOLIDATED BALANCE SHEET PER BANK OF SPAIN CIRCULAR 4/2004 FORMAT PRESENTED IN THE STATUTORY CONSOLIDATED FINANCIAL STATEMENTS FOR 2007 (Thousands of Euros)	Balance at 31 December 2007	Adjustments
FINANCIAL LIABILITIES HELD FOR TRADING	1,856,279	-
Deposits from credit institutions	-	-
Money market operations through counterparties	-	-
Customer deposits	-	-
Marketable debt securities	-	-
Trading derivatives	1,544,184	-
Short positions	312,095	-
OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Marketable debt securities	-	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	
Deposits from credit institutions	-	
Customer deposits	-	
Marketable debt securities	-	
FINANCIAL LIABILITIES AT AMORTISED COST	11,845,995	-
Deposits from central banks	1,028,533	-
Deposits from credit institutions	5,431,911	-
Customer deposits	4,482,611	-
Marketable debt securities	-	-
Subordinated liabilities	-	-
Other financial liabilities	902,940	-

CONSOLIDATED BALANCE SHEET PER THE FORMAT OF BANK OF SPAIN CIRCULAR 4/2004 AS AMENDED BY BANK OF SPAIN CIRCULAR 6/2008 PRESENTED IN THESE CONSOLIDATED FINANCIAL STATEMENTS FOR COMPARISON PURPOSES

Balance at 31 December 2007	
1,856,279	FINANCIAL LIABILITIES HELD FOR TRADING
-	Deposits from central banks
-	Deposits from credit institutions
-	Customer deposits
-	Marketable debt securities
1,544,184	Trading derivatives
312,095	Short positions
	Other financial liabilities
-	OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS
-	Deposits from central banks
-	Deposits from credit institutions
-	Customer deposits
-	Marketable debt securities
-	Subordinated liabilities
-	Other financial liabilities
11,845,995	FINANCIAL LIABILITIES AT AMORTISED COST
1,028,533	Deposits from central banks
5,431,911	Deposits from credit institutions
4,482,611	Customer deposits
-	Marketable debt securities
-	Subordinated liabilities
902,940	Other financial liabilities

Continued

CONSOLIDATED BALANCE SHEET- LIABILITIES:

CONSOLIDATED BALANCE SHEET PER BANK OF SPAIN CIRCULAR 4/2004 FORMAT PRESENTED IN THE STATUTORY CONSOLIDATED FINANCIAL STATEMENTS FOR 2007	Thousands of Euros	
	Balance at 31 December 2007	Adjustments
CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
HEDGING DERIVATIVES	3,996	-
LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
LIABILITIES UNDER INSURANCE CONTRACTS	-	-
PROVISIONS	22,458	-
Provisions for pensions and similar obligations	5,829	-
Provisions for taxes	-	-
Provisions for contingent liabilities and commitments	6	-
Other provisions	16,623	-
TAX LIABILITIES	59,029	-
Current	767	-
Deferred	58,262	-
ACCRUED EXPENSES AND DEFERRED INCOME **(REFERENCE 5)**	31,986	(31,986)
OTHER LIABILITIES **(REFERENCES 4 AND 5)**		
Welfare fund	480	-
Other	7,218	31,986
EQUITY HAVING THE SUBSTANCE OF A FINANCIAL LIABILITY	-	
TOTAL LIABILITIES	13,827,441	-

Continued

Balance at 31 December 2007	CONSOLIDATED BALANCE SHEET PER THE FORMAT OF BANK OF SPAIN CIRCULAR 4/2004 AS AMENDED BY BANK OF SPAIN CIRCULAR 6/2008 PRESENTED IN THESE CONSOLIDATED FINANCIAL STATEMENTS FOR COMPARISON PURPOSES
-	CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK
3,996	HEDGING DERIVATIVES
-	LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE
-	LIABILITIES UNDER INSURANCE CONTRACTS
22,458	PROVISIONS
5,829	Provisions for pensions and similar obligations
-	Provisions for taxes and other legal contingencies
6	Provisions for contingent liabilities and commitments
16,623	Other provisions
59,029	TAX LIABILITIES
767	Current
58,262	Deferred
480	WELFARE FUND **(REFERENCE 4)**
39,204	OTHER LIABILITIES **(REFERENCE 5)**
13,827,441	TOTAL LIABILITIES

CONSOLIDATED BALANCE SHEET- EQUITY:

CONSOLIDATED BALANCE SHEET PER BANK OF SPAIN CIRCULAR 4/2004 FORMAT
PRESENTED IN THE STATUTORY CONSOLIDATED FINANCIAL STATEMENTS FOR 2007

Thousands of Euros

	Balance at 31 December 2007	Adjustments
OWN FUNDS	589,379	-
Capital or endowment fund **(REFERENCE 6)**	30,051	(30,051)
Issued	30,051	(30,051)
Unpaid and uncalled (-)	-	-
Share premium	-	-
Reserves	519,046	-
Accumulated reserves (losses)	519,098	-
Retained earnings	-	-
Reserves (losses) of entities accounted for using the equity method	(52)	-
Other equity instruments	-	30,051
Equity component of compound financial instruments	-	-
		30,051
Other	-	-
Less: Treasury shares	-	-
Non-voting equity units and associated funds (REFERENCE 6)	-	-
Non-voting equity units	-	-
Reserve of holders of non-voting equity units	-	-
Stabilisation fund	-	-
Profit attributable to the Group	40,282	-
Less: Dividends and remuneration	-	
VALUATION ADJUSTMENTS	77,186	-
Available-for-sale financial assets	79,983	-
Financial liabilities at fair value through equity	-	-
Cash flow hedges	(2,797)	-
Hedges of net investments in foreign operations	-	-
Exchange differences	-	-
Non-current assets held for sale	-	-
MINORITY INTERESTS	-	-
TOTAL EQUITY	666,565	-

CONSOLIDATED BALANCE SHEET PER THE FORMAT OF BANK OF SPAIN CIRCULAR 4/2004 AS AMENDED BY BANK OF SPAIN CIRCULAR 6/2008 PRESENTED IN THESE CONSOLIDATED FINANCIAL STATEMENTS FOR COMPARISON PURPOSES

Balance at 31 December 2007	
589,379	OWN FUNDS
-	Endowment fund
-	Registered capital
-	Less: Uncalled capital
-	Share premium
519,046	Reserves
519,098	Accumulated reserves (losses)
(52)	Reserves (losses) of entities accounted for using the equity method
30,051	Other equity instruments
-	Equity component of compound financial instruments
30,051	Non-voting equity units and associated funds **(REFERENCE 6)**
-	Other equity instruments
-	Less: Treasury shares
40,282	Profit for the year attributable to the Parent
-	Less: Dividends and remuneration
77,186	VALUATION ADJUSTMENTS
79,983	Available-for-sale financial assets
(2,797)	Cash flow hedges
-	Hedges of net investments in foreign operations
-	Exchange differences
-	Non-current assets held for sale
-	Other valuation adjustments
-	MINORITY INTERESTS
-	Valuation adjustments
-	Other
666,565	TOTAL EQUITY

Additionally, following is a reconciliation between the consolidated income statement for the year ended 31 December 2007 included as an integral part of the Group's statutory consolidated financial statements for 2007 and the consolidated income statement for that year presented for comparison purposes in these consolidated financial statements for 2008, which was prepared using the format established by Bank of Spain Circular 4/2004, as amended by Bank of Spain Circular 6/2008:

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT PER BANK OF SPAIN CIRCULAR 4/2004 FORMAT PRESENTED IN THE STATUTORY CONSOLIDATED FINANCIAL STATEMENTS FOR 2007	Thousands of Euros	
	2007	Adjustments
INTEREST AND SIMILAR INCOME	716,552	-
INTEREST EXPENSE AND SIMILAR CHARGES	(675,686)	(14)
INCOME FROM EQUITY INSTRUMENTS	29,898	(29,898)
NET INTEREST INCOME (REFERENCE 7)	70,764	(29,912)
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD		
Associates		
Jointly controlled entities		
		29,898
FEE AND COMMISSION INCOME	108,786	-
FEE AND COMMISSION EXPENSE	(27,596)	-
INSURANCE ACTIVITY INCOME	-	-
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (NET) **(REFERENCE 8)**	(39,975)	-
EXCHANGE DIFFERENCES (NET)	14,313	-
		86,306
		(1,856)
GROSS INCOME (REFERENCE 9)	126,292	84,436
SALES AND INCOME FROM THE PROVISION OF NON-FINANCIAL SERVICES		
COST OF SALES		
OTHER OPERATING INCOME **(REFERENCE 9)**	81,572	(81,572)
		(154,787)
STAFF COSTS	(71,084)	1,535
OTHER GENERAL ADMINISTRATIVE EXPENSES	(85,229)	(9)
DEPRECIATION AND AMORTISATION	(11,682)	-
		5,588
OTHER OPERATING EXPENSES **(REFERENCE 9)**	(956)	956
		695
		(513)
		1,208

CONSOLIDATED INCOME STATEMENT PER THE FORMAT OF BANK OF SPAIN CIRCULAR 4/2004 AS AMENDED BY BANK OF SPAIN CIRCULAR 6/2008 PRESENTED IN THESE CONSOLIDATED FINANCIAL STATEMENTS FOR COMPARISON PURPOSES

2007	
716,552	INTEREST AND SIMILAR INCOME
(675,700)	INTEREST EXPENSE AND SIMILAR CHARGES
40,852	**NET INTEREST INCOME (REFERENCE 7)**
	SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD
29,898	INCOME FROM EQUITY INSTRUMENTS
108,786	FEE AND COMMISSION INCOME
(27,596)	FEE AND COMMISSION EXPENSE
(39,975)	GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (NET) **(REFERENCE 8)**
14,313	EXCHANGE DIFFERENCES (NET)
86,306	OTHER OPERATING INCOME **(REFERENCES 9 AND 13)**
(1,856)	OTHER OPERATING EXPENSES **(REFERENCES 9 AND 13)**
210,728	**GROSS INCOME (REFERENCE 9)**
(154,787)	ADMINISTRATIVE EXPENSES **(REFERENCE 10)**
(69,549)	Staff costs **(REFERENCE 13)**
(85,238)	Other general administrative expenses
(11,682)	DEPRECIATION AND AMORTISATION
5,588	PROVISIONS (NET) **(REFERENCE 12)**
695	IMPAIRMENT LOSSES ON FINANCIAL ASSETS (NET) **(REFERENCES 11 AND 12)**
(513)	Loans and receivables
1,208	Other financial instruments not measured at fair value through profit or loss

Continued

CONSOLIDATED INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT PER BANK OF SPAIN CIRCULAR 4/2004
FORMAT PRESENTED IN THE STATUTORY CONSOLIDATED FINANCIAL STATEMENTS FOR 2007

Thousands of Euros

	2007	Adjustments
NET OPERATING INCOME (REFERENCE 12)	**38,913**	**11,629**
IMPAIRMENT LOSSES (NET) **(REFERENCES 11 AND 12)**	695	(695)
		3,704
		-
		-
PROVISIONS (NET) **(REFERENCE 12)**	5,588	(5,588)
OTHER GAINS **(REFERENCE 13)**	9,974	(9,974)
Gains on disposal of tangible assets	3,705	(3,705)
Gains on disposal of investments	-	
Other	6,269	(6,269)
OTHER LOSSES **(REFERENCE 13)**	(924)	924
Losses on disposal of tangible assets	-	-
Losses on disposal of investments	-	-
Other	(924)	924
PROFIT BEFORE TAX	54,246	-
INCOME TAX	(13,964)	-
MANDATORY TRANSFER TO OTHER WELFARE PROJECTS AND FUNDS	-	-
PROFIT FROM ORDINARY ACTIVITIES	40,282	-
PROFIT/LOSS FROM DISCONTINUED OPERATIONS (NET)	-	-
PROFIT FOR THE YEAR	40,282	
		-
Profit/Loss attributable to minority interests	-	-
PROFIT ATTRIBUTABLE TO THE GROUP	40,282	-

Continued

CONSOLIDATED INCOME STATEMENT PER THE FORMAT OF BANK OF SPAIN CIRCULAR 4/2004 AS AMENDED BY BANK OF SPAIN CIRCULAR 6/2008 PRESENTED IN THESE CONSOLIDATED FINANCIAL STATEMENTS FOR COMPARISON PURPOSES

2007	
50,542	**PROFIT FROM OPERATIONS (REFERENCE 12)**
-	IMPAIRMENT LOSSES ON OTHER ASSETS (NET) **(REFERENCE 11)**
3,704	GAINS (LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE **(REFERENCE 13)**
-	NEGATIVE GOODWILL ON BUSINESS COMBINATIONS
-	GAINS (LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS
54,246	**PROFIT BEFORE TAX**
(13,964)	INCOME TAX
-	MANDATORY TRANSFER TO WELFARE PROJECTS AND FUNDS
40,282	**PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS**
-	PROFIT/LOSS FROM DISCONTINUED OPERATIONS (NET)
40,282	**CONSOLIDATED PROFIT FOR THE YEAR**
-	Profit attributable to the Parent
-	Profit attributable to minority interests
40,282	

The main differences between the consolidated financial statement formats contained in Bank of Spain Circular 4/2004, as amended by Bank of Spain Circular 6/2008, on the basis of which these consolidated financial statements were prepared, and those applied in the preparation of the Group's statutory consolidated financial statements for 2007, giving rise to the "Adjustments" presented in the foregoing reconciliations, are as follows:

Consolidated balance sheet

The consolidated balance sheet format presented in these consolidated financial statements for 2008 differs from the consolidated balance sheet format contained in the Group's statutory consolidated financial statements for 2007 in the following respects (the aim of the references presented below is to enable them to be located in the foregoing format reconciliations):

Reference 1: "Other Assets", on the asset side, groups together the line items "Prepayments and Accrued Income" and "Other Assets" which were included on the asset side of the consolidated balance sheet in the Group's statutory consolidated financial statements for 2007.

Reference 2: "Loans and Receivables" on the asset side of the consolidated balance sheet no longer includes "Other Financial Assets". The various items which composed this heading are now included in "Loans and Advances to Credit Institutions" and "Loans and Advances to Customers" under "Loans and Receivables", on the basis of the institutional sector to which they relate.

Reference 3: The breakdown by nature of the assets included under "Non-Current Assets Held for Sale" is eliminated.

Reference 4: The "Welfare Fund" line item is presented separately on the liability side of the consolidated balance sheet. In the consolidated balance sheet included in the Group's statutory consolidated financial statements for 2007, this item was included under "Other Liabilities".

Reference 5: "Other Liabilities" on the liability side groups together the line items "Accrued Expenses and Deferred Income" and "Other Liabilities" (except for the portion relating to the balance of the welfare fund, mentioned above) which were included on the liability side of the consolidated balance sheet in the statutory consolidated financial statements for 2007.

Reference 6: The line item "Non-voting Equity Units and Associated Funds", which was recognised directly under "Own Funds" in the consolidated balance sheet in the Group's statutory consolidated financial statements for 2007, is eliminated and the related balance is now recognised as a line item under the own funds heading "Other Equity Instruments". In this regard, the Group reclassified to this heading the balance relating to the participation certificates issued by the Confederación which, in the statutory consolidated financial statements for 2007, were presented under "Own Funds - Capital or Endowment Fund" in the consolidated balance sheet at 31 December 2007.

Consolidated income statement

The consolidated income statement format included in these consolidated financial statements differs from the consolidated income statement format included in the Group's statutory consolidated financial statements for 2007, in the following respects:

Reference 7: A new "Net Interest Income" margin is introduced which is calculated as the difference between "Interest and Similar Income" and "Interest and Similar Charges" and no longer includes "Income from Equity Instruments".

Reference 8: The gains or losses on financial assets and liabilities measured at cost, at amortised cost or available for sale, other than changes in fair value hedges on these items, are now recognised in "Financial Instruments not Measured at Fair Value through Profit or Loss" under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement.

Reference 9: A new "Gross Income" margin is presented which is similar to the former gross income margin (now eliminated) except, basically, for the fact that it includes other operating income and expenses, which were not previously included.

Reference 10: "Staff Costs" and "Other General Administrative Expenses" are grouped together under "Administrative Expenses".

Reference 11: The balance of "Impairment Losses (net)" is split into two line items: "Impairment Losses on Financial Assets (net)", which includes net impairment losses on financial assets other than equity instruments classified as "Investments"; and "Impairment Losses on Other Assets (net)", which includes the impairment losses on assets other than the aforementioned financial assets.

Reference 12: "Net Operating Income" is eliminated and "Profit from Operations" is created. The difference between the two margins is basically that the latter includes the net charge for impairment losses on financial instruments and the net charge to provisions.

Reference 13: The line items "Other Gains" and "Other Losses" are eliminated.

Instead, three new line items are created: "Gains/(Losses) on Disposal of Assets not Classified as Non-Current Assets Held for Sale", "Negative Goodwill on Business Combinations" and "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations", which include mainly the balances of the two eliminated line items mentioned above.

The remaining gains or losses which were recognised in the two eliminated line items and are not now included in the aforementioned three new line items have been classified according to their nature in the consolidated income statement, basically as "Other Operating Income", "Other Operating Expenses" and "Administrative Expenses – Staff Costs".

Consolidated statement of changes in equity (consolidated statement of recognised income and expense and consolidated statement of changes in total equity)

The consolidated statement of changes in equity and the detail of the changes in consolidated equity disclosed in the notes to the Group's consolidated financial statements for 2007 have been replaced by the consolidated statement of recognised income and expense and the consolidated statement of changes in total equity, respectively, which are included in these consolidated financial statements for 2008 and present, basically, the following significant differences with respect to the former:

a) The consolidated statement of changes in total equity and the consolidated statement of recognised income and expense presented in these consolidated financial statements for 2008 should be understood as the two parts of the consolidated statement of changes in equity and replace the aforementioned statements presented in the statutory consolidated financial statements for 2007.

b) The statement of recognised income and expense includes the line item "Income Tax" for the recognition of the tax effect of the items recognised directly in consolidated equity, so that each item recognised in equity valuation adjustments is recognised gross (excluding the tax effect).

All the items recognised as valuation adjustments in the consolidated statement of changes in equity included in the statutory consolidated financial statements for 2007 were presented net of the related tax effect.

c) The consolidated statement of recognised income and expense no longer includes the effect on consolidated equity of changes in accounting policies or of errors arising in prior years.

Consolidated cash flow statement

The format of consolidated cash flow statement included in these consolidated financial statements contains, at the end of the statement, a detail of the items composing cash and cash equivalents, which was not included in the consolidated cash flow statement presented in the Group's statutory consolidated financial statements for 2007. Also, certain disclosures relating to certain operating assets and liabilities, adjustments to consolidated profit or loss and cash flows from financing activities are eliminated; and the wording and disclosures relating to certain items which compose the cash flows from investing activities are changed.

1.5 Agency agreements

Neither at 2008 nor 2007 year-end nor at any other time during those years did the Group have any agency agreements in force, as defined in Article 22 of Royal Decree 1245/1995, of 14 July.

1.6 Investments in the share capital of credit institutions

At 31 December 2008 and 2007, the Group did not hold any ownership interests of 5% or more in the share capital or voting power of any Spanish or foreign credit institutions.

1.7 Environmental impact

In view of the main business activities carried on by the Group, it does not have a significant impact on the environment. Therefore, the Group's consolidated financial statements for 2008 do not contain any disclosures on environmental issues.

1.8 Capital management objectives, policies and processes

Bank of Spain Circular 3/2008, of 22 May, on the calculation and control of minimum capital requirements, regulates the minimum capital requirements for Spanish credit institutions –both as individual entities and as consolidated groups– and how to calculate them, as well as the various internal capital adequacy assessment processes they should have in place and the information they should disclose to the market in this connection. The entry into force of Bank of Spain Circular 3/2008 resulted in the repeal of Bank of Spain Circular 5/1993, of 26 March, on the basis of which the capital requirements for credit institutions were calculated until 2008.

This Circular is the final implementation, for credit institutions, of the legislation on capital and consolidated supervision of financial institutions, which was contained in Law 36/2007, of 16 November, amending Law 13/1985, of 25 May, on the investment ratios, capital and reporting requirements of financial intermediaries, and other financial regulations, and which also includes Royal Decree 216/2008, of 15 February, on the capital of financial institutions. Bank of Spain Circular 3/2008 also culminates the process of adaptation of Spanish legislation for credit institutions to Directive 2006/48/EC of the European Parliament and of the Council, of 14 June 2006, and Directive 2006/49/EC of the European Parliament and of the Council, of 14 June 2006. The minimum capital requirements for credit institutions and their consolidable groups were thoroughly revised in both Directives, based on the new Capital Accord adopted by the Basel Committee on Banking Supervision ("Basel II").

Therefore, in 2008 the Group completed the process of adaptation to the new regulation on capital requirements.

The strategic capital management objectives set by Group management are as follows:

- To comply, at all times, both at individual and at consolidated level, with the applicable regulations on minimum capital requirements.

- To seek maximum capital management efficiency so that, together with other profitability and risk variables, the use of capital is considered as a key variable in any analysis related to the Group's investment decisions.

In order to meet these objectives, the Group has in place a series of capital management policies and processes, the main cornerstones of which are as follows:

- In the Group's strategic and operational planning, the impact of decisions on the Group's eligible capital and the use-profitability-risk relationship is considered to be a key decision-making factor.

- As part of its organisational structure the Group has monitoring and control units which at all times analyse the level of compliance with the Bank of Spain regulations on capital, with alerts in place to guarantee compliance with the applicable regulations.

Bank of Spain Circular 3/2008, of 22 May, establishes the elements that are eligible for inclusion in capital for the purpose of compliance with the minimum capital requirements set forth therein. Under this Circular, capital must be classified into Tier 1 and Tier 2 capital. The capital calculated for the purposes of the Circular differs from the capital calculated in accordance with accounting standards, since the Circular considers certain items as capital and establishes certain mandatory deductions from capital in respect of items which are not considered to be part of capital under accounting standards. In accordance with the aforementioned Bank of Spain Circular 3/2008, the Group's capital is managed and calculated at the level of its consolidable group of credit institutions, as defined in the Circular. The consolidable group of credit institutions, of which the Confederación is the head, differs from the economic group of which it is the parent (see Note 1.1), basically with respect to the consolidation or measurement methods applied to the Group entities which are not considered consolidable entities due to their activity (non-financial entities).

The Group's management of its capital, as regards conceptual definitions, is in keeping with Bank of Spain Circular 3/2008. In this connection, the Group considers eligible capital to be that specified in Rule Eight of Bank of Spain Circular 3/2008, with the deductions and limits stated in Rules Nine to Eleven of the Circular.

The minimum capital requirements established by the aforementioned Circular are calculated by reference to the Group's exposure to credit and dilution risk (on the basis of assets, obligations and other memorandum items that present these risks, depending on their amounts, characteristics, counterparties, guarantees, etc.), to counterparty risk and position and settlement risk in the trading book, to foreign exchange and gold position risk (on the basis of the overall net foreign currency position and of the net gold position) and to operational risk. Additionally, the Group is subject to compliance with the risk concentration limits and the requirements concerning internal corporate governance, capital adequacy assessment, interest rate risk measurement and disclosure of information to the market, also established in Bank of Spain Circular 3/2008. With a view to guaranteeing compliance with the aforementioned objectives, the Group performs an integrated management of these risks, in accordance with the policies and processes indicated above.

Following is a detail, classified into Tier 1 and Tier 2 capital, of the Confederación Española de Cajas de Ahorros Group's capital at 31 December 2008 (calculated in accordance with Bank of Spain Circular 3/2008) and at 31 December 2007 (calculated in accordance with Bank of Spain Circular 5/1993):

	Thousands of Euros	
	2008	2007
Tier 1 capital	544,249	522,408
Tier 2 capital	75,902	79,495
Total eligible capital	**620,151**	**601,903**

Tier 1 capital in the above table basically includes the sum of the Group's reserves from retained earnings, participation certificates and the portion of consolidated profit for 2008 which the Group companies proposed be allocated to unrestricted reserves (see Note 4), less the balance of the intangible assets owned by the Group.

Tier 2 capital in the above table basically comprises the revaluation reserves relating to tangible assets set up in prior years pursuant to applicable legislation and the percentages established in Bank of Spain Circular 3/2008 applied to the carrying amounts of the unrealised gains on available-for-sale financial assets recognised under "Valuation Adjustments" in Group equity.

At 31 December 2008 and 2007 and throughout these years, the Group's eligible capital exceeded the minimum capital requirements under the applicable legislation.

1.9 Minimum reserve ratio

Monetary Circular 1/1998, of 29 September, which came into force on 1 January 1999, repealed the ten-year cash ratio and replaced it with the minimum reserve ratio.

At 31 December 2008 and 2007, and throughout 2008 and 2007, the Confederación, the only Group company to which the ratio is applicable, met the minimum reserve ratio required by the applicable legislation.

1.10 Deposit guarantee fund

The Confederación is the only Group entity that participates in the Deposit Guarantee Fund. The contributions made to this Fund amounted to approximately EUR 53 thousand in 2008 (2007: EUR 47 thousand), and the related expense was recognised under "Other Operating Expenses" in the accompanying consolidated income statement for 2008 (see Note 40).

1.11 Events after the balance sheet date

From the balance sheet date to the date on which these consolidated financial statements were authorised for issue there were no events significantly affecting them.

02 Accounting policies and measurement bases

The accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2008 were as follows:

2.1 Investments

2.1.1. Subsidiaries

"Subsidiaries" are defined as entities over which the Confederación has the capacity to exercise control; control is, in general but not exclusively, presumed to exist when the Confederación owns directly or indirectly half or more of the voting power of the investee or, even if this percentage is lower or zero, when there are other circumstances or agreements that give the Confederación control.

In accordance with IAS 27, control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Dividends accrued in the year on these investments are recognised under "Income from Equity Instruments" in the consolidated income statement.

At 31 December 2008 and 2007, in accordance with the aforementioned bases, the Confederación considered Caja Activa, S.A., in which it held a 99.99% ownership interest, and CEA Trade Services Limited, a wholly-owned investee, to be subsidiaries of the Group of which it is the parent. Appendix I to these notes to the consolidated financial statements contains relevant information on these companies.

The financial statements of the subsidiaries are consolidated with those of the Confederación using the full consolidation method as defined in the applicable regulations. Accordingly, all material balances of the transactions between consolidated entities are eliminated on consolidation.

2.1.2. Jointly controlled entities

"Jointly controlled entities" are deemed to be ventures that are not subsidiaries but which are jointly controlled by the Confederación and by one or more other entities, either individually or in conjunction with the other entities of the group to which they belong.

The financial statements of investees classified as jointly controlled entities are proportionately consolidated with those of the Confederación, as stipulated in the current regulations. Therefore, the aggregation of balances in the consolidated balance sheet and consolidated income statement and subsequent eliminations of the balances and effects of intra-Group transactions are only made in proportion to the Group's ownership interest in the capital of these entities.

At 31 December 2008 and 2007, in accordance with the aforementioned rules, only Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., in which the Confederación owned a 50% holding, was considered to be a jointly controlled entity. Appendix II to these notes to the consolidated financial statements contains significant information on this entity.

2.1.3. Associates

"Associates" are defined as companies over which the Confederación is in a position to exercise significant influence, but not control or joint control. Significant influence generally exists when the Confederación holds – directly or indirectly? 20% or more of the voting power of the investee.

In general, investments in associates are accounted for using the equity method, as defined in the applicable regulations. However, investments in associates that qualify for classification as non-current assets held for sale are recognised under "Non-Current Assets Held for Sale ? Equity Instruments" in the consolidated balance sheet and are measured in accordance with the policies applicable to these assets (see Note 2.17).

At 31 December 2008 the Confederación did not hold any ownership interests in companies considered to be associates. At 31 December 2007 the Confederación held an ownership interest in Europay España, S.C. which, in accordance with current legislation, was considered as an associate and classified at that date as a non-current asset held for sale (see Note 2.17). This investment was disposed of in 2008 (see Note 12).

At 31 December 2008 and 2007, the Confederación owned 20% of the share capital of Tevea International, S.A. (formerly, Euro ? Tevea S.A.). This investee was not classified as an associate, as although the Group owns more than 20% of its voting rights, it does not exercise significant influence over it. As a result, this investment is recognised in these consolidated financial statements under "Available-for-Sale Financial Assets - Other Equity Instruments" in the consolidated balance sheet at those dates and is measured at cost, in accordance with the criteria explained in Note 2.2.4.

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2.2 Financial instruments - Initial recognition, derecognition, definitions of fair value and amortised cost and classification categories and measurement of financial assets and liabilities

2.2.1. Initial recognition of financial instruments

Financial instruments are initially recognised in the consolidated balance sheet when the Group becomes a party to the contract originating them in accordance with the terms and conditions thereof. Specifically, debt instruments, such as loans and cash deposits, are recognised from the date on which the legal right to receive or the legal obligation to pay cash arises. Derivative financial instruments are generally recognised from the trade date.

A regular way purchase or sale of financial assets, defined as one in which the parties' reciprocal obligations must be discharged within a time frame established by regulation or convention in the marketplace and that may not be settled net, such as stock market and forward currency purchase and sale contracts, is recognised on the date from which the rewards, risks, rights and duties attaching to all owners are for the purchaser, which, depending on the type of financial asset purchased or sold, may be the trade date or the settlement or delivery date.

In particular, transactions performed in the spot currency market are recognised on the settlement date; equity instruments traded in Spanish secondary securities markets are recognised on the trade date and debt instruments traded in these markets are recognised on the settlement date.

2.2.2. Derecognition of financial instruments

A financial asset is derecognised when:

- The contractual rights to the cash flows from the financial asset expire; or
- The financial asset is transferred and substantially all its risks and rewards are transferred or, although these are not substantially transferred or retained, control over the financial asset is transferred (see Note 2.8).

Also, a financial liability is derecognised when the obligations it generates have been extinguished or when it is purchased by the Group, with the intention either to re-sell it or to cancel it.

2.2.3. Fair value and amortised cost of financial instruments

The fair value of a financial instrument on a given date is taken to be the amount for which it could be bought or sold on that date by two knowledgeable parties in an arm's length transaction. The most objective and common reference for the fair value of a financial instrument is the price that would be paid for it on an organised, transparent and deep market ("quoted price" or "market price").

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it.

Specifically, the fair value of financial derivatives included in the portfolios of financial assets or liabilities held for trading which are traded in organised, transparent and deep markets is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

The fair value of OTC derivatives or derivatives traded in scantly deep or transparent organised markets is taken to be the sum of the future cash flows arising from the instrument, discounted to present value at the date of measurement ("present value" or "theoretical close") using valuation techniques recognised by the financial markets: "net present value" (NPV), option pricing models, etc.

Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments and the cumulative amortisation (taken to the income statement), calculated using the effective interest method, of the difference between the initial cost and the maturity amount of such financial instruments. In the case of financial assets, amortised cost furthermore includes any reductions for impairment or uncollectibility.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to the present value of all its estimated cash flows of all kinds during its remaining life, disregarding future losses from credit risk. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition or arrangement date adjusted, where applicable, for the fees, premiums, discounts and transaction costs that, pursuant to the applicable standards, must be included in the calculation of the effective interest rate. In the case of floating rate financial instruments, the effective interest rate is determined using a method similar to that for fixed rate transactions and is recalculated on each contractual interest reset date, taking into account any changes in the future cash flows.

2.2.4. Classification and measurement of financial assets and liabilities

Financial instruments are classified in the Group's consolidated balance sheet as follows:

- **Financial assets and liabilities at fair value through profit or loss:** pursuant to current legislation, this category includes financial instruments classified as held for trading and other financial assets and liabilities classified at fair value through profit or loss:

  - **Financial assets held for trading include those acquired** for the purpose of selling them in the near term or those which are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking and derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the applicable standards.

- **Financial liabilities held for trading include those** that have been issued with an intention to repurchase them in the near term or that form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit taking; short positions arising from sales of financial assets acquired under non-optional resale agreements or borrowed securities, and financial derivatives not designated as hedging instruments, including those separated from hybrid financial instruments pursuant to the applicable standards.

- **Other financial assets at fair value through profit or loss** are financial assets designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

  - In the case of **hybrid financial instruments** for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

  - In the case of **hybrid financial instruments** for which it is mandatory to separate the embedded derivative(s), the Group elected from their initial recognition to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.

  - As a result of classifying a financial asset in this category, **more relevant information** is obtained because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the related gains or losses on different bases or because the gain value basis reflects management's investment management or assessment strategy, as established in the applicable regulations. Note 8 contains details on the financial instruments classified in this category.

- **Other financial liabilities at fair value through profit or loss** are financial liabilities designated as such from their initial recognition, whose fair value may be estimated reliably and that meet any of the following requirements:

  - In the case of **hybrid financial instruments** for which it is compulsory to separate the embedded derivative(s) from the host contract, the fair value of the embedded derivative(s) cannot be estimated reliably.

  - In the case of **hybrid financial instruments** for which it is mandatory to separate the embedded derivative(s), the Group elected from their initial recognition, to classify the entire hybrid financial instrument under this category, since the requirements established by current regulations were met in the sense that the embedded derivative(s) significantly alter the cash flows that the host contract would have had if it had been considered separately from the embedded derivative(s) and that there is an obligation to separate for accounting purposes the embedded derivative(s) from the host contract.

- As a result of classifying a financial liability in this category, **more relevant information is obtained** because such designation eliminates or significantly reduces inconsistencies in recognition or measurement (also known as accounting mismatches) that would otherwise arise from measuring assets or liabilities or recognising the related gains or losses on different bases or because the fair value basis reflects management's investment management or assessment strategy, as established in the applicable regulations. Note 8 contains details on the financial instruments classified in this category.

Only financial instruments which, from their initial recognition, would have been classified as financial assets and liabilities at fair value through profit or loss are included in this category.

Financial instruments at fair value through profit or loss are initially measured at fair value. Subsequent to acquisition, financial instruments classified in this category continue to be measured at fair value at the reporting date and any changes in the fair value are recognised under "Gains/Losses on Financial Assets and Liabilities (Net)" in the consolidated income statement, except for the fair value changes due to accrued returns on financial instruments other than trading derivatives, which are recognised under "Interest and Similar Income", "Interest Expense and Similar Charges" or "Income from Equity Instruments" in the consolidated income statement, depending on their nature. The accrued returns on debt instruments included in this category are calculated using the effective interest method.

Notwithstanding the foregoing, financial derivatives that have as their underlyings equity instruments whose fair value cannot be determined in a sufficiently objective manner and are settled by delivery of those instruments are measured, where appropriate, at cost.

- **Loans and receivables:** pursuant to current legislation, this category includes unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the Group (other than those classified at fair value through profit or loss) and receivables from users of services.

  The financial assets included in this category are initially measured at fair value adjusted by the amount of the fees and commissions and transaction costs that are directly attributable to the acquisition or arrangement of the financial asset and which, in accordance with IAS 39, must be allocated to the consolidated income statement by the effective interest method through maturity. Subsequent to acquisition, assets included in this category are measured at amortised cost.

  Assets acquired at a discount are measured at the cash amount paid and the difference between their repayment value and the amount paid is recognised as finance income using the effective interest method during the remaining term to maturity.

  The Group generally intends to hold the loans and credits included in this category granted by it until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortised cost.

  The interest accrued on these assets, which is calculated using the effective interest method, is recognised under "Interest and Similar Income" in the consolidated income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognised as set forth in Note 2.5. Any impairment losses on these assets are recognised as explained in Note 2.9.

- **Available-for-sale financial assets:** this category includes debt instruments not classified as held-to-maturity investments, as loans and receivables or as financial assets at fair value through profit or loss and equity instruments owned by the Group relating to entities other than subsidiaries, jointly controlled entities or associates that are not classified at fair value through profit or loss.

  The instruments included in this category are initially recognised at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement by the effective interest method, except for those relating to financial assets with no fixed maturity, which are recognised in the consolidated income statement when the assets become impaired or are derecognised. Subsequent to acquisition, financial assets included in this category are measured at fair value at each reporting date.

  However, equity instruments whose fair value cannot be determined in a sufficiently objective manner are measured in these consolidated financial statements at cost, net of any impairment loss, calculated as detailed in Note 2.9.

  Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognised under "Interest and Similar Income" (calculated using the effective interest method) and "Income from Equity Instruments" in the consolidated income statement, respectively. Any impairment losses on these instruments are recognised as described in Note 2.9. Exchange differences on financial assets denominated in currencies other than the euro are recognised as explained in Note 2.5.

Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognised in equity under “Valuation Adjustments ? Available-for-Sale Financial Assets” until the financial asset is derecognised, when the balance recorded under this item is recognised under “Gains/Losses on Financial Assets and Liabilities (net)” in the consolidated income statement, or in the case of equity instruments considered to be strategic investments for the Group, they are recognised under “Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations”.

- **Held-to-maturity investments:** pursuant to current legislation, this category includes debt instruments traded on organised markets with fixed maturity and with fixed or determinable cash flows that the Confederación has, from inception and at any subsequent date, the positive intention and financial ability to hold to maturity.

Debt instruments included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement by the effective interest method as defined in IAS 39. They are subsequently measured at amortised cost calculated using the effective interest method.

The interest accrued on these securities, which is calculated using the effective interest method, is recognised under “Interest and Similar Income” in the consolidated income statement. Exchange differences on assets included in this portfolio denominated in currencies other than the euro are recognised as set forth in Note 2.5. Any impairment losses on these securities are recognised as explained in Note 2.9.

At 31 December 2008 and 2007 and throughout those years the Group did not have any financial instruments classified in this category.

- **Financial liabilities at amortised cost:** this category includes the Group's financial liabilities not included in any other category.

  The financial liabilities included in this category are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the issue or arrangement of the financial liability, which are recognised in the consolidated income statement by the effective interest method (as defined by IAS 39) through maturity. Subsequently, these financial liabilities are measured at amortised cost calculated using the effective interest method as defined in IAS 39.

  The interest accrued on these liabilities, which is calculated using the effective interest method, is recognised under "Interest Expense and Similar Charges" in the consolidated income statement. Exchange differences on securities included in this category denominated in currencies other than the euro are recognised as set forth in Note 2.5.

2.3 Reclassification between financial instrument portfolios

Reclassifications between financial instrument portfolios can only be made, where appropriate, as follows:

a) Except in the circumstances indicated in paragraph d) below, financial instruments classified as "at fair value through profit or loss" cannot be reclassified into or out of this financial instrument category once they have been acquired, issued or assumed.

b) If, as a result of a change in intention or financial ability of an entity, it is no longer appropriate to classify a financial asset as held to maturity, it is reclassified into the "available-for-sale financial assets" category. In this case, the same treatment shall be applied to all the financial instruments classified as held-to-maturity investments, unless the reclassification is made in any of the circumstances permitted under the applicable regulations (sales very close to maturity, substantially all of the financial asset's original principal has been collected, etc.).

In 2008 and 2007, the Group did not hold any securities classified as held-to-maturity investments and, therefore, it did not perform any reclassifications of the type described in the preceding paragraph.

c) If there is a change in the Group's intention or financial ability, or if the two penalty financial years established by the regulations applicable to the sale of financial assets classified in the held-to-maturity investment category (see paragraph b) above) have passed, the financial assets (debt instruments) included in the "available-for-sale financial assets" category can be reclassified into the "held-to-maturity investments" category. In this case, the fair value of these financial instruments on the date of reclassification becomes their new amortised cost and the difference between this amount and the redemption value is allocated to the consolidated income statement over the remaining life of the instrument using the effective interest method.

No reclassifications of the type described in the preceding paragraph were made in 2008 or 2007.

d) In accordance with the amendments to IAS 39 introduced in 2008 and adopted by the European Union, a non-derivative financial asset may be reclassified out of the held-for-trading category if it is no longer held for the purpose of selling or repurchasing it in the near term, provided that one of the following circumstances occurs:

a EIn rare or exceptional circumstances, unless the assets could have been included in the loans and receivables category. For these purposes, rare and exceptional circumstances are those arising from a particular event, which is unusual and highly unlikely to recur in the foreseeable future.

b When the entity has the intention and financial ability to hold the financial asset for the foreseeable future or until maturity, provided that the asset had met the definition of loans and receivables at initial recognition.

In these circumstances, the financial asset is reclassified at its fair value on the date of reclassification, any gain or loss already recognised in profit or loss is not reversed, and this fair value becomes its amortised cost. The financial assets so reclassified can in no case be reclassified again into the held-for-trading category.

In accordance with the amendments to IAS 39 introduced in 2008, the reclassifications described in this paragraph may only be performed from 1 July 2008. Any reclassification of a financial asset made in periods beginning on or after 1 November 2008 shall take effect only from the date when the reclassification is made.

The disclosures required by the applicable regulations in relation to the reclassifications of financial instruments between categories made by the Group in 2008 are included in Note 30.7.

2.4 Hedge accounting and mitigation of risk

The Group uses financial derivatives as part of its strategy to reduce its exposure to interest rate, foreign currency and other risks. When these transactions meet the requirements stipulated in IAS 39, they qualify for hedge accounting.

When the Group designates a transaction as a hedge it does so upon initial recognition of the transactions or instruments included in the hedge, and the hedging transaction is documented appropriately. The hedge accounting documentation includes identification of the hedged item(s) and the hedging instrument(s), the nature of the risk to be hedged and the criteria or methods used by the Group to assess the effectiveness of the hedge over its entire life, taking into account the risk to be hedged.

The Group only applies hedge accounting for hedges that are considered highly effective over their entire lives. A hedge is considered to be highly effective if, during its expected life, the changes in fair value or cash flows of the hedged item that are attributable to the risk hedged in the hedging of the financial instrument(s) are almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument(s).

To measure the effectiveness of hedges defined as such, the Group analyses whether, from the beginning to the end of the term defined for the hedge, the Group can expect, prospectively, that the changes in fair value or cash flows of the hedged item that are attributable to the hedged risk will be almost fully offset by changes in the fair value or cash flows, as appropriate, of the hedging instrument and, retrospectively, that the actual results of the hedge are within a range of 80% to 125% of the results of the hedged item.

In 2008 and 2007 only two of the Group's transactions qualified for hedge accounting in accordance with the aforementioned criteria, and these, pursuant to current regulations, are classified as cash flow hedges, as their objective is to hedge the exposure to changes in the future cash flows of certain financial assets exposed to interest rate risk arising from highly probable future transactions affecting the consolidated income statement (see Note 11). These hedging transactions matured in 2008 and no other transactions qualified for hedge accounting, in accordance with the aforementioned criteria, at 31 December 2008.

In cash flow hedges, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in consolidated equity under "Valuation Adjustments - Cash Flow Hedges" and are taken to the consolidated income statement in the years in which the designated hedged items affect the income statement. Financial instruments hedged in this type of hedging transactions are recognised as explained in Note 2.2, with no change being made in the recognition criteria due to their consideration as hedged items.

The ineffective portion of the gains and losses on the hedging instruments of cash flow hedges is recognised directly under "Gains/Losses on Financial Assets and Liabilities (net)" in the consolidated income statement. In 2008 and 2007 no amounts for ineffective hedges were recognised in the consolidated income statement.

The Group discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the requirements for hedge accounting or the designation as a hedge is revoked. In 2008 and 2007 hedge accounting was not discontinued for any hedging transactions.

2.5 Foreign currency transactions

2.5.1. Functional currency

The functional and reporting currency of the Group is the euro. Therefore, all balances and transactions denominated in currencies other than the euro are deemed to be denominated in "foreign currency".

The detail, by currency and item, of the equivalent value in thousands of euros of the main asset and liability balances denominated in foreign currencies in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Equivalent Value in Thousands of Euros (*)			
	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Nature of Foreign Currency Balances:				
Balances in US dollars-				
Cash and balances with central banks	40,390	-	3,869	-
Financial assets and liabilities held for trading	42,547	155,037	170,505	211,533
Loans and receivables	273,659	-	791,465	-
Financial liabilities at amortised cost	-	598,258	-	1,120,940
Other	399	265	12	11
	356,995	**753,560**	**965,851**	**1,332,484**
Balances in Japanese yen-				
Cash and balances with central banks	647	-	208	-
Loans and receivables	126,740	-	197,368	-
Financial liabilities at amortised cost	-	7,289	-	44,527
	127,387	**7,289**	**197,576**	**44,527**

(*) Equivalent value calculated by applying the exchange rates at 31 December 2008 and 2007, respectively.

Continued

continuation

	Equivalent Value in Thousands of Euros (*)			
	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Balances in pounds sterling-				
Cash and balances with central banks	7,807	-	9,545	-
Financial assets and liabilities held for trading	4,037	2,007	26,695	1,183
Available-for-sale financial assets	1,042	-	-	-
Loans and receivables	94,788	-	259,095	-
Financial liabilities at amortised cost	-	188,817	-	364,730
Other	216	234	2,734	940
	107,890	**191,058**	**298,069**	**366,853**
Balances in Swiss francs-				
Cash and balances with central banks	787	-	542	-
Loans and receivables	159,376	-	144,264	-
Financial liabilities at amortised cost	-	18,188	-	13,847
Tangible assets	-	-	1	-
	160,163	**18,188**	**144,807**	**13,847**
Balances in Norwegian krone-				
Cash and balances with central banks	392	-	632	-
Loans and receivables	212	-	61,444	-
Financial liabilities at amortised cost	-	2,348	-	11,868
	604	**2,348**	**62,076**	**11,868**
Balances in Swedish krone-				
Cash and balances with central banks	266	-	253	-
Loans and receivables	73,204	-	15,949	-
Financial liabilities at amortised cost	-	1,529	-	1,077
Other	-	-	-	36
	73,470	**1,529**	**16,202**	**1,113**
Balances in other currencies-				
Cash and balances with central banks	3,017	-	3,749	-
Loans and receivables	8,206	-	55,230	-
Financial liabilities at amortised cost	-	12,482	-	14,102
Other	-	162	-	21
	11,223	**12,644**	**58,979**	**14,123**
Total balances denominated in foreign currencies	**837,732**	**986,616**	**1,743,560**	**1,784,815**

In addition to the currency positions recognised in the consolidated balance sheets at 31 December 2008 and 2007 shown in the preceding table, the Group recognised various currency derivatives and forward foreign currency contracts which are used to manage the exchange rate risk to which it is exposed and which should be considered together with the balance sheet positions for a correct understanding of the Group's exposure to such risks (see Note 24).

2.5.2. Translation of foreign currency balances

Foreign currency balances are translated to euros in two consecutive stages:

- Translation of foreign currency to the functional currency of each of the Group entities and joint ventures, and

- Translation to euros of the balances of consolidated companies whose reporting currency is not the euro.

Translation of foreign currency to the functional currency: foreign currency transactions performed by Group companies are initially recognised in the financial statements at the equivalent value in their functional currencies, translated using the exchange rates prevailing at the transaction date. Subsequently, the following rules are applied:

1. Monetary assets and liabilities are translated at the closing rate, which is taken to be the average spot exchange rate at the date of the financial statements.

2. Non-monetary items measured at historical cost are translated to the functional currency at the exchange rate at the date of acquisition.

3. Non-monetary items measured at fair value are translated to the functional currency at the exchange rate at the date when the fair value was determined.

4. Income and expenses are translated at the exchange rate prevailing at the transaction date.

Entities whose reporting currency is not the euro: the balances in the financial statements of consolidated entities whose functional currency is not the euro are translated to euros as follows:

1. Assets and liabilities, at the closing rates.

2. Income and expenses and cash flows, at the average exchange rate for the year.

3. Equity items, at the historical exchange rates.

2.5.3. Exchange rates

The exchange rates used by the Group in translating the foreign currency balances to euros for the purpose of preparing the consolidated financial statements, taking into account the methods mentioned above, were those published by the European Central Bank.

2.5.4. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances (using the aforementioned translation methods) to the functional currency of the Group are generally recognised at their net amount under "Exchange Differences (net)" in the consolidated income statement, except for exchange differences arising on financial instruments at fair value through profit or loss, which are recognised under "Gains/Losses on Financial Assets and Liabilities (net)" in the consolidated income statement, without distinguishing them from other changes in their fair value.

However, exchange differences arising on non-monetary items measured at fair value through equity and exchange differences arising on the translation to euros of the financial statements of consolidated entities which are not denominated in euros are recognised in consolidated equity under "Valuation Adjustments - Exchange Differences" in the consolidated balance sheet until they are realised. Exchange differences recognised in consolidated equity are taken to the consolidated income statement when realised.

2.6 Recognition of income and expenses

The most significant accounting criteria used by the Group to recognise its income and expenses are summarised as follows:

2.6.1. Interest income, interest expenses, dividends and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies, other than those received from Group companies, jointly controlled entities or associates, as the case may be, are recognised as income when the Group's right to receive them arises.

2.6.2. Commissions, fees and similar items

Fee and commission income and expenses that are not to be included in the calculation of the effective interest rate of transactions and/or are not included in the acquisition cost of financial assets or liabilities other than those classified as at fair value through profit or loss are recognised in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

- Fee and commission income and expenses relating to the acquisition of financial assets and liabilities measured at fair value through profit or loss are recognised in the consolidated income statement when collected or paid.

- Those arising from transactions or services that are performed over a period of time are recognised in the consolidated income statement over the life of these transactions or services.

- Those relating to services provided in a single act are recognised in the consolidated income statement when the single act is carried out.

2.6.3. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

2.6.4. Deferred collections and payments

These are recognised for accounting purposes at the amount resulting from discounting the expected cash flows at market rates.

2.7 Offsetting

Asset and liability balances are offset, i.e. reported in the consolidated balance sheet at their net amount, when, and only when, they arise from transactions in which a contractual or legal right of set-off exists and the Group intends to settle them on a net basis, or to realise the asset and settle the liability simultaneously.

2.8 Transfers of financial assets

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

- If the Group transfers substantially all the risks and rewards of the transferred assets to third parties -unconditional sale of financial assets, sale of financial assets with a repurchase agreement at its fair value at the repurchase date, sale of financial assets with a purchased call option or written put option that is deeply out of the money, securitisation of assets in which the transferor does not retain a subordinated debt or grant any credit enhancement to new holders and other similar cases-, the transferred financial asset is derecognised and any rights or obligations retained or created in the transfer are recognised simultaneously.

- If the Group retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest, a securities lending agreement in which the borrower undertakes to return the same or similar assets, securitisation of financial assets in which a subordinated debt or another type of credit enhancement is retained that absorbs substantially all the expected credit losses on the securitised assets, and other similar cases-, the transferred financial asset is not derecognised and continues to be measured by the same criteria as those used before the transfer. However, the following items are recognised, without offsetting:

    - An associated financial liability, for an amount equal to the consideration received; this liability is subsequently measured at amortised cost, or, if the aforementioned requirements for classification of other financial liabilities at fair value through profit or loss are met, at fair value, in accordance with the aforementioned criteria for this type of financial liability.

- The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability.

- If the Group neither transfers nor retains substantially all the risks and rewards associated with the transferred financial asset -sale of financial assets with a purchased call option or written put option that is not deeply in or out of the money, securitisation of financial assets in which the transferor retains a subordinated debt or another type of credit enhancement for a portion of the transferred asset, and other similar cases- the following distinction is made:

  - If the transferor does not retain control, the transferred financial asset is derecognised and any right or obligation retained or created in the transfer is recognised.

  - If the transferor retains control, it continues to recognise the transferred financial asset in the consolidated balance sheet for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

Accordingly, financial assets are only derecognised when the cash flows they generate have been extinguished or when substantially all the significant inherent risks and rewards have been transferred to third parties.

Notes 30.2 and 30.5 contain a summary of the main circumstances of the principal transfers of assets outstanding at 2008 and 2007 year-end which did not lead to the derecognition of the related assets (securities lending transactions and sales of asset under non-optional repurchase agreements).

2.9 Impairment of financial assets

A financial asset is considered to be impaired -and therefore its carrying amount is adjusted to reflect the effect of impairment- when there is objective evidence that events have occurred which:

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.
- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

As a general rule, the carrying amount of impaired financial instruments is adjusted with a charge to the consolidated income statement for the period in which the impairment becomes evident, and the reversal, if any, of previously recognised impairment losses is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

When the recovery of any recognised amount is considered unlikely, the amount is written off ("written-off asset"), without prejudice to any actions that the Group may initiate to seek collection until their contractual rights are extinguished due to expiry of the statute-of-limitations period, forgiveness or any other cause.

The criteria applied by the Group to determine possible impairment losses in each of the various financial instrument categories and the method used to calculate and recognise such impairment losses are as follows:

2.9.1. Debt instruments carried at amortised cost

The amount of an impairment loss incurred on a debt instrument carried at amortised cost is equal to the positive difference between its carrying amount and the present value of its estimated future cash flows. The market value of quoted debt instruments is deemed to be a reliable estimate of the present value of their future cash flows.

In estimating the future cash flows of debt instruments the following factors are taken into account:

- All the amounts that are expected to be obtained over the remaining life of the instrument, including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral).
- The various types of risk to which each instrument is subject; and
- The circumstances in which collections will foreseeably be made.

These cash flows are subsequently discounted using the instrument's effective interest rate (if its contractual rate is fixed) or the effective contractual rate at the discount date (if it is variable).

Specifically as regards impairment losses resulting from materialisation of the insolvency risk of the obligors (credit risk), a debt instrument is impaired due to insolvency:

- When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or;

- When country risk materialises: country risk is defined as the risk that is associated with debtors resident in a given country due to circumstances other than normal commercial risk.

Impairment losses on these assets resulting from materialisation of the insolvency risk of the obligors (credit risk) are assessed as follows:

- Individually, for all significant debt instruments and for instruments which, although not material, are not susceptible to being classified in homogeneous groups of instruments with similar risk characteristics: instrument type, debtor's sector and geographical location, type of guarantee or collateral, age of past-due amounts receivable, etc.

- Collectively: the Group classifies transactions on the basis of the nature of the obligors, the conditions of the countries in which they reside, transaction status and type of collateral or guarantee, age of past-due amounts, etc. For each risk group it establishes the impairment losses ("identified losses"), which must be recognised in the financial statements, applying the parameters established by the Bank of Spain. Impairment losses are estimated taking into account the possibility of collection of the interest accrued on these impaired assets.

  In addition, the Group recognises an overall impairment loss on risks in relation to which specific losses have not been identified. This loss is quantified by application of the parameters established by the Bank of Spain based on experience and on the information available to it on the Spanish banking industry.

The amount of the impairment losses on debt instruments at amortised cost or, as the case may be, their subsequent reversal, estimated in accordance with the criteria described above, are recognised under "Impairment Losses on Financial Assets (net) - Loans and Receivables" and "Impairment Losses on Financial Assets (net) - Other Financial Assets Not Measured at Fair Value Through Profit or Loss", depending on the category of financial instrument in which the debt instruments are classified (see Note 2.2).

2.9.2. Debt instruments classified as available for sale

The amount of the impairment losses on debt instruments included in the available-for-sale financial asset portfolio is the positive difference between their acquisition cost (net of any principal repayment or amortisation) and their fair value less any impairment loss previously recognised in the consolidated income statement.

In the case of impairment losses arising due to the insolvency of the issuer of the debt instruments classified as available for sale, the procedure followed by the Group for calculating such losses is the same as the method used for debt instruments carried at amortised cost explained in section 2.9.1 above.

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are removed from the consolidated equity item "Valuation Adjustments - Available-for-Sale Financial Assets" and are recognised, for their cumulative amount, in the consolidated income statement under "Impairment Losses (net) - Other Financial Instruments Not Measured at Fair Value Through Profit or Loss". If all or part of the impairment losses are subsequently reversed, the reversed amount would be recognised in the consolidated income statement for the period in which the reversal occurred under "Impairment Losses on Financial Assets (net) - Other Financial Assets Not Measured at Fair Value Through Profit or Loss".

Similarly, the impairment losses arising on measurement of debt instruments classified as "non-current assets held for sale" which are recognised in the Group's consolidated equity are considered to be realised and, therefore, are recognised in the consolidated income statement when the assets are classified as "non-current assets held for sale".

2.9.3. Equity instruments classified as available for sale

The impairment losses on equity instruments included in the available-for-sale financial asset portfolio are the positive difference between their acquisition cost (net of any principal repayment or amortisation) and their fair value less any impairment loss previously recognised in the consolidated income statement.

The criteria for recognising impairment losses on equity instruments classified as available for sale are similar to those for debt instruments classified as available for sale (as explained in Note 2.9.2), with the exception that any reversal of these losses is recognised in consolidated equity under "Valuation Adjustments ? Available-for-Sale Financial Assets" rather than in the consolidated income statement.

2.9.4. Equity instruments carried at cost

The amount of the impairment losses on equity instruments carried at cost is the positive difference between their carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities.

Impairment losses are recognised in the consolidated income statement for the period in which they arise as a direct reduction of the cost of the instrument. These losses can only be reversed subsequently if the related assets are sold.

2.10 Financial guarantees and provisions for financial guarantees

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments on behalf of a third party if the latter fails to do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the Group, etc.

In accordance with EU-IFRSs, the financial guarantees provided by the Group are treated as financial instruments.

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2.9.1 above).

The provisions for financial guarantees are recognised under "Provisions - Provisions for Contingent Liabilities and Commitments" on the liability side of the consolidated balance sheet (see Note 18). These provisions are recognised and reversed with a charge or credit, respectively, to "Provisions (Net)" in the consolidated income statement.

2.11 Staff costs

2.11.1. Pension obligations

Under the collective labour agreement currently in force, the Confederación is required to supplement the social security benefits accruing to its employees or their beneficiary right holders in the event of retirement, disability, death of spouse or death of parent.

The Confederación's post-employment obligations to its employees are deemed to be "defined contribution plans" when the Group makes pre-determined contributions to a separate entity and will have no legal or effective obligation to make further contributions if the separate entity cannot pay the employee benefits relating to the service rendered in the current and prior periods. Post-employment obligations that do not meet the aforementioned conditions are classified as "defined benefit plans".

The actuarial gains and losses on the measurement of defined benefit plans held by the Confederación are recognised in the consolidated income statement by the Group in the year in which they arise.

The Confederación has set up an external fund known as the "CECA Employees' Pension Plan" and has taken out insurance policies to cover its pension obligations to its employees. The external fund, in turn, comprises three subplans: a defined benefit plan (for employees hired by the Confederación prior to 29 May 1986 who opted not to convert their benefits into defined contribution benefits and for early retirees) and two defined contribution retirement benefit subplans (for employees hired by the Confederación prior to 29 May 1986 who opted to convert their benefits into defined contribution benefits, as described below, and for employees hired by the Confederación after 29 May 1986, respectively). The pension plan also includes the obligations to the beneficiaries of the benefits.

In 2003 the defined benefit pension subplan was converted into a defined contribution scheme for most current employees for whom this possibility was envisaged in the Collective Company Agreement on Early Retirement and Supplementary Employee Welfare Benefits ("the Agreement") entered into by the Confederación and representatives of its Workers' Committee and Workplace Trade Union Branch on 2 April 2001.

In 2008 the accrued expense for the contributions to be made to the external pension fund, relating to defined contribution plans, amounted to EUR 1,761 thousand (2007: EUR 5,003 thousand), and this amount was recognised under "Administrative Expenses – Staff Costs" in the consolidated income statement (see Note 38). In addition to the contributions recognised in the consolidated income statement, in 2008 the Confederación contributed EUR 1,477 thousand to external defined contribution plans, with a credit to "Accrued Expense and Deferred Income" recognised by the Group.

Pursuant to the aforementioned Agreement, in 2003 the Confederación decided to insure contributions to the pension plan in excess of the current legal and tax ceilings by arranging two insurance policies with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser"). In 2004 the Confederación converted one of these policies into a single-premium policy. The premiums on these policies and on other insurance policies covering pension obligations and other obligations to employees totalled EUR 1,927 thousand in 2008 (2007: EUR 1,300 thousand), and this amount was recognised under "Administrative Expenses – Staff Costs" in the consolidated income statement (see Note 38).

At 31 December 2008, the total pension obligations to current and retired employees amounted to EUR 198,963 thousand (31 December 2007: EUR 199,017 thousand). Of this amount, EUR 192,729 thousand were covered by the aforementioned external pension fund and insurance policies (31 December 2007: EUR 196,295 thousand), and EUR 6,234 thousand by an internal provision recognised under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (31 December 2007: EUR 2,722 thousand) (see Note 18) that had not yet been transferred to the external pension fund at 31 December 2008.

The actuarial assumptions used in calculating these obligations were: PERM 2000-P mortality tables; a discount rate of 4.27% for the obligations covered by the external pension plan and the interest rate guaranteed in the insurance policies for the obligations covered by them; an adjustable pension increase rate of 1.5%; an adjustable salary increase rate of 2.68% (2% for early retirees); an expected rate of return on pension plan assets of 4%; and estimated increase rates ranging from 2.59% to 4.31% for the obligations covered by insurance policies, based on the characteristics thereof.

2.11.2. Other long-term benefits

2.11.2.1. Early retirements

The aforementioned Agreement entered into by the Confederación, the Workplace Trade Union Branch and the representatives of the Workers' Committee envisaged the possibility of voluntary early retirement for certain Confederación employees who met specific age requirements on the date the Agreement came into force in the form of several non-discriminatory offers, which ended on 31 December 2003. Employees who did not accept early retirement during the offer period were excluded from further offers in subsequent years.

At 31 December 2008, the obligations in respect of future salaries, future social security costs and incentives relating to early retirees, as well as the obligations for future contributions to the Pension Plan (all of which were considered as defined benefit obligations) were covered by an internal provision amounting to EUR 1,327 thousand (31 December 2007: EUR 3,107 thousand), which was recognised under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (see Note 18) and related to early retirement obligations incurred as a result of the aforementioned Agreement dated 2 April 2001. At 31 December 2008 and 2007, this provision covered the full amount of the Confederación's early retirement obligations at those dates.

The obligations covered by this internal provision were calculated by an independent actuary, using a discount rate of 3.9363%, PERM-2000-P mortality tables and a 2% increase in adjustable pre-retirement salaries.

2.11.2.2. Death and disability

The commitments for death or disability of current employees are included in the benefits covered by the aforementioned pension fund.

2.11.2.3. Long-service bonuses

The Group has undertaken to pay a bonus to employees reaching 25 years of service at the Confederación.

The amounts paid in this connection at 2008 and 2007 year-end totalled approximately EUR 43 thousand and EUR 55 thousand, respectively.

2.11.3. Termination benefits

Under current legislation, the Spanish consolidated entities and certain foreign entities are required to pay termination benefits to employees terminated without just cause. There are no redundancy plans making it necessary to record a provision in this connection.

Also, the Confederación has entered into agreements with some of its executives and/or directors to pay them certain benefits in the event that they are terminated without just cause. The amount of the benefit, which in any case would not have a material effect on the Group, would be charged to the consolidated income statement when the decision to terminate the employment of the executive or director concerned were made.

2.11.4. Loans to employees

Under the collective labour agreement in force and the additional agreements entered into in 2004 with the Confederación's employees, employees are entitled to apply for mortgage loans from the Confederación for a maximum period of 40 years at an interest rate of 70% of Euribor (with upper and lower limits for 2008 of 5.25% and 1.50%, respectively).

Under the applicable industry collective labour agreement and pursuant to collective agreements reached by the Confederación implementing it, employees of the Confederación may, in specific cases, apply for interest free advances and other "welfare" loans or loans for the expansion of their residence, with a repayment period of 10 and 15 years, respectively, at the Euribor interest rate.

In the event of exceptional circumstances requiring an employee of the Confederación to apply for a type of loan that does not fully or partially comply with the regulations stipulated in the industry collective labour agreement, or its implementing regulations, the employee may apply for the loan through the ALCO, indicating the exceptional circumstances.

These loans are recognised at amortised cost under "Loans and Receivables - Loans and Advances to Customers" in the consolidated balance sheet.

2.12 Income tax

The income tax expense is recognised in the consolidated income statement, except when it results from a transaction recognised directly in the Group's equity, in which case the income tax is also recognised in the Group's equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted by the amount of the changes in the year in the assets and liabilities (deferred taxes) recognised as a result of temporary differences and tax credit and tax loss carryforwards (see Note 22).

The Group considers that there is a temporary difference when there is a difference between the carrying amount of an asset or liability and its tax base. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. A taxable temporary difference is one that will generate a future obligation for the Group to make a payment to the related tax authorities. A deductible temporary difference is one that will generate a right for the Group to a refund or a reduction in its tax charge in the future.

Tax credit and tax loss carryforwards are amounts that, after performance of the activity or obtainment of the profit or loss giving entitlement to them, are not used for tax purposes in the related tax return until the conditions for doing so established in the tax regulations are met and the Group considers it probable that they will be used in future periods.

Current tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities within 12 months from the balance sheet date. Deferred tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related tax authorities in over 12 months from the balance sheet date.

Deferred tax liabilities are recognised for all taxable temporary differences. However, deferred tax liabilities arising from the initial recognition of goodwill are not recognised.

The Group only recognises deferred tax assets arising from deductible temporary differences and from tax credit and for tax loss carryforwards when the following conditions are met:

- If it is considered probable that the Group will obtain sufficient future taxable profit against which the deferred tax assets can be utilised; and

- In the case of deferred tax assets arising from tax loss carryforwards, the tax losses result from identifiable causes which are unlikely to recur.

No deferred tax assets or liabilities are recognised if they arise from the initial recognition of an asset or liability (except in the case of a business combination) that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognised are reassessed at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed. On 29 November 2006, the Official State Gazette published Law 35/2006, of 28 November, on Personal Income Tax and partially amending the Spanish Corporation Tax, Non-Resident Income Tax and Wealth Tax Laws which established, inter alia, a reduction in the standard corporation tax rate from 35% to 32.5% for tax years beginning on or after 1 January 2007, and to 30% for tax years beginning on or after 1 January 2008, as follows:

Tax Periods Beginning on or after:	Tax Rate
1 January 2007	32.5%
1 January 2008	30.0%

Therefore, pursuant to current legislation, in 2007 a net credit of EUR 1,957 thousand was recognised in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet relating to the impact of the change in the standard tax rate for 2008 on items previously charged or credited to the consolidated equity item "Valuation Adjustments". No other adjustments in this connection were made in the consolidated financial statements for 2008 and 2007 because they were made in prior years.

2.13 Tangible assets

2.13.1. Property, plant and equipment for own use

Property, plant and equipment for own use includes the assets that are held by the Group for present or future administrative purposes other than those of welfare projects, or for the production or supply of goods and services and which are expected to be used for more than one year. Property, plant and equipment for own use is recognised at acquisition cost in the consolidated balance sheet, less:

- The related accumulated depreciation, and
- Any estimated impairment losses (net carrying amount higher than recoverable amount).

In accordance with current regulations, with effect from 1 January 2004, the Group measured certain items of property, plant and equipment for own use at fair value at that date and this fair value was deemed to be their new acquisition cost for all purposes.

Depreciation is calculated by the straight-line method on the basis of the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand has an indefinite life and, therefore, is not depreciated.

The tangible asset depreciation charge is recognised under "Depreciation and Amortisation" in the consolidated income statement and is calculated basically using the following depreciation rates (based on the average years of estimated useful life of the various assets):

	Annual Rate
Property	2% a 4%
Furniture and office equipment	6.25% a 10%
Computer hardware	10% a 25%
Fixtures	6.25% a 10%
Transport equipment	10%

The Group assesses at the reporting date whether there is any internal or external indication that an asset may be impaired (i.e. its carrying amount exceeds its recoverable amount). If this is the case, the carrying amount of the asset is reduced to its recoverable amount and future depreciation charges are adjusted in proportion to the revised carrying amount and to the new remaining useful life (if the useful life must be re-estimated). When necessary, the carrying amount of property, plant and equipment for own use is reduced with a charge to "Impairment Losses on Other Assets (Net) - Other Assets" in the consolidated income statement.

Similarly, if there is an indication of a recovery in the value of a previously impaired tangible asset, the Group recognises the reversal of the impairment loss recognised in prior periods with the related credit to "Impairment Losses on Other Assets (Net) - Other Assets" in the consolidated income statement and adjusts the future depreciation charges accordingly. In no circumstances may the reversal of an impairment loss on an asset raise its carrying amount above that which it would have if no impairment losses had been recognised in prior years.

The estimated useful lives of the items of property, plant and equipment for own use are reviewed at least once a year with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense under "Administrative Expenses – Other General Administrative Expenses" in the consolidated income statement in the year in which they are incurred.

2.13.2. Property, plant and equipment assigned to welfare projects

"Tangible Assets - Property, Plant and Equipment Assigned to Welfare Projects" in the consolidated balance sheet includes the carrying amounts of the tangible assets assigned to the Confederación's welfare projects.

The criteria used to recognise the acquisition cost of assets assigned to welfare projects, to calculate their depreciation and their respective estimated useful lives and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1), the only exception being that the depreciation charges and the recognition and reversal of any impairment losses on these assets are not recognised in the consolidated income statement but rather under "Welfare Fund" on the liability side of the consolidated balance sheet (see Note 29).

At 31 December 2008 and 2007, and throughout those years, there were no tangible assets assigned to welfare projects.

2.13.3. Investment property

"Tangible Assets - Investment Property" in the consolidated balance sheet reflects the net values of the land, buildings and other structures held either to earn rentals or for capital appreciation.

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (see Note 2.13.1).

2.14 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the Group. Only intangible assets whose cost can be estimated reasonably objectively and from which the Group considers it probable that future economic benefits will be generated are recognised.

Intangible assets are recognised initially at acquisition or production cost and are subsequently measured at cost less any accumulated amortisation and any accumulated impairment losses.

2.14.1. Other intangible assets

Intangible assets other than goodwill are recognised in the consolidated balance sheet at acquisition or production cost, less the related accumulated amortisation and any accumulated impairment losses.

Intangible assets can have an indefinite useful life -when, based on an analysis of all the relevant factors, it is concluded that there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows for the Group- or a finite useful life, in all other cases.

Intangible assets with indefinite useful lives are not amortised, but rather at the end of each reporting period the Group reviews the remaining useful lives of the assets in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps. At 31 December 2008 and 2007, and throughout these years, there were no intangible assets with indefinite useful lives.

Intangible assets with finite useful lives are amortised on a straight-line basis over their estimated useful lives, which range from three to five years depending on the class of asset. The period amortisation charge for intangible assets with finite useful lives is recognised under "Depreciation and Amortisation" in the consolidated income statement.

For intangible assets other than goodwill with indefinite useful lives and with finite useful lives, the Group recognises any impairment loss on the carrying amount of these assets, and any reversal of previously recognised impairment losses, with a charge or credit, as appropriate, to "Impairment Losses on Other Assets (net) – Goodwill and Other Intangible Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for property, plant and equipment for own use (see Note 2.13.1), except that in no circumstances may any impairment recognised for goodwill in the consolidated balance sheet be reversed.

2.15 Provisions and contingent liabilities

When preparing the consolidated financial statements, the directors made a distinction between:

- Provisions: credit balances covering present obligations at the balance sheet date arising from past events which could give rise to a loss for the consolidated entities, which is considered to be likely to occur and certain as to its nature but uncertain as to its amount and/or timing; and

- Contingent liabilities: possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more future events not wholly within the control of the consolidated entities.

The Group's consolidated financial statements include all the material provisions with respect to which it is considered that it is more likely than not that the obligation will have to be settled. Contingent liabilities are not recognised in the consolidated financial statements, but rather are disclosed, as required by the applicable standards.

Provisions, which are quantified on the basis of the best information available on the consequences of the event giving rise to them and are reviewed and adjusted at the end of each year, are used to cater for the specific obligations for which they were originally recognised. Provisions are fully or partially reversed when such obligations cease to exist or are reduced.

The provisions considered necessary pursuant to the foregoing criteria and their eventual reversal, should the reasons for their recognition disappear, are recognised with a charge or credit, respectively, to "Provisions (net)" in the consolidated income statement.

2.15.1. Litigation and/or claims in process

At the end of 2008 certain litigation and claims were in process against the Group arising from the ordinary course of its operations. The Group's legal advisers and directors consider that the outcome of the litigation and claims will not have a material effect on the consolidated financial statements for the years in which they are settled.

2.16 Consolidated cash flow statements

The following terms are used in the consolidated cash flow statements with the meanings specified:

- Cash flows: inflows and outflows of cash and cash equivalents, which are short-term, highly liquid investments that are subject to an insignificant risk of changes in value.

- Operating activities: the principal revenue-producing activities of credit institutions and other activities that are not investing or financing activities. Operating activities also include interest paid on any financing received, even if this financing is considered to be financing activity. Activities performed with the various financial instrument categories detailed in Note 2.2.4 above are classified, for the purpose of this statement, as operating activities.

- Investing activities: the acquisition, sale or disposal by other means of long-term assets and other investments not included in cash and cash equivalents, such as tangible assets, intangible assets, investments, non-current assets held for sale and associated liabilities, equity instruments classified as available for sale which are strategic investments and debt instruments included in held-to-maturity investments.

- Financing activities: includes the cash flows from activities that result in changes in the size and composition of the consolidated equity and liabilities that are not operating activities.

For cash flow statement preparation purposes, the balance of "Cash and Balances with Central Banks" on the asset side of the consolidated balance sheet, disregarding any impairment losses, was considered to be "cash and cash equivalents".

2.17 Non-current assets held for sale

"Non-Current Assets Held for Sale" in the consolidated balance sheet includes the carrying amount of items - individual items, disposal groups or items forming part of a business unit earmarked for disposal ("discontinued operations") - which, because of their nature, are estimated to have a realisation or recovery period exceeding one year, but are earmarked for disposal by the Group and whose sale in their present condition is highly probable to be completed within one year from the date of the consolidated financial statements.

Investments in associates that meet the requirements set forth in the foregoing paragraph are also considered to be non-current assets held for sale.

Therefore, the carrying amount of these items -which can be of a financial nature or otherwise- will foreseeably be recovered through the proceeds from their disposal rather than from continuing use.

Specifically, property or other non-current assets received by the Group as total or partial settlement of its debtors' payment obligations to it are deemed to be non-current assets held for sale, unless the Group has decided to make continuing use of these assets or classify them as investment property (see Note 2.13.3).

Symmetrically, "Liabilities Associated with Non-Current Assets Held for Sale" in the consolidated balance sheet includes the balances payable, if any, associated with disposal groups and the Group's discontinued operations.

In general, non-current assets held for sale are measured at the lower of their carrying amount calculated as at the classification date and their fair value less estimated costs to sell. Tangible and intangible assets that are depreciable and amortisable by nature are not depreciated or amortised during the time they remain classified in this category.

If the carrying amount of the assets exceeds their fair value less costs to sell, the Group adjusts the carrying amount of the assets by the amount of the excess with a charge to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the consolidated income statement. If the fair value of such assets subsequently increases, the Group reverses the losses previously recognised and increases the carrying amount of the assets without exceeding the carrying amount prior to the impairment, with a credit to "Gains/(Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the consolidated income statement.

Despite the foregoing, financial assets, assets arising from remuneration to employees and any deferred tax assets that are part of a disposal group or of a discontinued operation are not measured as described in the preceding paragraphs, but rather in accordance with the accounting policies and rules applicable to these items, which were explained in previous sections of Note 2.

2.18 Welfare fund

The Confederación's welfare fund is recognised under "Welfare Fund" on the liability side of the consolidated balance sheet.

Transfers to the welfare fund are recorded as an appropriation of the Group's profit. Welfare project expenses are presented in the consolidated balance sheet as deductions from the welfare fund and in no case may they be recognised in the consolidated income statement. Tangible assets and liabilities assigned to welfare projects, if any, are included in separate asset and liability items in the consolidated balance sheet.

2.19 Consolidated statements of changes in equity

The consolidated statement of changes in equity presented in these consolidated financial statements shows the total changes in consolidated equity in the year. This information is in turn presented in two statements: the consolidated statement of recognised income and expense and the consolidated statement of changes in total equity. The main characteristics of the information contained in the two parts of the statement are explained below:

2.19.1 Consolidated statement of recognised income and expense

This part of the consolidated statement of changes in equity presents the income and expenses generated by the Group as a result of its business activity in the year, and a distinction is made between the income and expenses recognised in the consolidated income statement for the year and the other income and expenses recognised, in accordance with current regulations, directly in consolidated equity.

Accordingly, this statement presents:

a) Consolidated profit for the year.

b) The net amount of the income and expenses recognised temporarily in consolidated equity under "Valuation Adjustments".

c) The net amount of the income and expenses recognised definitively in consolidated equity during the year and other items that are recognised directly and definitively in consolidated equity, if any.

d) The income tax incurred in respect of the items indicated in b) and c) above.

e) The total recognised consolidated income and expenses, calculated as the sum of a) and d) above.

The changes in income and expenses recognised in consolidated equity under "Valuation Adjustments" are broken down as follows:

a) Revaluation gains/(losses): includes the amount of the income, net of the expenses incurred in the year, recognised directly in consolidated equity. The amounts recognised in the year under "Valuation Adjustments" are recorded in this line item, even though they are transferred in the same year to the consolidated income statement, to the initial value of other assets or liabilities, or are reclassified into another line item.

b) Amounts transferred to the consolidated income statement: includes the amount of the revaluation gains and losses previously recognised in consolidated equity, albeit in the same year, which are recognised in the consolidated income statement.

c) Amount transferred to the initial carrying amount of hedged items: includes the amount of the revaluation gains and losses previously recognised in consolidated equity, albeit in the same year, which are recognised in the initial carrying amount of the assets or liabilities as a result of cash flow hedges.

d) Other reclassifications: includes the amount of the transfers made in the year between valuation adjustment items in accordance with current regulations.

The amounts of these items are presented gross and the related tax effect is recognised in this statement under "Income Tax".

2.19.2 Consolidated statement of changes in total equity

This part of the consolidated statement of changes in equity presents all the changes in consolidated equity, including those arising from changes in accounting policies and from the correction of errors. Accordingly, this statement presents a reconciliation of the carrying amount at the beginning and end of the year of all the consolidated equity items, and the changes in the year are grouped together on the basis of their nature into the following items:

a) Adjustments due to changes in accounting policies and adjustments made to correct errors: include significant changes in consolidated equity arising as a result of the retrospective restatement of the balances in the consolidated financial statements due to changes in accounting policies or to the correction of errors.

b) Recognised income and expense: includes the total recognised income and expenses reported in the consolidated statement of recognised income and expense.

c) Other changes in equity: includes the remaining items recognised in consolidated equity, including, inter alia, distribution of Group profit, transfers between consolidated equity items and any other increases or decreases in consolidated equity.

Confederación Española de Cajas de Ahorros Group

03

Confederación Española de Cajas de Ahorros (CECA) is the Group's Parent. Its individual financial statements are prepared by applying the accounting principles and standards included in Bank of Spain Circular 4/2004, of 22 December, for credit institutions on public and confidential financial reporting rules and financial statement formats, as amended by Bank of Spain Circular 6/2008, of 26 November.

The Confederación accounts for approximately 99.95% of the Group's assets and 96.58% of the profit attributable to the Group at 31 December 2008 (31 December 2007: 99.95% and 96.88%, respectively) after the related uniformity adjustments and eliminations on consolidation.

Following are the summarised financial statements of Confederación Española de Cajas de Ahorros at 31 December 2008 and 2007 and for the years then ended:

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

BALANCE SHEETS AT 31 DECEMBER 2008 AND 2007

ASSETS

	Thousands of Euros 2008	2007
1 Cash and balances with central banks	**319,441**	**640,201**
2 Financial assets held for trading	**8,248,015**	**3,182,346**
2.1 Loans and advances to credit institutions	-	-
2.2 Loans and advances to customers	-	-
2.3 Debt instruments	6,228,460	1,528,008
2.4 Equity instruments	23,877	118,641
2.5 Trading derivatives	1,995,678	1,535,697
Memorandum item: Loaned or advanced as collateral	4,020,092	1,143,579
3 Other financial assets at fair value through profit or loss	**4,817,944**	-
3.1 Loans and advances to credit institutions	4,421,974	-
3.2 Loans and advances to customers	395,970	-
3.3 Debt instruments	-	-
3.4 Equity instruments	-	-
Memorandum item: Loaned or advanced as collateral	3,244,151	-
4 Available-for-sale financial assets	**561,225**	**490,142**
4.1 Debt instruments	437,445	341,620
4.2 Equity instruments	123,780	148,522
Memorandum item: Loaned or advanced as collateral	116,930	152,297
5 Loans and receivables	**3,894,952**	**9,950,718**
5.1 Loans and advances to credit institutions	3,321,318	9,480,721
5.2 Loans and advances to customers	291,882	469,997
5.3 Debt instruments	281,752	-
Memorandum item: Loaned or advanced as collateral	113,739	2,961,761
6 Held-to-maturity investments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
7 Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
8 Hedging derivative	-	-
9 Non-current assets held for sale	**161**	**161**
10 Investments	**515**	**515**
10.1 Associates	-	-
10.2 Jointly controlled entities	451	451
10.3 Group companies	64	64

Continued

LIABILITIES AND EQUITY

	Thousands of Euros 2008	Thousands of Euros 2007
LIABILITIES		
1 Financial liabilities held for trading	**2,396,595**	**1,856,279**
1.1 Deposits from central banks	-	-
1.2. Deposits from credit institutions	-	-
1.3 Customer deposits	-	-
1.4 Marketable debt securities	-	-
1.5 Trading derivatives	2,119,152	1,544,184
1.6 Short positions	277,443	312,095
1.7. Other financial liabilities	-	-
2 Other financial liabilities at fair value through profit or loss	**7,085,827**	-
2.1 Deposits from central banks	20,502	
2.2 Deposits from credit institutions	2,282,949	-
2.3 Customer deposits	4,782,376	-
2.4 Marketable debt securities	-	-
2.5 Subordinated liabilities	-	-
2.6 Other financial liabilities	-	-
3 Financial liabilities at amortised cost	**7,742,588**	**11,843,201**
3.1 Deposits from central banks	286,750	1,028,533
3.2 Deposits from credit institutions	3,850,190	5,431,911
3.3 Customer deposits	2,777,061	4,483,009
3.4. Marketable debt securities	-	-
3.5 Subordinated liabilities	-	-
3.6 Other financial liabilities	828,587	899,748
4 Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
5 Hedging derivatives	-	**3,996**
6 Liabilities associated with non-current assets held for sale	-	-
8 Provisions	**55,671**	**22,458**
8.1 Provisions for pensions and similar obligations	7,561	5,829
8.2 Provisions for taxes and other legal contingencies	-	-
8.3 Provisions for contingent liabilities and commitments	6	6
8.4 Other provisions	48,104	16,623
9 Tax liabilities	**48,931**	**59,029**
9.1 Current	8,362	767
9.2 Deferred	40,569	58,262

Continued

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

BALANCE SHEETS AT 31 DECEMBER 2008 AND 2007

ASSETS

Continued

	Thousands of Euros 2008	2007
11 Insurance contracts linked to pensions	-	-
13 Tangible assets	108,778	111,585
13.1. Property, plant and equipment	107,538	110,309
13.1.1 For own use	107,538	110,309
13.1.2 Leased out under an operating lease	-	-
13.1.3 Assigned to welfare projects	-	-
13.2 Investment property	1,240	1,276
Memorandum item: Acquired under a finance lease	-	-
14 Intangible assets	4,727	7,867
14.1 Goodwill	-	-
14.2 Other intangible assets	4,727	7,867
15 Tax assets	37,386	27,161
15.1 Current	565	163
15.2 Deferred (Note 20)	36,821	26,998
16 Other assets	26,623	76,857
TOTAL ASSETS	18,019,767	14,487,553
MEMORANDUM ITEMS		
1. Contingent liabilities	125,237	104,450
2. Contingent commitments	716,569	818,630

LIABILITIES AND EQUITY

Continued

	Thousands of Euros 2008	Thousands of Euros 2007
10 Welfare fund	363	480
11 Other liabilities	44,816	36,928
12 Equity refundable on demand	-	-
TOTAL LIABILITIES	17,374,791	13,822,371
EQUITY		
1 Own funds	620,008	587,996
1.1 Endowment fund	-	-
1.1.1 Registered capital	-	-
1.1.2 Less: Uncalled capital	-	-
1.2 Share premium	-	-
1.3 Reserves	549,622	516,466
1.4 Other equity instruments	30,051	30,051
1.4.1 Equity component of compound financial instruments	-	-
1.4.2 Non-voting equity units and associated funds	30,051	30,051
1.4.3 Other equity instruments	-	-
1.5 Less: Treasury shares	-	-
1.6 Profit for the year	40,335	41,479
1.7 Less: Dividends and remuneration	-	-
2 Valuation adjustments	24,968	77,186
2.1 Available-for-sale financial assets	24,968	79,983
2.2 Cash flow hedges	-	(2,797)
2.3 Hedges of net investments in foreign operations	-	-
2.4 Exchange differences	-	-
2.5 Non-current assets held for sale	-	-
2.7 Other valuation adjustments	-	-
TOTAL EQUITY	644,976	665,182
TOTAL LIABILITIES AND EQUITY	18,019,767	14,487,553

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

INCOME STATEMENTS FOR THE YEARS ENDED
31 DECEMBER 2008 AND 2007

		Income / (Expense) Thousands of Euros 2008	2007
1	Interest and similar income	611,113	716,337
2	Interest expense and similar charges	(520,543)	(675,732)
3	Return of equity refundable on demand	-	-
A	**NET INTEREST INCOME**	**90,570**	**40,605**
4	Income from equity instruments	31,777	32,348
5	Fee and commission income	106,863	108,262
6	Fee and commission expense	(28,498)	(27,076)
8	Gains/losses on financial assets and liabilities (net)	(71,749)	(39,975)
	8.1 Held for trading	(92,071)	(58,697)
	8.2 Other financial instruments at fair value through profit or loss	28,337	-
	8.3 Financial instruments not measured at fair value through profit or loss	(8,015)	18,722
	8.4 Other	-	-
9	Exchange differences (net)	50,409	14,313
10	Other operating income	83,092	79,603
11	Other operating expenses	(1,204)	(1,843)
B	**GROSS INCOME**	**261,260**	**206,237**
12	Administrative expenses	(159,194)	(149,794)
	12.1 Staff costs	(72,300)	(68,575)
	12.2 Other general administrative expense	(86,894)	(81,219)
13	Depreciation and amortisation	(10,326)	(11,594)
14	Provisions (net)	(33,839)	5,588
15	Impairment losses on financial assets (net)	(5,545)	697
	15.1 Loans and receivables	(5,553)	(513)
	15.2 Other financial instruments not measured at fair value through profit or loss	8	1,210

Continued

Continued

		Income / (Expense) Thousands of Euros 2008	2007
C	**PROFIT FROM OPERATIONS**	**52,356**	**51,134**
16	Impairment losses on other assets (net)	-	-
	16.1 Goodwill and other intangible assets	-	-
	16.2 Other assets	-	-
17	Gains (losses) on disposal of assets not classified as non-current assets held for sale	(14)	3,704
18	Negative goodwill on business combinations	-	-
19	Gains (losses) on non-current assets held for sale not classified as discontinued operations	10	-
D	**PROFIT BEFORE TAX**	**52,352**	**54,838**
20	Income tax	(12,017)	(13,359)
21	Mandatory transfer to welfare projects and funds	-	-
E	**PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS**	**40,335**	**41,479**
22	**Profit/Loss from discontinued operations (net)**	-	-
F	PROFIT FOR THE YEAR	**40,335**	**41,479**

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

I. STATEMENTS OF RECOGNISED INCOME AND EXPENSE FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

		Thousands of Euros	
		2008	2007
A)	**PROFIT FOR THE YEAR**	**40,335**	**41,479**
B)	**OTHER RECOGNISED INCOME AND EXPENSE**	**(52,218)**	**11,719**
1	**Available-for-sale financial assets**	**(78,593)**	**17,273**
	1.1. Revaluation gains (losses)	(86,608)	35,995
	1.2. Amounts transferred to income statement	8,015	(18,722)
	1.3. Other reclassifications	-	-
2	**Cash flow hedges**	**3,996**	**(3,996)**
	2.1. Revaluation gains (losses)	1,362	(3,996)
	2.2. Amounts transferred to income statement	-	-
	2.3. Amounts transferred to the initial carrying amount of hedged items	2,634	-
	2.4. Other reclassifications	-	-
3	**Hedges of net investments in foreign operations**	-	-
	3.1. Revaluation gains (losses)	-	-
	3.2. Amounts transferred to income statement	-	-
	3.3. Other reclassifications	-	-
4	**Exchange differences**	-	-
	4.1. Revaluation gains (losses)	-	-
	4.2. Amounts transferred to income statement	-	-
	4.3. Other reclassifications	-	-
5	**Non-current assets held for sale**	-	-
	5.1. Revaluation gains (losses)	-	-
	5.2. Amounts transferred to income statement	-	-
	5.3. Other reclassifications	-	-
6	**Actuarial gains (losses) on pension plans**	-	-
8	**Other recognised income and expense**	-	-
9	**Income tax**	**22,379**	**(1,558)**
C)	**TOTAL RECOGNISED INCOME AND EXPENSE (A+B)**	**(11,883)**	**53,198**

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

II. STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

	Thousands of Euros	
	OWN FUNDS	
	Endowment Fund	Share Premium
1 Ending balance at 31/12/07	-	-
1.1. Adjustments due to changes in accounting policies	-	-
1.2. Adjustments made to correct errors	-	-
2 Adjusted beginning balance	-	-
3 Total recognised income and expense	-	-
4 Other changes in equity	-	-
4.1. Increases in endowment fund	-	-
4.2. Capital reductions	-	-
4.3. Conversion of financial liabilities into equity	-	-
4.4. Increases in other equity instruments	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-
4.7. Distribution of dividends / Remuneration of shareholders	-	-
4.8. Transactions involving own equity instruments	-	-
4.9. Transfers between equity items	-	-
4.10. Increases (decreases) due to business combinations	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-
4.12. Equity-instrument-based payments	-	-
4.13. Other increases (decreases) in equity	-	-
5 Ending balance at 31/12/08	-	-

Thousands of Euros

OWN FUNDS							
Reserves	Other Equity Instruments	Less: Treasury Shares	Profit for the Year	Less: Dividends and Remuneration	Total Own Funds	VALUATION ADJUSTMENTS	TOTAL EQUITY
516,466	30,051	-	41,479	-	587,996	77,186	665,182
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
516,466	30,051	-	41,479	-	587,996	77,186	665,182
-	-	-	40,335	-	40,335	(52,218)	(11,883)
33,156	-	-	(41,479)	-	(8,323)	-	(8,323)
-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	(2,281)	-	(2,281)	-	(2,281)
-	-	-	-	-	-	-	-
32,770	-	-	(32,770)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	(6,428)	-	(6,428)	-	(6,428)
-	-	-	-	-	-	-	-
386	-	-	-	-	386	-	386
549,622	30,051	-	40,335	-	620,008	24,968	644,976

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

II. STATEMENTS OF CHANGES IN TOTAL EQUITY FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

	Thousands of Euros	
	OWN FUNDS	
	Endowment Fund	Share Premium
1 Ending balance at 31/12/06	-	-
1.1. Adjustments due to changes in accounting policies	-	-
1.2. Adjustments made to correct errors	-	-
2 Adjusted beginning balance	-	-
3 Total recognised income and expense	-	-
4 Other changes in equity	-	-
4.1. Increases in endowment fund	-	-
4.2. Capital reductions	-	-
4.3. Conversion of financial liabilities into equity	-	-
4.4. Increases in other equity instruments	-	-
4.5. Reclassification of financial liabilities to other equity instruments	-	-
4.6. Reclassification of other equity instruments to financial liabilities	-	-
4.7. Distribution of dividends / Remuneration of shareholders	-	-
4.8. Transactions involving own equity instruments	-	-
4.9. Transfers between equity items	-	-
4.10. Increases (decreases) due to business combinations	-	-
4.11. Discretionary transfer to welfare projects and funds	-	-
4.12. Equity-instrument-based payments	-	-
4.13. Other increases (decreases) in equity	-	-
5 Ending balance at 31/12/07	-	-

Thousands of Euros							
OWN FUNDS							
Reserves	Other Equity Instruments	Less: Treasury Shares	Profit for the Year	Less: Dividends and Remuneration	Total Own Funds	VALUATION ADJUSTMENTS	TOTAL EQUITY
470,366	30,051	-	53,822	-	554,239	65,467	619,706
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
470,366	30,051	-	53,822	-	554,239	65,467	619,706
-	-	-	41,479	-	41,479	11,719	53,198
46,100	-	-	(53,822)	-	(7,722)	-	(7,722)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	(3,235)	-	(3,235)	-	(3,235)
-	-	-	-	-	-	-	-
46,100	-	-	(46,100)	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	(4,487)	-	(4,487)	-	(4,487)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
516,466	30,051	-	41,479	-	587,996	77,186	665,182

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2008 AND 2007

	Thousands of Euros	
	2008	2007
A) CASH FLOWS FROM OPERATING ACTIVITIES	**(314,062)**	**592,904**
1 Profit for the year	**40,335**	**41,479**
2 Adjustments made to obtain the cash flows from operating activities	**159,733**	**53,110**
2.1. Depreciation and amortisation	10,326	11,594
2.3. Other adjustments	149,407	41,516
3 Net (increase)/decrease in operating assets	**(4,060,855)**	**675,907**
3.1. Financial assets held for trading	(5,195,005)	1,519,077
3.2. Other financial assets at fair value through profit or loss	(4,896,537)	-
3.3. Available-for-sale financial assets	(71,075)	(66,734)
3.4. Loans and receivables	6,050,212	(729,769)
3.5. Other operating assets	51,550	(46,667)
4 Net (increase)/decrease in operating liabilities	**3,554,756**	**(168,599)**
4.1. Financial liabilities held for trading	540,316	(1,348,190)
4.2. Other financial liabilities at fair value through profit or loss	7,085,827	-
4.3. Financial liabilities at amortised cost	(4,100,613)	1,270,987
4.4. Other operating liabilities	29,226	(91,396)
5 Collections/(Payments) of income tax	**(8,031)**	**(8,993)**
B) CASH FLOWS FROM INVESTING ACTIVITIES	**(4,417)**	**(3,952)**
6 Payments	**(4,427)**	**8,438**
6.1. Tangible assets	(3,533)	5,752
6.2. Intangible assets	(894)	2,686
6.3. Investments	-	-
6.4. Other business units	-	-
6.5. Non-current assets held for sale and associated liabilities	-	-
6.6. Held-to-maturity investments	-	-
6.7. Other payments related to investing activities	-	-
7 Collections	**10**	**4,486**
7.1. Tangible assets	-	4,486
7.2. Intangible assets	-	-
7.3. Investments	-	-
7.4. Other business units	-	-
7.5. Non-current assets held for sale and associated liabilities	10	-
7.6. Held-to-maturity investments	-	-
7.7. Other payments related to investing activities	-	-

Continued

Continued

	Thousands of Euros	
	2008	2007
C) CASH FLOWS FROM FINANCING ACTIVITIES	**(2,281)**	**(3,235)**
8 Payments	**2,281**	**3,235**
8.1. Dividends	2,281	3,235
8.2. Subordinated liabilities	-	-
8.3. Redemption of own equity instruments	-	-
8.4. Acquisition of own equity instruments	-	-
8.5. Other payments related to financing activities	-	-
9 Collections	-	-
9.1. Subordinated liabilities	-	-
9.2. Issuance of own equity instruments	-	-
9.3. Disposal of equity instruments	-	-
9.4. Other collections related to financing activities	-	-
D) EFFECT OF CHANGES IN EXCHANGE RATES	-	-
E) NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (A+B+C+D)	**(320,760)**	**585,717**
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**640,201**	**54,484**
G) CASH AND CASH EQUIVALENTS AT END OF YEAR	**319,441**	**640,201**
MEMORANDUM ITEMS		
COMPONENTS OF CASH AND CASH EQUIVALENTS AT END OF YEAR		
1.1. Cash	32,396	30,762
1.2. Cash equivalents at central banks	287,045	609,439
1.3. Other financial assets	-	-
1.4. Less: Bank overdrafts refundable on demand	-	-
Total cash and cash equivalents at end of year	**319,441**	**640,201**

Distribution of the Confederación's profit

04

The distribution of the Confederación's net profit for 2008 that the Board of Directors will propose for approval by the General Assembly (the figures for 2007 are presented for comparison purposes only) is as follows:

	Thousands of Euros	
	2008	2007
Reserves	33,446	32,770
Transfer to welfare fund (Note 29)	4,800	6,428
Return on participation certificates (Note 20)	2,089	2,281
Net profit for the year	**40,335**	**41,479**

Business segment reporting

05

The Confederación's wholesale business represents substantially all the Group's activities, of which the retail business accounts for less than 1%.

Information on the geographical distribution of the Group's main activities is shown in Notes 24 and 28.

Remuneration of directors and senior executives

06

6.1 Remuneration of directors

The members of the Board of Directors of the Confederación (Parent of the Group) receive an attendance fee for attendance of meetings. The detail for 2008 and 2007 is shown in the table below.

The complex situation currently faced by the financial markets necessitated a considerable increase in the activities of the governing bodies in 2008 and, therefore, they held more meetings than in 2007 and the number of those attending was also higher. In addition, the number of members of the Board of Directors and of the Executive Committee of CECA increased in 2008.

	Thousands of Euros 2008	Thousands of Euros 2007		Thousands of Euros 2008	Thousands of Euros 2007
Arvelo Hernández, Álvaro	17	13	Medel Cámara, Braulio	32	26
Batle Mayol, Pedro	15	14	Medina Ocaña, Jesús	17	14
Beltrán Aparicio, Fernando	17	13	Méndez López, José Luís	5	8
Blesa de la Parra, Miguel	34	28	Mestre González, Jordi	-	4
de Doria Lagunas, Pedro Antonio	3	8	Navarrete Mora, Luís Pascual	-	8
de Irala Esteve, Xabier	6	-	Olavarrieta Arcos, José Antonio	11	-
Egea Krauel, Carlos	38	28	Olivas Martínez, José Luís	35	25
Fainé Casas, Isidro	38	16	Pagés Font, Ricardo	15	8
Fernández Gayoso, Julio	9	1	Pulido Gutiérrez, Antonio	17	4
Formosa Prat, Feliú	14	-	Quintás Seoane, Juan Ramón	38	28
Fornesa Ribó, Ricardo	-	10	Rojo García, Gregorio	-	14
Franco Lahoz, Amado	14	14	Ros Maorad, José Luís	17	10
García Nuñez, Leoncio	9	-	Ruiz Díez, Santiago	6	9
Gimbernat Martí, Aleix	-	5	Sala Belló, Vicente	17	14
Herrero Autet, Didac	-	5	Sanz Sesma, Miguel	17	14
Ibern Gallart, Josep	14	-	Todó Rovira, Adolfo	15	8
Llamas Llamas, Santos	-	5	Total	**473**	**367**
Loza Xuriach, José María	3	13			

No other remuneration was paid to the directors of the Confederación, in their capacity as Board members, in 2008. Note 43 details the Group's other balances with its directors and entities or individuals related to them.

6.2 Remuneration of senior executives and of members of the Board of Directors in their capacity as Group executives

For the purposes of the preparation of these consolidated financial statements, the 15 members of the Management Committee were considered to be senior executives of the Confederación at 31 December 2008 (31 December 2007: 16 executives).

The detail of the remuneration earned in 2008 and 2007 by senior executives and by the Board members in their capacity as Group executives was as follows (in thousands of euros):

Thousands of Euros					
Short-Term Remuneration		Post-Employment Benefits		Total	
2008	2007	2008	2007	2008	2007
4,085	4,381	1,729	4,388	5,814	8,769

No additional remuneration was earned by senior executives in 2008 and 2007 in connection with other long-term benefits, termination benefits or share-based payments as defined by the applicable regulations.

At 31 December 2008, the vested pension rights of the senior executives and Board members in their capacity as Group executives amounted to EUR 15,337 thousand (31 December 2007: EUR 15,774 thousand).

Also, the post-employment benefits accrued in 2008 by former members of the Group's Board of Directors amounted to EUR 37 thousand and their vested rights in this connection totalled EUR 1,152 thousand at 31 December 2008 (2007: EUR 37 thousand; 31 December 2007: EUR 898 thousand).

Cash and balances with central banks

07

The breakdown of the balance of "Cash and Balances with Central Banks" in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Cash	32,396	30,762
Balances with the Bank of Spain	251,106	609,372
Balances with other central banks	35,927	-
	319,429	640,134
Valuation adjustments:		
Of which-		
Impairment losses	-	-
Other valuation adjustments	12	67
	12	67
	319,441	**640,201**

Note 23 includes information on the fair value of these instruments at 31 December 2008 and 2007. Note 26 provides information on the liquidity risk associated with financial instruments, including information on the maturities of these assets.

The balance of "Cash and Balances with Central Banks" at 31 December 2008 and 2007 represents the maximum exposure to credit risk assumed by the Group in relation to these instruments.

At 31 December 2008 and 2007, there were no assets with uncollected past-due amounts or impaired classified under "Cash and Balances with Central Banks".

Financial instruments at fair value through profit or loss

08

8.1 Financial assets and liabilities held for trading

8.1.1. Financial assets and liabilities held for trading - Breakdown

Following is a detail of the balances of "Financial Assets/Liabilities Held for Trading" in the consolidated balance sheets at 31 December 2008 and 2007:

	Thousands of Euros			
	Financial Assets Held for Trading		Financial Liabilities Held for Trading	
	2008	2007	2008	2007
Debt instruments	6,228,460	1,528,008	-	-
Equity instruments	23,877	118,641	-	-
Trading derivatives-				
Derivatives traded in organised markets	109	208	1,286	7
OTC derivatives	1,995,569	1,535,489	2,117,866	1,544,177
Short positions	-	-	277,443	312,095
	8,248,015	**3,182,346**	**2,396,595**	**1,856,279**

Note 24 discloses information on the credit risk assumed by the Group in relation to the financial assets, other than equity instruments, included in this category. In addition, Notes 25 and 26 include information on the market and liquidity risks, respectively, associated with the financial instruments included in this category. Note 23 provides information on the fair value of the financial instruments included in this category. Note 28 includes information on the concentration of risk relating to the financial assets held for trading. Note 27 shows information on the exposure to interest rate risk.

8.1.2. Financial assets and liabilities held for trading - Trading derivatives

Following is a breakdown, by type of risk, of the fair value of the trading derivatives arranged by the Group and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2008 and 2007:

	Thousands of Euros					
	2008			2007		
	Fair Value			Fair Value		
	Asset Balances	Liability Balances	Notional Amount	Asset Balances	Liability Balances	Notional Amount
Interest rate risk	1,874,788	1,959,212	148,245,415	1,304,501	1,297,157	100,020,107
Foreign currency risk	102,799	120,278	3,852,834	174,255	182,241	3,224,302
Share price risk	16,322	27,429	737,072	56,695	58,973	756,426
Credit risk	1,769	12,233	284,060	246	5,813	100,000
	1,995,678	**2,119,152**	**153,119,381**	**1,535,697**	**1,544,184**	**104,100,835**

The notional amount of the contracts entered into does not reflect the actual risk assumed by the Group for these contracts, since the net position in these financial instruments is the result of offsetting and/or combining them and of offsetting and/or combining them with other asset or liability positions.

8.1.3. Financial liabilities held for trading - Short positions

The detail, by type of transaction, of the balance of this item in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Classification:		
Borrowed securities-		
Equity instruments	12,854	25,230
Short sales-		
Debt instruments	264,589	286,865
	277,443	**312,095**

"Short Positions - Short Sales – Debt Instruments" in the foregoing table includes the fair value of the Group's debt instruments purchased under reverse repurchase agreements and, therefore, as such not recognised on the asset side of the consolidated balance sheet, which have been sold and will be repurchased by the Group before maturity of the reverse repurchase agreement in which they are used as collateral, in order for the Group to return them at the maturity date.

8.2 Other financial instruments at fair value through profit or loss

8.2.1. Other financial assets at fair value through profit or loss

This heading includes reverse repurchase agreements arranged by the Group which are managed jointly with repurchase agreements relating to financial assets classified in "Other Financial Liabilities at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments classified as held for trading.

The detail, by nature, of the financial assets included in "Other Financial Assets at Fair Value Through Profit or Loss" in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Loans and advances to credit institutions-		
Reverse repurchase agreements	4,299,456	-
Valuation adjustments-		
Accrued interest	94,475	-
Revaluation gains	28,043	-
	122,518	-
	4,421,974	-
Loans and advances to customers-		
Reverse repurchase agreements	392,049	-
Valuation adjustments-		
Accrued interest	2,780	-
Revaluation gains	1,141	-
	3,921	-
	395,970	-
	4,817,944	-

Note 23 discloses information on the fair value of these financial instruments at 31 December 2008 and 2007.

Note 24 includes information on the Group's exposure to credit risk at 31 December 2008 and 2007 associated with these financial instruments.

Note 25 provides information on the exposure to market risk of these financial instruments.

Note 26 contains information on the liquidity risk associated with the financial instruments owned by the Group at 31 December 2008 and 2007, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 28 includes information on the concentration risk relating to these financial instruments at 31 December 2008 and 2007. Note 27 shows information on the Group's exposure to interest rate risk.

In view of the characteristics of the transactions included in this category (reverse repurchase agreements), the counterparties and collateral provided, it is estimated that substantially all the changes in the fair value of these financial instruments in 2008 recognised in the consolidated income statement are attributable to market risk and, more specifically, to interest rate risk.

8.2.2. Other financial liabilities at fair value through profit or loss

This heading includes repurchase agreements arranged by the Group which are managed jointly with reverse repurchase agreements relating to financial assets classified in "Other Financial Assets at Fair Value Through Profit or Loss" and with interest rate derivatives and financial instruments classified as held for trading.

The detail, by nature, of the financial liabilities included in "Other Financial Liabilities at Fair Value Through Profit or Loss" in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Deposits from central banks-		
Repurchase agreements with the Bank of Spain	20,389	-
Valuation adjustments-		
Accrued interest	90	-
Revaluation gains	23	-
	113	-
	20,502	-
Deposits from credit institutions-		-
Repurchase agreements with credit institutions	2,278,337	-
Valuation adjustments-		
Accrued interest	3,535	-
Revaluation gains	1,077	-
	4,612	-
	2,282,949	-
Customer deposits-		
Repurchase agreements with the Public Treasury	3,611,755	-
Repurchase agreements with other resident sectors in Spain	1,167,089	-
Repurchase agreements with other non-resident sectors in Spain	3,164	-
Valuation adjustments-		
Accrued interest	633	-
Revaluation losses	(265)	-
	368	-
	4,782,376	-
	7,085,827	-

In view of the characteristics of these financial liabilities (sales of assets under non-optional repurchase agreements arranged by the Group), the significant changes in the fair value of these financial instruments in 2008 and accumulated at 31 December 2008 are attributable to market risk (mainly interest rate risk) rather than credit risk.

The amounts shown in the above table, net of their related valuation adjustments for "Revaluation Gains", represent the amortised cost of these liabilities at 31 December 2008, which does not differ significantly from the amount that would be payable by the Group if they matured at that date.

Note 23 discloses information on the fair value of the financial liabilities included in this category at 31 December 2008. Note 26 provides information on the liquidity risk associated with these financial liabilities.

Note 25 shows certain information on the market risk associated with these financial liabilities and Note 27 contains information on interest rate risk.

Available-for-sale financial assets

09

Following is a detail of the balances of "Available-for-Sale Financial Assets" in the consolidated balance sheets at 31 December 2008 and 2007:

	Thousands of Euros	
	2008	2007
Debt instruments-		
Government debt securities	80,759	181,200
Other securities	387,256	172,536
	468,015	353,736
Valuation adjustments-		
Accrued interest	5,041	883
Revaluation losses	(34,424)	(11,804)
Impairment losses	(1,190)	(1,195)
	(30,573)	(12,116)
	437,442	**341,620**
Equity instruments-		
Shares quoted on secondary organised markets	22,690	19
Shares not quoted on organised markets	31,312	23,032
	54,002	23,051
Valuation adjustments-		
Revaluation gains	70,092	126,066
Impairment losses	(600)	(600)
Other adjustments	286	5
	69,778	125,471
	123,780	**148,522**
	561,222	**490,142**

Note 23 contains certain information on the fair value of the financial instruments included in this category.

Note 24 includes information on the credit risk to which the debt instruments included in this financial instrument category are subject.

Note 25 shows certain information on the market risk to which the Group is exposed in relation to these financial assets.

Note 26 discloses certain information on the Group's liquidity risk, including information on the terms to maturity of these financial assets at 31 December 2008 and 2007.

Note 27 shows information on the exposure to interest rate risk.

Note 28 includes information on the concentration risk associated with these financial assets.

Loans and receivables 10

10.1 Breakdown

Following is a detail of the financial assets included in "Loans and Receivables" in the consolidated balance sheets at 31 December 2008 and 2007:

	Thousands of Euros	
	2008	2007
Loans and advances to credit institutions-		
Time deposits	1,861,597	3,135,371
Other accounts	882,167	708,899
Securities lending (*)	557,866	183,981
Other financial assets	9,833	71,409
Reverse repurchase agreements	-	5,324,437
Doubtful assets	1,155	-
	3,312,618	9,424,097
Valuation adjustments-		
Impairment losses	(328)	(55)
Accrued interest	9,066	56,710
	8,738	56,655
	3,321,356	**9,480,752**
Loans and advances to customers-		
Deposits for futures transactions and other guarantees given	91,464	89,712
Unsettled stock exchange transactions	64,716	199,233
Securities lending (*)	52,440	-
Mortgage loans	39,889	36,925
Unsecured credits and loans	30,898	34,073
Other assets	13,017	2,103
Reverse repurchase agreements	7,000	113,567
Doubtful assets	5	14
	299,429	475,627
Valuation adjustments-		
Impairment losses	(955)	(1,076)
Accrued interest	851	1,607
	(104)	531
	299,325	**476,158**

Continued

Continuation

	Thousands of Euros	
	2008	2007
Debt instruments-		
Issued by non-residents in Spain	245,488	-
Issued by residents in Spain	24,075	-
Doubtful assets	17,592	-
Valuation adjustments-		
(Impairment losses)	(5,405)	-
	281,750	-
	3,902,431	**9,956,910**

(*) Relates to the amount delivered by the Confederación as security for securities lending transactions (see Note 30.5)

Note 23 provides information on the fair value at 31 December 2008 and 2007 of the financial assets included in this category.

Note 24 discloses certain relevant information on the credit risk relating to the financial assets included in this financial instrument category at 31 December 2008 and 2007.

Note 25 includes information on the market risk associated with these financial assets at 31 December 2008 and 2007.

Note 26 contains information on the liquidity risk associated with the Group's financial instruments at 31 December 2008 and 2007, including information on the terms to maturity at those dates of the financial assets included in this category.

Note 28 includes information on the concentration risk associated with the financial assets included in this category at 31 December 2008 and 2007. Note 27 shows information on the exposure to interest rate risk.

Hedging derivatives (assets and liabilities)

11

11.1 Cash flow hedges

Following is a detail, by type of product, of the fair value and notional amount of the derivatives designated as hedging instruments in cash flow hedges at 31 December 2007 (the Group did not hold any derivatives at 31 December 2008 qualifying for hedge accounting in accordance with the applicable legislation):

	Thousands of Euros		
	2007		
	Fair Value		
	Asset Balances	Liability Balances	Notional Amount
Interest rate risk	-	3,996	80,000
Foreign currency risk	-	-	-
Share price risk	-	-	-
Credit risk	-	-	-
	-	**3,996**	**80,000**

The notional amounts of the contracts entered into do not reflect the actual risk assumed by the Group with respect to these instruments. Note 23 includes certain information on the fair value of these derivatives at 31 December 2007.

The derivatives considered to be cash flow hedges for certain future transactions which materialised in 2008 matured in 2008 and, accordingly, the adjustments made to the value of the hedging derivatives recognised in Group equity were transferred as a valuation adjustment to the assets recognised as a result of the materialisation of the future transactions.

Non-current assets held for sale

12

The breakdown of the balance of "Non-Current Assets Held for Sale" in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Tangible assets -		
Foreclosed residential assets	-	-
Other residential assets	161	161
Equity instruments -		
Investments in associates	-	171
Impairment losses	-	(171)
	161	**161**

In 2008 the Group sold its ownership interest in the share capital of Europay, España, S.C. (see Note 2.1.3). The cost of the investment, which was provided for in full when it was sold, amounted to EUR 171 thousand. As a result of the sale, the Group received EUR 10 thousand in 2008 which are recognised in "Gains (Losses) on Non-Current Assets Held for Sale not Classified as Discontinued Operations" in the consolidated income statement for 2008.

Investments

13

At 31 December 2008 and 2007 the Group did not have any investments classified as "Associates".

There were no changes in this heading of the consolidated balance sheets in 2008 and 2007.

Tangible assets

14

The changes in 2008 and 2007 in "Tangible Assets" in the consolidated balance sheets were as follows:

	Thousands of Euros				
	Property, Plant and Equipment for Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	IT Equipment and Related Fixtures	Investment Property	Total
Cost:					
Balance at 1 January 2007	125,684	38,218	22,299	1,555	187,756
Additions	-	3,549	2,222	-	5,771
Disposals	(786)	(101)	(55)	(222)	(1,164)
Transfers and other changes	-	(1)	1	-	-
Exchange differences	(73)	(37)	(8)	-	(118)
Balance at 31 December 2007	**124,825**	**41,628**	**24,459**	**1,333**	**192,245**
Additions	-	2,325	1,214	-	3,539
Disposals	-	(2,895)	(1,225)	-	(4,120)
Transfers and other changes	-	-	-	-	-
Other	-	(226)	81	-	(145)
Balance at 31 December 2008	**124,825**	**40,832**	**24,529**	**1,333**	**191,519**
Accumulated depreciation:					
Balance at 1 January 2007	(24,778)	(30,873)	(18,900)	(165)	(74,716)
Charge for the year (Note 42)	(2,550)	(1,774)	(1,779)	(38)	(6,141)
Disposals	81	100	45	146	372
Transfers and other changes	-	1	(1)	-	-
Other	7	19	4	-	30
Balance at 31 December 2007	**(27,240)**	**(32,527)**	**(20,631)**	**(57)**	**(80,455)**
Charge for the year (Note 42)	(2,526)	(1,951)	(1,809)	(36)	(6,322)
Disposals	-	2,881	1,225	-	4,106
Transfers and other changes	-	-	-	-	-
Other	1	153	(48)	-	106
Balance at 31 December 2008	**(29,765)**	**(31,444)**	**(21,263)**	**(93)**	**(82,565)**
Tangible assets, net:					
Net balance at 31 December 2007	**97,585**	**9,101**	**3,828**	**1,276**	**111,790**
Net balance at 31 December 2008	**95,060**	**9,388**	**3,266**	**1,240**	**108,954**

At 31 December 2008, property, plant and equipment for own use totalling (gross) approximately EUR 44,793 thousand (EUR 46,894 thousand at 31 December 2007) had been depreciated in full.

At 31 December 2008 and 2007, the tangible assets owned by the Group were not impaired and there were no changes in this connection in those years.

The rental income earned from investment property owned by the Group amounted to approximately EUR 1,033 thousand in 2008 and EUR 1,058 thousand in 2008 (see Note 37).

Intangible assets 15

15.1 Intangible assets - Other intangible assets

The balance of "Other Intangible Assets" relates in full to computer software, developed mainly by the Group, which is amortised by the straight-line method on the basis of its estimated useful life over a period of three to five years. The breakdown of the balance of "Other Intangible Assets" in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Intangible assets with finite useful life	26,700	25,983
Less:		
Accumulated amortisation	(21,953)	(17,890)
Total, net	**4,747**	**8, 093**

At 31 December 2008 and 2007, the intangible assets owned by the Group were not impaired and there were no changes in this connection in those years.

At 31 December 2008 the balance of fully amortised intangible assets in use was EUR 11,512 thousand (31 December 2007: EUR 8,722 thousand).

The changes in 2008 and 2007 in "Other Intangible Assets" in the consolidated balance sheets were as follows:

	Thousands of Euros
Cost:	
Balance at 1 January 2007	23,073
Additions	2,910
Balance at 31 December 2007	**25,983**
Additions	717
Balance at 31 December 2008	**26,700**
Accumulated amortisation:	
Balance at 1 January 2007	(12,349)
Charge for the year (Note 42)	(5,541)
Balance at 31 December 2007	**(17,890)**
Charge for the year (Note 42)	(4,063)
Balance at 31 December 2008	**(21,953)**
Intangible assets, net:	
Net balance at 31 December 2007	**8,093**
Net balance at 31 December 2008	**4,747**

Other assets

16

The breakdown of the balance of "Other Assets" in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Prepayments and accrued income-		
Fees and commissions receivable	6,479	6,805
Prepayments	135	194
Other prepayments and accrued income	1,981	2,009
Other assets-		
Transactions in transit	6,477	17,278
Other	11,599	50,571
	26,671	**76,857**

"Prepayments and Accrued Income – Fees and Commissions Receivable" includes the accrued commissions receivable by the Group in relation to various services provided, basically in relation to the payment methods business and the custody business for collective investment undertakings and pension funds.

Financial liabilities at amortised cost

17

17.1 Breakdown

The detail of the items composing the balance of “Financial Liabilities at Amortised Cost” in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Deposits from central banks	286,714	1,026,523
Deposits from credit institutions	3,843,684	5,420,731
Customer deposits	2,760,784	4,468,590
Other financial liabilities	831,235	902,940
	7,722,417	11,818,784
Valuation adjustments	22,048	27,211
	7,744,465	**11,845,995**

17.2 Financial liabilities at amortised cost - Deposits from central banks

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Deposits from the Bank of Spain -		
Repurchase agreements	-	712,974
Deposits taken	11	3,464
Deposits from other central banks	286,703	310,085
	286,714	1,026,523
Valuation adjustments	36	2,010
	286,750	**1,028,533**

17.3 Financial liabilities at amortised cost - Deposits from credit institutions

The breakdown, by geographical area of residence of the counterparty and type of instrument, of the balance of this item in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
By geographical location:		
Spain	3,241,768	4,535,559
Other EMU countries	386,194	316,196
Rest of the world	222,228	580,156
	3,850,190	**5,431,911**
By type of instrument:		
Demand deposits and other-		
Other accounts	1,657,341	1,661,527
Time deposits-		
Time deposits	2,073,145	2,263,748
Repurchase agreements	113,198	1,495,456
	3,843,684	5,420,731
Valuation adjustments:	6,506	11,180
	3,850,190	**5,431,911**

17.4 Financial liabilities at amortised cost - Customer deposits

The breakdown, by geographical area of residence of the counterparty, type of instrument and type of counterparty, of the balance of this item in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
By geographical location:		
Spain	2,305,210	4,037,603
Other EMU countries	209,058	145,679
Rest of the world	262,022	299,329
	2,776,290	**4,482,611**
By counterparty:		
Resident public sector	453,116	1,649,351
Non-resident public sector	2,188	2,431
Other resident sectors	1,836,694	2,374,545
Other non-resident sectors	468,786	442,263
	2,760,784	4,468,590
Valuation adjustments	15,506	14,021
	2,776,290	**4,482,611**
By type of instrument:		
Current accounts	1,647,756	1,368,343
Other demand deposits	43,642	47,496
Fixed-term deposits	1,068,843	1,003,544
Repurchase agreements	543	2,049,207
	2,760,784	4,468,590
Valuation adjustments	15,506	14,021
	2,776,290	**4,482,611**

17.5 Financial liabilities at amortised cost - Other financial liabilities

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Payment obligations	8,602	6,736
Collateral received	286	58,618
Tax collection accounts	8,441	22,270
Special accounts	51,646	138,229
Other	762,260	677,087
	831,235	**902,940**

The balance of “Special Accounts” in the foregoing table includes, among other items, unsettled securities underwriting transactions and other unsettled transactions performed in organised markets totalling EUR 51,283 thousand at 31 December 2008 (31 December 2007: EUR 137,347 thousand).

The balance of "Other" in the above table includes EUR 609,019 thousand at 31 December 2008 (31 December 2007: EUR 563,392 thousand) relating to items arising from the operating procedures for interbank transfers settled through the Spanish National Electronic Clearing System, which certain federated savings banks centralise through the Confederación. The related balances are transitory and are settled on the first business day following the date on which they arose.

Provisions 18

18.1 Provisions (net)

The detail, according to the purpose of the net provisions recognised, of this item in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros	
	Net Additions/(Reversals)	
	2008	2007
Additions to/ (Reversal of) provisions for pensions and similar obligations (Note 18.2)	2,358	(5,455)
Additions to (Reversal of) provisions for contingent liabilities and commitments (Note 18.3)	-	(10)
Additions to/ (Reversal of) other provisions (Note 18.3)	31,481	(123)
	33,839	**(5,588)**

18.2 Provisions - Provisions for pensions and similar obligations

The breakdown of this item in the consolidated balance sheets at 31 December 2008 and 2007 and the changes therein in 2008 and 2007, are as follows:

	Thousands of Euros		
	Pension Obligations (Note 2.11.1)	Other Long-Term Benefits (Note 2.11.2.1)	Total
Balances at 1 January 2007	1,961	10,767	12,728
Net addition/ (reversal) charged/(credited) to income (Note 18.1)	(263)	(5,192)	(5,455)
Payments to early retirees and contributions to the external pension plan	-	(2,662)	(2,662)
Current service cost (Note 38)	964	-	964
Finance cost (Note 32)	60	194	254
Balances at 31 December 2007	**2,722**	**3,107**	**5,829**
Net addition/ (reversal) charged/(credited) to income (Note 18.1)	2,638	(280)	2,358
Payments to early retirees and contributions to the external pension plan	-	(1,595)	(1,595)
Current service cost (Note 38)	766	-	766
Finance cost (Note 32)	108	95	203
Balances at 31 December 2008	**6,234**	**1,327**	**7,561**

18.3 Provisions - Provisions for contingent liabilities and commitments and other provisions

The changes in 2008 and 2007 in the balances of these items in the consolidated balance sheets at 31 December 2008 and 2007 were as follows:

	Thousands of Euros	
	Provisions for Contingent Liabilities and Commitments (Notes 2.10 and 24)	Other Provisions
Balances at 1 January 2007	16	17,403
Net addition/ (reversal) charged/(credited) to income (Note 18.1)	(10)	(123)
Amounts used	-	(657)
Balances at 31 December 2007	**6**	**16,623**
Net addition/ (reversal) charged/(credited) to income (Note 18.1)	-	31,481
Amounts used	-	-
Balances at 31 December 2008	**6**	**48,104**

The balance of "Other Provisions" in the foregoing table includes the amounts allocated by the Group to cover certain liabilities and contingencies arising from its business activities.

Valuation adjustments

19

19.1 Valuation adjustments - Available-for-sale financial assets

This item in the consolidated balance sheets at 31 December 2008 and 2007 includes the amount, net of the related tax effect, of changes in the fair value of assets classified as available-for-sale assets (see Note 9) which, as stated in Note 2, should be recognised in the Group's consolidated equity; these changes are recognised in the consolidated income statements when the assets which gave rise to them are sold or when these assets become impaired. The accompanying consolidated statements of changes in equity show the changes in 2008 and 2007 in this item in the consolidated balance sheets at 31 December 2008 and 2007.

19.2 Valuation adjustments - Cash flow hedges

This item in the consolidated balance sheets includes the amount, net of the related tax effect, of the changes in the value of financial derivatives designated as hedging instruments in cash flow hedges, in respect of the portion of these changes considered to be "effective hedges" (see Notes 2.4 and 11).

The consolidated statements of changes of equity show the changes in 2008 and 2007 in this item in the consolidated balance sheets at 31 December 2008 and 2007.

20 Non-voting equity units and associated funds

"Other Equity Instruments – Non-Voting Equity Units and Associated Funds" in the consolidated balance sheets at 31 December 2008 and 2007 includes the carrying value of the 5,000 participation certificates of EUR 6,010.12 face value each, issued by the Confederación and fully subscribed and paid by the federated member savings banks. These certificates, which are deemed to be equity, can only be transferred between federated savings banks.

Under Article 48 of its bylaws, the Confederación is required to transfer at least 50% of its profit to reserves or allowances not allocable to specific assets, and to use the remainder to create and support community welfare projects, either on its own or in cooperation with other parties, and to remunerate participation certificate holders. The return on the participation certificates is proposed by the Confederación's Board of Directors and approved by the General Assembly (see Note 4).

21 Reserves - Accumulated reserves (losses)

The breakdown of "Reserves - Accumulated Reserves (Losses)" in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Reserves attributed to the Confederación:		
Voluntary reserves	509,594	477,186
Asset revaluation reserves	41,208	41,912
	550,802	**519,098**

Asset revaluation reserve

At, 31 December 2008 the balance of "Asset Revaluation Reserves" in the foregoing table includes the net reserves that arose on the revaluation of certain tangible assets on the date of first-time application of EU-IFRSs and Bank of Spain Circular 4/2004 (1 January 2004). The difference in the amount recognised in this connection at 31 December 2008 and 2007 relates to the amount transferred to unrestricted reserves in proportion to the depreciated amount of the assets (properties) revalued in 2008 on the basis of their useful lives.

Reserves (losses) of fully and proportionately consolidated entities

The detail, by entity, of the balances of "Accumulated Reserves (Losses)" relating to fully and proportionately consolidated entities in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Confederación	**549,769**	**518,118**
Caja Activa, S.A.	100	57
CEA Trade Services Limited	-	-
Reserves at subsidiaries	**100**	**57**
Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A.	933	923
Reserves at jointly controlled entities	**933**	**923**
Accumulated reserves (losses)	**550,802**	**519,098**

Tax matters

22

The Group companies file individual income tax returns in accordance with the applicable tax regulations.

22.1 Years open for review by the tax authorities

Pursuant to current legislation, tax settlements cannot be deemed to be definitive until they have been reviewed by the tax authorities or until the related statute-of-limitations period has expired. In 2008, the Spanish Tax Agency reviewed the tax returns of the main taxes applicable to the Confederación for 2004 to 2006. As a result of the audit, the related assessments, totalling EUR 824 thousand were issued by the tax authorities, signed on an uncontested basis and settled in 2008. Of this amount, EUR 540 thousand were recognised under "Income Tax" in the consolidated income statement for 2008 (see Note 22.2); EUR 129 thousand of late-payment interest were recognised under "Interest and Similar Charges" in the aforementioned account (see Note 32); and EUR 155 thousand of items other than income tax were recognised under "Other Operating Expenses" in the aforementioned consolidated income statement (see Note 40).

Accordingly, at 31 December 2008, the Confederación and the other Group entities generally have 2007 and subsequent years open for review by the tax authorities for all the taxes to which their business activities are subject.

Because of the varying interpretations that can be made of the tax legislation, the outcome of any reviews of the open years by the tax authorities might give rise to tax liabilities which cannot be objectively quantified at the present time. However, the tax advisers and directors of the Group consider that the possibility of material liabilities arising in this connection additional to those already recognised is remote.

22.2 Income tax

The detail of "Income Tax" in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Income tax expense for the year	13,407	13,994
Expense arising from tax assessments (Note 22.1)	540	-
Prior years' and other adjustments	(1,227)	(30)
	12,720	**13,964**

22.3 Reconciliation of accounting profit to taxable profit

The reconciliation of the income tax expense recognised for 2008 and 2007 to the consolidated accounting profit before tax multiplied by the tax rate applicable to the Confederación, and the income tax charge recognised at 31 December 2008 and 2007 are as follows:

	Thousands of Euros	
	2008	2007
Accounting profit before tax	54,481	54,246
Tax rate	30%	32,5%
	16,344	17,630
Permanent differences:		
Increases	480	849
Decreases	(1,500)	(2,256)
Total	**15,324**	**16,223**
(Tax credits)/(Tax relief)	(1,917)	(2,229)
Income tax expense for the year	**13,407**	**13,994**
Temporary differences:		
Increases	11,601	1,391
Decreases	(8,507)	(5,625)
Tax withholdings and prepayments	(7,886)	(8,993)
Income tax charge for the year (1)	**8,615**	**767**

(1) This amount is recognised under "Tax Liabilities - Current" in the consolidated balance sheets at 31 December 2008 and 2007.

The permanent decreases in the taxable profit in the foregoing table include, among other items, the deduction of EUR 4,800 thousand relating to the amounts the Confederación assigned to welfare projects in 2008 (2007: EUR 6,428 thousand) (see Note 4).

"Tax Credits/Tax Relief" in the foregoing table includes, inter alia, tax credits for double taxation of dividends regulated by the Consolidated Spanish Corporation Tax Law.

22.4 Tax recognised in equity

The income tax expense recognised directly in the Group's equity gave rise to a net credit of EUR 22,379 thousand in 2008 and a net charge of EUR 1,558 thousand in 2007 to "Valuation Adjustments".

22.5 Deferred taxes

Pursuant to the tax legislation in force, in 2008, 2007 and previous years certain temporary differences arose that must be taken into account when quantifying the related income tax expense. The deferred taxes recognised in the consolidated balance sheets at 31 December 2008 and 2007 were as follows:

	Thousands of Euros	
	2008	2007
Deferred tax assets arising from:		
Additions and contributions to pension provisions and funds and other long-term obligations to employees	13,473	14,407
Additions to provisions	9,410	4,677
Impairment losses	1,608	1,365
Available-for-sale debt instruments	10,334	3,541
Cash flow hedges	-	1,199
Other	1,996	1,809
	36,821	**26,998**

	Thousands of Euros	
	2008	2007
Deferred tax liabilities arising from:		
Revaluation of property	19,019	19,344
Capitalisation of intangible assets	516	1,098
Available-for-sale equity instruments	21,028	37,820
Available-for-sale debt instruments	6	-
	40,569	**58,262**

Fair value 23

23.1 Fair value of financial assets and liabilities

The fair value of the Group's financial instruments at 31 December 2008 and 2007 is broken down, by class of financial asset and liability, into the following levels in these consolidated financial statements:

LEVEL 1: financial instruments whose fair value was determined by reference to their quoted price in active markets, without making any change to these assets.

LEVEL 2: financial instruments whose fair value is estimated by reference to quoted prices in organised markets for similar instruments or using other valuation techniques in which all the significant inputs are based on directly or indirectly observable market data.

LEVEL 3: instruments whose fair value is estimated using valuation techniques in which certain significant inputs are not based on observable market data.

For the purposes of Levels 2 and 3, the prices were obtained using standard quantitative models fed by market data, which are either directly observable or can be calibrated or calculated using observable data. The most widely used models are the Black, Libor Market and Hull-White models for interest rates, the Black-Scholes model for equities and foreign currency, and the Jarrow-Turnbull and LHP models for credit products; the most common observable data are the interest rate, exchange rate and certain implied volatilities, and the most widely used non-observable data are implied correlations, certain implied volatilities and issuer curve spreads.

The fair value of the Group's financial instruments at 31 December 2008 and 2007, broken down as indicated above, is as follows:

FINANCIAL ASSETS - FAIR VALUE AT 31 DECEMBER 2008 -

	Thousands of Euros			
	Cash and Balances with Central Banks (Note 7)		Financial Assets Held for Trading (Note 8)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:				
Debt instruments	-	-	6,228,460	6,228,460
Equity instruments	-	-	23,877	23,877
Derivatives	-	-	109	109
	-	-	6,252,446	6,252,446
Level 2:				
Cash and balances with central banks	319,441	319,441	-	-
Loans and advances to credit institutions	-	-	-	-
Loans and advances to customers	-	-	-	-
Debt instruments	-	-	-	-
Equity instruments	-	-	-	-
Derivatives	-	-	1,995,569	1,995,569
	319,441	319,441	1,995,569	1,995,569
Level 3:				
Equity instruments carried at cost	-	-	-	-
	-	-	-	-
	319,441	**319,441**	**8,248,015**	**8,248,015**

Thousands of Euros					
Other Financial Assets at Fair Value Through Profit or Loss (Note 8)		Available-for-sale Financial Assets (Note 9)		Loans and Receivables (Note 10)	
Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
-	-	437,442	437,442	-	-
-	-	23,036	23,036	-	-
-	-	-	-	-	-
-	-	460,478	460,478	-	-
-	-	-	-	-	-
4,421,974	4,421,974	-	-	3,321,356	3,321,356
395,970	395,970	-	-	299,325	299,325
-	-	-	-	281,750	272,988
-	-	100,744	100,744	-	-
-	-	-	-	-	-
4,817,944	4,817,944	100,744	100,744	3,902,431	3,893,669
-	-	-	-	-	-
-	-	-	-	-	-
4,817,944	**4,817,944**	**561,222**	**561,222**	**3,902,431**	**3,893,669**

FINANCIAL LIABILITIES - FAIR VALUE AT 31 DECEMBER 2008 -

	Thousands of Euros			
	Financial Liabilities Held for Trading (Note 8)		Other Financial Liabilities at Fair Value Through Profit or Loss (Note 8)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:				
Derivatives	1,286	1,286	-	-
Short positions	277,443	277,443	-	-
	278,729	278,729	-	-
Level 2:				
Deposits from central banks	-	-	20,502	20,502
Deposits from credit institutions	-	-	2,282,949	2,282,949
Customer deposits	-	-	4,782,376	4,782,376
Derivatives	2,117,866	2,117,866	-	-
Other financial liabilities	-	-	-	-
	2,117,866	2,117,866	7,085,827	7,085,827
Level 3:				
Deposits from credit institutions	-	-	-	-
Customer deposits	-	-	-	-
Derivatives	-	-	-	-
Other financial liabilities	-	-	-	-
	-	-	-	-
Total	**2,396,595**	**2,396,595**	**7,085,827**	**7,085,827**

	Thousands of Euros	
	Financial Liabilities at Amortised Cost (Note 17)	
	Carrying Amount	Fair Value
	-	-
	-	-
	-	-
	286,750	286,750
	3,850,190	3,850,190
	2,776,290	2,776,290
	-	-
	831,235	831,235
	7,744,465	7,744,465
	-	-
	-	-
	-	-
	-	-
	-	-
	7,744,465	**7,744,465**

FINANCIAL ASSETS - FAIR VALUE AT 31 DECEMBER 2007 -

	Thousands of Euros			
	Cash and Balances with Central Banks (Note 7)		Financial Assets Held for Trading (Note 8)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:				
Debt instruments	-	-	1,528,008	1,528,008
Equity instruments	-	-	118,641	118,641
Derivatives	-	-	208	208
	-	-	1,646,857	1,646,857
Level 2:				
Cash and balances with central banks	640,201	640,201	-	-
Loans and advances to credit institutions	-	-	-	-
Loans and advances to customers	-	-	-	-
Debt instruments	-	-	-	-
Equity instruments	-	-	-	-
Derivatives	-	-	1,535,489	1,535,489
	640,201	640,201	1,535,489	1,535,489
Level 3:				
Equity instruments carried at cost				
	-	-	-	-
	-	-	-	-
	640,201	**640,201**	**3,182,346**	**3,182,346**

	Thousands of Euros			
	Available-For-Sale Financial Assets (Note 9)		Loans and Receivables (Note 10)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	341,620	341,620	-	-
	248	248	-	-
	-	-	-	-
	341,868	341,868	-	-
	-	-	-	-
	-	-	9,480,752	9,480,752
	-	-	476,158	476,158
	-	-	-	-
	148,274	148,274	-	-
	-	-	-	-
	148,274	148,274	9,956,910	9,956,910
	-	-	-	-
	-	-	-	-
	490,142	**490,142**	**9,956,910**	**9,956,910**

FINANCIAL LIABILITIES - FAIR VALUE AT 31 DECEMBER 2007 -

	Thousands of Euros			
	Financial Liabilities Held for Trading (Note 8)		Financial Liabilities at Amortised Cost (Note 17)	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Level 1:				
Derivatives	7	7	-	-
Short positions	312,095	312,095	-	-
	312,102	312,102	-	-
Level 2:				
Deposits from central banks	-	-	1,028,533	1,028,533
Deposits from credit institutions	-	-	5,431,911	5,431,911
Customer deposits	-	-	4,482,611	4,482,611
Derivatives	1,544,177	1,544,177	-	-
Other financial liabilities	-	-	902,940	902,940
	1,544,177	1,544,177	11,845,995	11,845,995
Level 3:				
Deposits from credit institutions	-	-	-	-
Customer deposits	-	-	-	-
Derivatives	-	-	-	-
Other financial liabilities	-	-	-	-
	-	-	-	-
	1,856,279	**1,856,279**	**11,845,995**	**11,845,995**

Thousands of Euros	
Hedging Derivatives (Note 11)	
Carrying Amount	Fair Value
-	-
-	-
-	-
-	-
-	-
-	-
3,996	3,996
-	-
3,996	3,996
-	-
-	-
-	-
-	-
-	-
3,996	**3,996**

It should be mentioned, with respect to the fair values included in the foregoing tables, that:

- The fair value of the loans and advances to credit institutions and the loans and advances to customers classified under "Loans and Receivables" in the foregoing tables is the same as their carrying amount since, in view of their features (counterparties, interest rates and maturities), their fair value is not significantly different from their amortised cost.

- The fair value of the asset balances relating to cash and balances with central banks shown in the foregoing tables was estimated to be the same as their carrying amount, since it was considered that the fair value of these items was not significantly different from their carrying amount.

- The fair value of the liabilities classified as financial liabilities at amortised cost in the foregoing tables was the same as their carrying amount, since it was considered that, in view of the maturities and interest rates of these liabilities, their fair value was not significantly different from their amortised cost.

Following is a detail of the changes in fair value of the Group's financial instruments in respect of unrealised gains and losses at 31 December 2008 and 2007 which were recognised in the consolidated financial statements for 2008 and 2007. The fair value of these financial instruments is calculated applying a valuation technique in which variables are obtained from observable market data (Level 2) or using valuation techniques in which certain significant inputs are not based on observable market data (Level 3):

	Thousands of Euros	
	2008 Net Gain/ (Loss)	2007 Net Gain/ (Loss)
Level 2		
Financial assets held for trading-		
- Derivatives	459,872	687,237
Other financial assets at fair value through profit or loss		
- Loans and advances to credit institutions	28,043	-
- Loans and advances to customers	1,141	-
Financial liabilities held for trading		
- Derivatives	(573,682)	(694,816)
Other financial liabilities at fair value through profit or loss		
- Deposits from central banks	(23)	-
- Deposits from credit institutions	(1,077)	-
- Customer deposits	265	-
Loans and receivables		
- Debt instruments	-	-
Available-for-sale financial assets		
- Debt instruments	-	-
- Equity instruments	-	-
	(85,461)	(7,579)
Level 3	-	-
	(85,461)	(7,579)

At 31 December 2008 and 2007 the Group had entered into various reverse repurchase agreements (see Notes 8.2.1 and 10) and upon maturity of these agreements the Group must return title to the securities used as collateral to the borrower. At 31 December 2008 and 2007 the fair value of the securities received as collateral in these reverse repurchase agreements does not differ significantly from their carrying amount.

23.1 Fair value of tangible assets

The only tangible assets owned by the Group whose carrying amount differs significantly from their fair value are the properties owned by it. At 31 December 2008, the carrying amount of these properties amounted to EUR 96,300 thousand and their estimated fair value at that date was EUR 172,970 thousand.

The aforementioned fair value was estimated by Tinsa, S.A. in 2008 using generally accepted valuation techniques.

24 Exposure to credit risk associated with financial instruments

24.1 Credit risk management objectives, policies and processes

One of the main risks to which the Group is exposed through its various operating units is credit risk, which is defined as the risk that affects, or might affect, results or capital as a result of non-compliance by a borrower with its contractual obligations, or of the borrower failing to act as agreed. This category includes:

- Principal risk: the risk of loss of the principal delivered.

- Replacement cost or counterparty risk: this relates to the counterparty's ability and intention to meet its contractual obligations on maturity. Credit risk exists throughout the term of the transaction, but it can vary from one day to the next due to the settlement mechanisms involved and to changes in the marking to market. Total credit risk exposure to counterparty must include the cost of replacing unmatured transactions at current market prices.

Replacement cost or counterparty risk is asymmetric and limited because the possibility of default does not affect the nominal amount of the transaction.

- Issuer risk: this risk arises when trading the financial assets of an issuer in primary and/or secondary markets and is defined as the risk of loss in value of these assets as a result of a change in the market perception of the issuer's economic and financial strength.

- Settlement or delivery risk: the risk that one of the parties to the transaction fails to deliver the agreed-upon consideration.

- Country risk: this is the feature that separates domestic and international risk. It is the credit risk associated with debts held by debtors in a given country due to circumstances other than normal commercial risk. It may take the form of transfer risk, sovereign risk or other risks arising from international financial activity.

- Concentration risk: measures the extent of the concentration of credit risk exposure to a specific geographical area/country, economic sector, product and customer group.

The Group has established certain procedures for the correct management of credit risk, the main features of which are as follows:

Credit risk analysis

At the Group, the process of assessing the credit quality of counterparties is closely linked with the assignment of limits. Thus, the Group assigns internal ratings to the various potential counterparties. This internal rating, together with the external agencies' ratings, contributes to the establishment of the maximum risk to be assumed with each entity. It also constitutes the basis for the acceptance and monitoring of risk.

The rating is the result of an analysis of various quantitative and qualitative factors which are assessed independently and receive a specific weighting for the calculating of the final rating. The final rating results from an independent assessment performed by the Group's analysts, which brings together the perception of the credit quality of the entities with which the Group wishes to transact business.

Credit risk monitoring and control

Credit risk is monitored through active portfolio management. The main aim is to detect, sufficiently in advance, any counterparties whose creditworthiness might be deteriorating. Systematic monitoring allows the whole of the portfolio to be classified into standard risk counterparties and counterparties under special surveillance. All the counterparties belonging to the latter category are assigned a specific policy regarding the action to be taken, which ranges from simply reviewing any changes in their creditworthiness to ceasing all transactions with this counterparty, and a period for the reviewing the assigned policy.

As in risk analysis, ratings constitute the primary basis for the risk monitoring process together with other variables including the country and type of business.

In addition, as part of the monitoring of the credit risk assumed in market operations, the adequacy of the contractual documentation supporting these operations is actively managed and monitored in conjunction with the Legal Department.

The control process comprises all the activities relating to the permanent checking of compliance with the established credit, counterparty and settlement risk limits, the management and reporting of overruns and the maintenance and update of product, customer, country and economic group parameterisations in the control tools.

Risk limit structure

The Confederación's general credit risk limit structure is divided into two major groups.

On one hand, there are the limits individually assigned to a counterparty, which determine the maximum level of risk (measured in terms of exposure) that the Group is willing to assume vis-à-vis a particular counterparty.

On the other, there are a series of limits associated with certain activities, which are assessed on a global basis.

This limit structure enables the Group to monitor its risk profile at all times to ensure that it is within the parameters defined by senior management.

Credit risk measurement methodology

CECA calculates credit risk exposure by applying the standardised approach provided for in current regulations. As a general rule, it is calculated as the sum of the current exposure or market value (mark-to market) plus an add-on to reflect potential future exposure.

The management tools provide real-time information on the utilisation of credit risk limits for each counterparty and economic group, thus facilitating the ongoing monitoring of any change and/or overrun of these limits.

In accordance with current legislation, the existence of guarantees and collateral reduce the credit risk of transactions for which they are provided.

Concentration risk

With regard to credit risk, concentration risk is an essential management tool. The Confederación constantly monitors the extent of its credit risk concentration under various salient classifications: country, rating, sector, economic group, etc.

The Group uses more conservative risk criteria for the management of concentration risk than those established by regulatory legislation, and this enables it to manage the available limits sufficiently comfortably with respect to the legally established concentration limits.

As regards geographical distribution, 95% of credit risk is to entities in countries with the highest credit ratings (AAA/AA). The highest exposure is in Spain (70%) followed by the other euro-zone countries (14.4%), with North America accounting for only 5% of the total.

Since the Confederación's bylaw-stipulated scope of operations focuses on the provision of financial services to savings banks, it has a high level of industry concentration. However, it must be borne in mind that such exposure is to a highly regulated and supervised segment.

24.2 Maximum credit risk exposure level

The following tables show the maximum level of exposure to credit risk assumed by the Confederación at 31 December 2008 and 2007 by class and category of financial instrument, without deducting the collateral or other guarantees received by the Group to ensure debtors meet their obligations:

31 DECEMBER 2008:

	Thousands of Euros	
	Assets	
	Financial Assets at Fair Value Through Profit or Loss	
	Financial Assets Held for Trading (Note 8.1) (1)	Other Assets (Note 8.2)
1 Debt instruments-		
1.1 Loans and advances to credit institutions	-	**4,299,456**
- Reverse repurchase agreements	-	4,299,456
- Time deposits	-	-
- Guarantee deposits on securities lending transactions	-	-
- Doubtful assets	-	-
- Other accounts and other	-	-
1.2 Debt instruments	**6,228,460**	-
- Government debt securities	6,089,040	-
- Spanish credit institutions	57,169	-
- Non-resident credit institutions	-	-
- Private sector (Spain)	342	-
- Private sector (rest of the world)	81,909	-
- Doubtful assets	-	-
1.3 Loans and advances to customers	-	**392,049**
- Reverse repurchase agreements	-	392,049
- Mortgage loans	-	-
- Guarantee deposits on securities lending transactions	-	-
- Other loans and credits	-	-
- Doubtful assets	-	-
- Other assets	-	-
Total debt instruments	**6,228,460**	**4,691,505**
2 Contingent liabilities -		
Financial guarantees (Note 30.1)	-	-
Documentary credits (Note 30.1)	-	-
Total contingent liabilities	-	-

Thousands of Euros			
Assets			
Available-for-Sale Financial Assets (Note 9)	Loans and Receivables (Note 10)	Memorandum Items	Total
-	**3,312,618**	-	**7,612,074**
-	-	-	4,299,456
-	1,861,597	-	1,861,597
-	557,866	-	557,866
-	1,155	-	1,155
-	892,000	-	892,000
468,015	**287,155**	-	**6,983,630**
80,759	-	-	6,169,799
57,447	9,102	-	123,718
11,991	-	-	11,991
223,550	14,973	-	238,865
94,268	245,488	-	421,665
-	17,592		17,592
-	**299,429**	-	**691,478**
-	7,000	-	399,049
-	39,889	-	39,889
-	52,440	-	52,440
-	30,898	-	30,898
-	5	-	5
-	169,197	-	169,197
468,015	**3,899,202**	-	**15,287,182**
-	-	18.235	18,235
-	-	70.113	70,113
-	-	**88.348**	**88,348**

Continued

31 DECEMBER 2008:

	Thousands of Euros	
	Assets	
	Financial Assets at Fair Value Through Profit or Loss	
	Financial Assets Held for Trading (Note 8.1) (1)	Other Assets (Note 8.2)
3 Other exposures -		
Derivatives	1,995,678	-
Contingent commitments (Note 30.3)	-	-
Total other exposures	**1,995,678**	**-**
4 Less: recognised impairment losses	**-**	**-**
Maximum credit risk exposure level (1+2+3+4)	**8,224,138**	**4,691,505**
Valuation adjustments	-	126,439
Total accounting balance	**8,224,138**	**4,817,944**

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2008.

Continuation

Thousands of Euros			
Assets			
Available-for-Sale Financial Assets (Note 9)	Loans and Receivables (Note 10)	Memorandum Items	Total
-	-	-	1,995,678
-	-	480,314	480,314
-	**-**	**480,314**	**2,475,992**
(1,190)	**(6,688)**	**(6)**	**(7,884)**
466,825	**3,892,514**	**568,656**	**17,843,638**
(29,383)	9,917	-	106,973
437,442	**3,902,431**	**568,656**	**17,950,611**

31 DECEMBER 2007:

	Thousands of Euros – Assets – Financial Assets at Fair Value Through Profit or Loss: Financial Assets Held for Trading (Note 8.1) (1)	Other Assets (Note 8.2)
1 Debt instruments -		
1.1 Loans and advances to credit institutions	-	-
- Reverse repurchase agreements	-	-
- Time deposits	-	-
- Guarantee deposits on securities lending transactions	-	-
- Doubtful assets	-	-
- Other accounts and other	-	-
1.2 Debt instruments	**1,528,008**	-
- Government debt securities	881,209	-
- Spanish credit institutions	110,561	-
- Non-resident credit institutions	3,707	-
- Private sector (Spain)	50,966	-
- Private sector (rest of the world)	481,565	-
- Doubtful assets	-	-
1.3 Loans and advances to customers	-	-
- Reverse repurchase agreements	-	-
- Mortgage loans	-	-
- Guarantee deposits on securities lending transactions	-	-
- Other loans and credits	-	-
- Doubtful assets	-	-
- Other assets	-	-
Total debt instruments	**1,528,008**	-
2 Contingent liabilities -		
Financial guarantees (Note 30.1)	-	-
Documentary credits	-	-
Total contingent liabilities	-	-

Thousands of Euros			
Assets			
Available-for-Sale Financial Assets (Note 9)	Loans and Receivables (Note 10)	Memorandum Items	Total
-	**9,424,097**	-	**9,424,097**
-	5,324,437	-	5,324,437
-	3,135,371	-	3,135,371
-	183,981	-	183,981
-	-	-	-
-	780,308	-	780,308
353,736	-	-	**1,881,744**
181,200	-	-	1,062,409
-	-	-	110,561
11,980	-	-	15,687
96,089	-	-	147,055
64,467	-	-	546,032
-	-	-	-
-	**475,627**	-	**475,627**
-	113,567	-	113,567
-	36,925	-	36,925
-	-	-	-
-	34,073	-	34,073
-	14	-	14
-	291,048	-	291,048
353,736	**9,899,724**	-	**11,781,468**
-	-	26,325	26,325
-	-	57,855	57,855
-	-	**84,180**	**84,180**

Continued

31 DECEMBER 2007:

	Thousands of Euros — Assets — Financial Assets at Fair Value Through Profit or Loss	
	Financial Assets Held for Trading (Note 8.1) (1)	Other Assets (Note 8.2)
3 Other exposures -		
Derivatives	1,535,697	-
Contingent commitments (Note 30.3)	-	-
Total other exposures	**1,535,697**	-
4 Less: impairment losses	-	-
Maximum credit risk exposure level (1+2+3+4)	**3,063,705**	-
Valuation adjustments	-	-
Total accounting balance	**3,063,705**	-

(1) The maximum credit risk exposure of the instruments included in the foregoing table was taken to be their fair value at 31 December 2007.

Continuation

	Thousands of Euros			
	Assets			
	Available-for-Sale Financial Assets (Note 9)	Loans and Receivables (Note 10)	Memorandum Items	Total
	-	-	-	1,535,697
	-	-	612,229	612,229
	-	-	**612,229**	**2,147,926**
	(1,195)	**(1,131)**	**(6)**	**(2,332)**
	352,541	**9,898,593**	**696,403**	**14,011,242**
	(10,921)	58,317	-	47,396
	341,620	**9,956,910**	**696,403**	**14,058,638**

With respect to the credit derivatives arranged by the Group, the foregoing tables include only the fair value thereof at 31 December 2008 and 2007, respectively.

The contingent liabilities are presented at the maximum amount guaranteed by the Group. In general, it is considered that most of these balances will expire without any actual financing obligation arising for the Group. The collateral on these transactions must also be taken into account (see Note 24.3 below). The (drawable) balances of the contingent liabilities are presented at the maximum amounts drawable by the counterparties.

24.3 Collateral received and other credit enhancements

Contractual netting and financial guarantee or collateral agreements

The Group's policy with regard to the arrangement of transactions involving financial derivative products, repos, sell/buy backs and securities lending is to enter into contractual netting agreements drafted by national or international associations. These agreements enable the transactions performed thereunder to be terminated and settled early in the event of default by the counterparty in such a way that the parties can only claim the net balance resulting from the settlement of such transactions.

Derivative financial instruments are arranged using ISDA Master Agreements, which are subject to the laws of England and Wales or the State of New York, or the Framework Agreement for Financial Transactions (CMOF) which is subject to Spanish law, depending on the counterparty. Financial guarantee agreements, namely the Credit Support Annex for ISDA Master Agreements and Appendix III for CMOFs, are entered into to hedge derivative financial instruments exceeding certain risk levels.

Standard Global Master Repurchase Agreements (GMRA) are entered into for repo and sell/buy back transactions, while standard European Master Agreement (EMA) or Global Master Securities Lending Agreements (GMSLA) are used for securities lending transactions. The clauses of these types of contractual netting agreements include regulations on the financial guarantees or spreads on the transactions.

Following is a detail of the Group's maximum credit risk exposure to each financial instrument class secured by collateral or other credit enhancements in addition to the personal guarantee of the borrower, disregarding recognised impairment losses, at 31 December 2008 and 2007:

31 DECEMBER 2008:

	Thousands of Euros			
	Secured by Spanish Government Debt Securities	Secured by Other Fixed-Income Securities	Secured by Shares	Netting Agreements
1 Debt instruments-				
1.1 Loans and advances to credit institutions	**177,492**	**4,121,964**	**557,866**	-
- Reverse repurchase agreements	177,492	4,121,964	-	-
- Guarantee deposits on securities lending transactions	-	-	557,866	-
- Time deposits	-	-	-	-
1.2 Debt instruments	-	-	-	-
1.3 Loans and advances to customers	**254,492**	**144,557**	**52,440**	-
- Reverse repurchase agreements	254,492	144,557	-	-
- Mortgage loans	-	-	-	-
- Guarantee deposits on securities lending transactions	-	-	52,440	-
Total debt instruments	**431,984**	**4,266,521**	**610,306**	-
2 Contingent liabilities-	-	-	-	-
Financial bank guarantees	-	-		-
Documentary credits	-	-	-	-
Total contingent liabilities				
3 Other exposures-				
Derivatives	-	-	-	1,011,203
Total other exposures	-	-	-	**1,011,203**
Total amount covered	**431,984**	**4,266,521**	**610,306**	**1,011,203**

Thousands of Euros

	Secured by Mortgage	Secured by Cash Deposits	Guaranteed by Credit Institutions	Total
	-	**895,482**	**-**	**5,752,804**
	-	-	-	4,299,456
	-	-	-	557,866
	-	895,482	-	895,482
	-	-	-	-
	39,889	**-**	**-**	**491,378**
	-	-	-	399,049
	39,889	-	-	39,889
	-	**-**	-	52,440
	39,889	**895,482**	**-**	**6,244,182**
	-	-	-	-
		16,816	1,419	18,235
	-	-	70,113	70,113
		16,816	**71,532**	**88,348**
	-	-	-	1,011,203
	-	-	-	**1,011,203**
	39,889	**912,298**	**71,532**	**7,343,733**

31 DECEMBER 2007:

	Thousands of Euros			
	Secured by Spanish Government Debt Securities	Secured by Other Fixed-Income Securities	Secured by Shares	Netting Agreements
1 Debt instruments-				
1.1 Loans and advances to credit institutions-	**1,618,328**	**3,706,109**	**183,981**	-
- Reverse repurchase agreements	1,618,328	3,706,109	-	-
- Guarantee deposits on securities lending transactions	-	-	183,981	-
- Time deposits	-	-	-	-
1.2 Debt instruments	-	-	-	-
1.3 Loans and advances to customers	**113,567**	-	-	-
- Reverse repurchase agreements	113,567	-	-	-
- Mortgage loans	-	-	-	-
Total debt instruments	**1,731,895**	**3,706,109**	**183,981**	-
2 Contingent liabilities-	-	-	-	-
Financial bank guarantees	-	-	-	-
Documentary credits	-	-	-	-
Total contingent liabilities				
3 Other exposures-				
Derivatives	-	-	-	761,524
Total other exposures	-	-	-	**761,524**
Total amount covered	**1,731,895**	**3,706,109**	**183,981**	**761,524**

Thousands of Euros			
Secured by Mortgage	Secured by Cash Deposits	Guaranteed by Credit Institutions	Total
-	**911,971**	-	**6,420,389**
-	-	-	5,324,437
-	-	-	183,981
-	911,971	-	911,971
-	-	-	-
36,925	-	-	150,492
-	-	-	113,567
36,925	-	-	36,925
36,925	**911,971**	-	**6,570,881**
-	-	-	-
-	-	26,325	26,325
-	-	57,855	57,855
		84,180	**84,180**
-	-	-	761,524
-	-	-	**761,524**
36,925	**911,971**	**84,180**	**7,416,585**

24.4 Credit quality of unimpaired, non-past-due financial assets

24.4.1. Analysis of credit risk exposure by credit rating

At 31 December 2008, 88% of the exposure had been rated by a credit rating agency recognised by the Bank of Spain. 97.5% of the exposure was rated as investment grade.

The distribution, by rating, of the rated exposure is as follows:

Level	Rating (*)	Percentage
1	AAA-AA	21.5%
2	A	61.8%
3	BBB	14.2%
4	BB	0.0%
5	B	0.6%
6	CCC and below	1.9%
	Total	**100%**

(*) The exposures were classified taking the most conservative of the ratings granted by the three rating agencies used to manage the Confederación's risk: Fitch, Moody's and S&P.

The table shows that Levels 1 and 2 account for 83.3% of rated exposure, and the savings banks account for 55% of this total.

Level 2 has the highest global exposure (61.8%) since most Spanish savings banks are in this category. 73.9% of Level 2 exposure is accounted for by the savings banks industry.

24.4.2. Classification of credit risk exposure by counterparty

Following is a detail, by counterparty, of the maximum credit risk exposure (disregarding recognised impairment losses) in connection with financial assets not past-due or impaired at 31 December 2008 and 2007:

31 DECEMBER 2008:

	Thousands of Euros		
	Resident Public Sector	Resident Credit Institutions	Other Resident Entities
1 Debt instruments-			
1.1 Loans and advances to credit institutions	-	**7,216,878**	-
- Reverse repurchase agreements	-	4,195,806	-
- Time deposits	-	1,673,791	-
- Guarantee deposits on securities lending transactions	-	557,596	-
- Other accounts	-	780,469	-
- Other	-	9,216	-
1.2 Debt instruments	**5,914,693**	**123,718**	**238,865**
1.3 Loans and advances to customers	**106**	-	**593,249**
- Reverse repurchase agreements	-	-	399,049
- Guarantee deposits on securities lending transactions	-	-	52,440
- Other loans and credits	106	-	23,690
- Mortgage loans	-	-	-
- Other assets	-	-	118,070
Total debt instruments	**5,914,799**	**7,340,596**	**832,114**
2 Contingent liabilities-			
Financial bank guarantees	-	1,419	-
Documentary credits	-	-	70,113
Total contingent liabilities	-	**1,419**	**70,113**
3 Other exposures-			
Derivatives	-	1,296,141	363,282
Contingent commitments	118,500	56,521	304,993
Total other exposures	**118,500**	**1,352,662**	**668,275**
Total	**6,033,299**	**8,694,677**	**1,570,502**

Thousands of Euros				
Other Residents	Non-resident Public Sector	Non-Resident Credit Institutions	Other non-Resident Sectors	Total
-	-	**394,041**	-	**7,610,919**
-	-	103,650	-	4,299,456
-	-	187,806	-	1,861,597
-	-	270	-	557,866
-	-	101,697	-	882,166
-	-	618	-	9,834
-	**255,106**	**11,991**	**421,665**	**6,966,038**
46,338	**3**	-	**51,777**	**691,473**
-	-	-	-	399,049
-	-	-	-	52,440
6,449	3	-	650	30,898
39,889	-	-	-	39,889
-	-	-	51,127	169,197
46,338	**255,109**	**406,032**	**473,442**	**15,268,430**
-	-	16,816	-	18,235
-	-	-	-	70,113
-	-	**16,816**	-	**88,348**
-	-	336,255	-	1,995,678
-	-	-	300	480,314
-	-	**336,255**	**300**	**2,475,992**
46,338	**255,109**	**759,103**	**473,742**	**17,832,770**

31 DECEMBER 2007:

	Thousands of Euros		
	Resident Public Sector	Resident Credit Institutions	Other Resident Entities
1 Debt instruments-			
1.1 Loans and advances to credit institutions	-	**6,022,707**	-
- Reverse repurchase agreements	-	2,827,047	
- Time deposits	-	2,400,739	-
- Guarantee deposits on securities lending transactions	-	145,258	-
- Other accounts	-	617,060	-
- Other	-	32,603	
1.2 Debt instruments	**1,011,349**	**51,877**	-
1.3 Loans and advances to customers	**100**	-	**397,358**
- Reverse repurchase agreements	-	-	113,567
- Guarantee deposits on securities lending transactions	-	-	-
- Other loans and credits	100	-	32,996
- Mortgage loans	-	-	-
- Other assets	-	-	250,795
Total debt instruments	**1,011,449**	**6,074,584**	**397,358**
2 Contingent liabilities-			
Financial bank guarantees	-	9,554	-
Documentary credits	-	-	57,855
Total contingent liabilities	-	**9,554**	**57,855**
3 Other exposures-			
Derivatives	-	1,219,648	149,873
Contingent commitments	-	142,952	468,977
Total other exposures	-	**1,362,600**	**618,850**
Total	**1,011,449**	**7,446,738**	**1,074,063**

	Thousands of Euros				
	Other Residents	Non-Resident Public Sector	Non-Resident Credit Institutions	Other non-Resident Sectors	Total
	-	**-**	**3,401,390**	**-**	**9,424,097**
			2,497,390	-	5,324,437
	-	-	734,632	-	3,135,371
	-	-	38,723	-	183,981
	-	-	91,839	-	708,899
			38,806		71,409
	209,444	**51,060**	**11,980**	**546,034**	**1,881,744**
	36,925	**37**	**-**	**41,193**	**475,613**
	-	-	-	-	113,567
	-	-	-	-	-
	-	37	-	940	34,073
	36,925	-	-	-	36,925
	-	-	-	40,253	291,048
	246,369	**51,097**	**3,413,370**	**587,227**	**11,781,454**
	-	-	16,771	-	26,325
	-	-	-	-	57,855
	-	**-**	**16,771**	**-**	**84,180**
	-	-	81,431	84,745	1,535,697
	-	-	-	300	612,229
	-	**-**	**81,431**	**85,045**	**2,147,926**
	246,369	**51,097**	**3,511,572**	**672,272**	**14,013,560**

24.5 Information on non-performing loans ratios

In view of the activities carried on by the Group and the risk profile assumed by it, its non-performing loans ratios, measured as doubtful assets as a percentage of total credit risk, were 0.10% and 0.0009% at 31 December 2008 and 2007, respectively.

24.6 Financial assets renegotiated in the year

In view of the activities carried on by the Group and the risk profile assumed by it, no financial instruments had their original financial terms and conditions significantly renegotiated in 2008 and 2007. Had any renegotiations not taken place, it is considered that such financial instruments would have matured or become impaired at 31 December 2008 and 2007.

24.7 Impaired assets

Following is a detail, by method used to calculate impairment losses, of the financial assets considered to be impaired due to credit risk at 31 December 2008 and 2007:

	Thousands of Euros		
	31 December 2008		
	Financial Assets Individually Assessed as Impaired	Financial Assets Collectively Assessed as Impaired	Total Impaired Assets
1 Debt instruments-			
1.1 Loans and advances to credit institutions	1,155	-	1,155
1.2 Debt instruments	17,592	-	17,592
1.3 Loans and advances to customers	5	-	5
Total debt instruments	**18,752**	-	**18,752**
2 Contingent liabilities-			
2.1 Financial bank guarantees	-	-	-
2.2 Documentary credits	-	-	-
Total contingent liabilities	-	-	-
3 Other exposures-			
3.1 Derivatives	-	-	-
3.2 Contingent commitments	-	-	-
Total other exposures	-	-	-
Total	**18,752**	-	**18,752**

Assets (secured loans) presented by the Group in the foregoing table as "individually impaired" at 31 December 2008 and 2007 were classified on the basis of an analysis of each such transaction, taking into account factors such as the financial position and solvency of the debtors, adverse changes in the fair value of the assets, giving rise to impairment, and other evidence justifying their classification as individually impaired under current legislation.

Thousands of Euros		
31 December 2007		
Financial Assets Individually Assessed as Impaired	Financial Assets Collectively Assessed as Impaired	Total Impaired Assets
-	-	-
-	-	-
14	-	14
14	**-**	**14**
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
14	**-**	**14**

In connection with the information provided in the foregoing tables, it should be noted that financial assets classified as at fair value through profit or loss which might be impaired due to credit risk were not included, since when such assets are measured at fair value, any impairment losses are recognised as an adjustment to fair value in the Group's consolidated financial statements.

All the transactions considered by the Group to be impaired at 31 December 2008 and 2007 were classified under the "Loans and Receivables" category.

24.8 Changes in impairment losses

Following are the changes in the impairment losses due to credit risk recognised by the Group in 2008 and 2007:

2008:

	Thousands of Euros		
	Balance at 1 January 2008	Net Additions (Reversals) Charged (Credited) to Income (**)	Transfers Between Items
1 Impairment losses not specifically identified			
1.1 Debt instruments-			
- Loans and advances to credit institutions	55	(16)	-
- Debt instruments	1,195	1,002	-
- Loans and advances to customers	1,062	(113)	-
Total debt instruments	**2,312**	**873**	-
1.2 Contingent liabilities-			
- Financial bank guarantees	6	-	-
Total contingent liabilities	6	-	-
1.3 Other exposures-	-	-	-
Total	**2,318**	**873**	-
2 Specifically identified impairment losses			
2.1 Debt instruments-			
- Loans and advances to credit institutions	-	289	-
- Debt instruments	-	4,399	-
- Loans and advances to customers	14	(8)	-
Total debt instruments	**14**	**4,680**	-
2.2 Contingent liabilities-			
Total contingent liabilities	-	-	-
2.3 Other exposures-	-	-	-
Total	**14**	**4,680**	-
Total impairment losses (1+2)	**2,332**	**5,553**	-

(*) Relating to adjustments for rounding to thousands of euros.
(**) The net charge for the year was recognised under "Impairment Losses on Financial Assets (net)" in the consolidated income statement for 2008 (see Note 41).

Thousands of Euros		
Amounts Used in the Year	Other Changes (*)	Balance at 31 December 2008
-	-	39
-	-	2,197
-	-	949
-	-	**3,185**
-	-	6
-	-	6
-	-	-
-	-	**3,191**
-	-	289
-	(1)	4,398
-	-	6
-	(1)	**4,693**
-	-	-
-	-	-
-	(1)	**4,693**
-	(1)	**7,884**

2007:

	Thousands of Euros		
	Balance at 1 January 2007	Net Additions/ (Reversals) Charged/ (Credited) to Income (**)	Transfers Between Items
1 Impairment losses not specifically identified			
1.1 Debt instruments-			
- Loans and advances to credit institutions	1,186	(1,131)	-
- Debt instruments	682	513	-
- Loans and advances to customers	1,129	(68)	-
Total debt instruments	**2,997**	**(686)**	-
1.2 Contingent liabilities-			
- Financial bank guarantees	16	(10)	-
Total contingent liabilities	16	(10)	-
1.3 Other exposures-	-	-	-
Total	**3,013**	**(696)**	-
2 Specifically identified impairment losses			
2.1 Debt instruments-			
- Loans and advances to credit institutions	-	-	-
- Debt instruments	-	-	-
- Loans and advances to customers	171	(9)	-
Total debt instruments	**171**	**(9)**	-
2.2 Contingent liabilities-	-	-	
Total contingent liabilities	-	-	-
2.3 Other exposures-	-	-	-
Total	**171**	**(9)**	-
Total impairment losses (1+2)	**3,184**	**(705)**	-

(*) Relating to adjustments for rounding to thousands of euros.
(**) EUR 695 thousand of the total were recognised with a credit to "Impairment Losses on Financial Assets (net)" (see Note 41) and EUR 10 thousand were recognised with a credit to "Provisions (net)" (see Note 18.3) in the consolidated income statement for 2007.

Amounts Used in the Year	Other Changes (*)	Balance at 31 December 2007
-	-	55
-	-	1,195
-	1	1,062
-	**1**	**2,312**
-	-	6
-	**-**	**6**
-	-	-
-	**1**	**2,318**
-	-	-
-	-	-
(148)	-	14
(148)	-	**14**
-	-	-
-	-	-
-	-	-
(148)	**-**	**14**
(148)	**1**	**2,332**

Thousands of Euros

Following is a detail, by financial instrument category, of the impairment losses recognised by the Group due to credit risk at 31 December 2008 and 2007:

31 DECEMBER 2008:

	Available-For-Sale Financial Assets	Loans and Receivables	Provisions for Contingent Liabilities and Commitments (Note 18.3)	Total
1 **Impairment losses not specifically identified**				
1.1 Debt instruments-				
- Loans and advances to credit institutions	-	39	-	39
- Debt instruments	1,190	1,007	-	2,197
- Loans and advances to customers	-	949	-	949
Total debt instruments	**1,190**	**1,995**	-	**3,185**
1.2 Contingent liabilities-				
- Financial bank guarantees	-	-	6	6
Total contingent liabilities	-	-	**6**	**6**
1.3 Other exposures-	-	-	-	-
Total	**1,190**	**1,995**	**6**	**3,191**
2 **Specifically identified impairment losses**				
2.1 Debt instruments-				
- Loans and advances to credit institutions	-	289	-	289
- Debt instruments	-	4,398	-	4,398
- Loans and advances to customers	-	6	-	6
Total debt instruments	-	**4,693**		**4,693**
2.2 Contingent liabilities-	-	-	-	-
2.3 Other exposures-	-	-	-	-
Total	-	**4,693**	-	**4,693**
Total impairment losses (1+2)	**1,190**	**6,688**	**6**	**7,884**

31 DECEMBER 2007:

	Available-For-Sale Financial Assets	Loans and Receivables	Provisions for Contingent Liabilities and Commitments (Note 18.3)	Total
1 **Impairment losses not specifically identified**				
1.1 Debt instruments-				
- Loans and advances to credit institutions	-	55	-	55
- Debt instruments	1,195	-	-	1,195
- Loans and advances to customers	-	1,062	-	1,062
Total debt instruments	**1,195**	**1,117**	-	**2,312**
1.2 Contingent liabilities-				
- Financial bank guarantees	-	-	6	6
Total contingent liabilities	-	-	**6**	**6**
1.3 Other exposures-	-	-	-	-
Total	**1,195**	**1,117**	**6**	**2,318**
2 **Specifically identified impairment losses**				
2.1 Debt instruments-				
- Loans and advances to credit institutions	-	-	-	-
- Debt instruments	-	-	-	-
- Loans and advances to customers	-	14	-	14
Total debt instruments	-	**14**	-	**14**
2.2 Contingent liabilities-	-	-	-	-
2.3 Other exposures-	-	-	-	-
Total	-	**14**	-	**14**
Total impairment losses (1+2)	**1,195**	**1,131**	**6**	**2,332**

As previously stated, pursuant to the applicable legislation, the Group does not calculate impairment losses due to credit risk on equity instruments owned by the Group (impairment losses on these financial assets are calculated as set forth in Note 2.9) and on debt instruments classified at fair value through profit or loss since, because they are carried at fair value, any changes in fair value due to credit risk are recognised immediately in the consolidated income statement. Accordingly, these impairment losses are not included in the foregoing tables.

24.9 Past-due but not impaired assets

At 31 December 2008 and 2007 the Group had not recognised any material past-due but not impaired assets in its consolidated financial statements.

24.10 Write-off of impaired financial assets

At 31 December 2008 and 2007 the Group did not have any material financial assets that, pursuant to the criteria set forth in Note 2, had been written off due to credit risk, and there were no significant changes in this connection in 2008 and 2007.

24.11 Other disclosures on credit risk

At 31 December 2008 and 2007 the amount of accrued uncollected past-due receivables on impaired financial assets was not material.

In 2008 and 2007 no guarantees associated with financial assets owned by the Group were executed in order to guarantee the collection thereof.

Exposure to market risk 25

25.1 Market risk management objectives, policies and processes

Market risk is defined as the risk that affects results or capital as a result of adverse changes in the prices of bonds, securities and commodities and in the exchange rates of transactions recognised in the trading book. This risk arises in market making and trading activities and the taking of positions in bonds, securities, foreign currencies, commodities and derivatives (on bonds, securities, currencies and commodities). This risk includes foreign currency risk, which is defined as the actual or potential risk that affects results or capital as a result of adverse changes in exchange rates in the banking book. In view of the composition of the Group, the market risk to which it is exposed mainly relates to the activities carried on by the Confederación.

The Confederación's exposure to market risk arises from several financial factors affecting market prices. These factors include mainly, but not only, the following:

- Interest rates in each country and product type.
- Spreads of each instrument over the risk-free interest rate curve (including credit and liquidity spreads).
- Market liquidity levels.
- Price levels.
- Exchange rates.
- Levels of volatility of the above factors.

At the Confederación, Value at Risk ("VaR") provides an integrated measure of market risk and encompasses the basic elements thereof: interest rate risk, spread risk, foreign currency risk, equity risk and the risk of volatility of the foregoing factors.

Interest rate risk

Interest rate risk is the exposure to market fluctuations due to changes in the general level of interest rates. The exposure to interest rate risk can be divided into the following two elements:

Directional, slope and basis risk

Directional risk is the sensitivity of income to parallel shifts in the interest rate curve, while interest rate curve risk is the sensitivity of gains to changes in the structure of the rate curve, due to a change either in the slope or the shape of the curve.

Basis risk is the potential loss arising from unexpected changes in the spreads between the various interest rate curves with respect to which portfolio positions are held. Liquidity conditions in markets and the perception of the specific risk usually trigger this type of fluctuation, although other factors can also play a part.

The Confederación controls all the interest rate risks described above using VaR, which includes all the factors relevant to the measurement thereof, covering the maturity spectrum and all the relevant curves (including specific industry curves by rating).

Spread risk

Spread risk arises from holding corporate bond positions (and credit derivatives) and is defined as the exposure to the specific risk of each issuer.

Certain circumstances relating to the market and/or the issue itself can widen the spreads due to the liquidity premium.

The Confederación's VaR model also includes these risk factors.

Foreign currencies

In view of its foreign currency and international capital markets operations, the Confederación is exposed to the following two types of foreign currency risk:

Foreign exchange risk

Foreign exchange risk arises on the net positions of one currency against the euro or one currency against another. Therefore, foreign exchange risk is the potential fluctuation in spot exchange rates affecting the value of positions.

Interest rate spread risk

Net interest rate spread risk arises from the difference between interest rates in two different currencies and its effect on forward foreign currency positions.

The Confederación measures both of these risks using VaR and includes exchange rates and currency yield curves as risk factors.

Equity risk

This represents the risk of incurring losses as a result of changes in share prices.

The Confederación includes the measurement of this risk in the calculation of VaR, which includes the main international stock market indexes as risk factors and “maps” the positions in individual securities to these indexes through their betas (correlation between the behaviour of a specific security and the related benchmark index). This pertains to the parametric methodology for calculating VaR, since the VaR calculated by the historical simulation methodology includes the specific risk of each of the securities in the portfolio.

Volatility risk

As part of its portfolio management activities, the Confederación arranges options on various underlyings on a habitual basis.

The most immediate way of measuring the risk of these options is through their delta, a parameter that proxies the risk of an option as an equivalent position in another simpler (linear) instrument.

But the non-linear nature of the value of options makes it advisable, in the case of complex options, basically to perform additional monitoring of the other parameters affecting the value of the option, which are as follows:

Delta risk

Delta measures the change in the value of the option arising from a one-point change in the price of the underlying asset. Accordingly, delta risk is the exposure to unexpected changes in the value of the option portfolio as a result of changes in the prices of the underlying instruments.

Gamma risk

The gamma of an option measures the sensitivity of its delta to a one-point change in the price of the underlying asset. It represents the risk that the delta of an option portfolio may vary as a result of a change in the prices of the underlying assets.

Vega risk

Vega is a measure of the sensitivity of the value of an option to a one-point change in the volatility of the price of the underlying asset.

Theta risk

Theta risk relates to the decline in the value of option positions as a consequence of the passage of time.

The Confederación measures delta and vega risk through the parametric VaR and measures options risks using historical simulation VaR, since this methodology is based on the complete revaluation of options.

For transactions with certain complex exotic options which are particularly complicated to manage and measure, the Confederación's general policy is to eliminate this risk from the portfolio by arranging back-to-back transactions in the market.

25.2 Market risk measurement

The methodology used to measure market risk is as follows.

VaR is calculated and monitored in the same way for available-for-sale and investment securities as it is for the trading book, although at present market risk limits have not been set for these portfolios.

Value at Risk

As stated above, VaR is the indicator used to monitor market risk exposure limits. It provides a unique measure of market risk by bringing together the following basic aspects:

- Interest rate risk.
- Credit spread risk.
- Foreign currency risk.
- Equity risk.
- Volatility risk (for optionalities).
- Liquidity risk.

Parametric VaR

The VaR measure used to monitor the limits described above is parametric VaR with the following features:

- Time horizon: 1 day
- Confidence interval: 99%
- Decay factor: 0.97
- Depth of the series: 250 trading days

It is calculated daily and the base currency is the euro.

In addition to the total VaR of the Treasury Room, VaR is also obtained for the long- and short-term areas and for each desk in each area.

The distribution of the VaR of the trading book by desk at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Money and currency markets	630	1,070
Fixed-income and equities trading	233	126
Loan trading	112	158
Derivatives and structured products	235	275

Every day the Confederación calculates and reports an analytical measure derived from VaR known as the Component VaR of market risk, which enables the total risk contributed by each position and market risk factor (risk concentration) to be known and the sensitivity of VaR to changes in portfolio positions to be proxied.

Component VaR can be obtained at a higher level of disaggregation and is reported by:

- Product
- Risk vertex

Backtesting

At present the Confederación is performing a dirty backtest (the results include fees and commissions and the results of intraday operations), and a clean backtesting model is being implemented, in which the aforementioned factors are filtered, since it is considered necessary to analyse both tests in order to ascertain the accuracy of the potential loss estimation model.

Historical simulation VaR

In addition to the matters described in the preceding sections, in order to make up for the other limitations of parametric VaR (treatment of options, assumption of normality and proxy through betas on indexes), historical simulation VaR is also calculated and reported daily to test the risk estimate obtained using this other methodology.

Historical simulation VaR uses historical data (provided by the Confederación's Market Data Service) to calculate the changes in market risk factors, which are applied to current values to generate simulated gain and loss distributions without making any a priori assumptions regarding the form thereof, since only the actual distribution is used.

To make the data comparable, the model uses the same parameters regarding confidence levels, time decay factors, data series and time horizon of the estimate as those used to calculate parametric VaR.

Management results

Starting with risk tools, management results for the trading portfolios are calculated daily using the prices and curve levels provided by the Market Data Service.

The method used is mark-to-market for positions with directly observable market prices (debt, Treasury bills, futures, exchange-traded options) and mark-to-model (theoretical valuation) with market inputs for transactions without quoted prices (deposits, OTC derivatives, etc.).

Sensitivity measures

Although limits are structured with respect to the VaR measure that combines all types of risks and portfolios in a single indicator, there is a series of supplementary measures to monitor exposure to market risk, which are quantified and reported daily. The sensitivity measures performed by the Confederación are as follows:

Total delta

ensitivity of net present value (NPV) to parallel shifts in the interest rate curve.

Curve risk

Sensitivity of NPV to changes in the maturity structure of the interest rate curve due to changes in the slope or the shape of the curve in particular tranches.

Spread risk

Measurement of the specific risk assumed to bond issuers.

Liquidity risk is also quantified taking into account the nature of portfolio positions and the situation in the financial markets.

Exchange rate sensitivity

Sensitivity of the NPV of foreign currency positions in the portfolio to changes in exchange rates.

Price sensitivity

Sensitivity of the NPV of equity positions in the portfolio to changes in the prices of the securities held.

Volatility sensitivity

Sensitivity of the NPV of option positions in the portfolio to changes in the volatility of the underlyings (vega risk).

Stress testing

The purpose of stress tests is to estimate the effects, in terms of losses, of an extreme movement in the market on the current portfolio. To this end, one or more worst case scenarios of price and interest rate fluctuations are defined based on real situations observed in the past or other situations that might arise.

The inclusion of the results of the stress tests in reporting systems enables traders and managers to be informed of the losses that might be incurred in extreme scenarios and facilitates the identification of the portfolio's risk profile in such situations.

25.3 Market risk limits

The market risk of the trading book is measured through VaR, using both the parametric and historical simulation methodologies (for the purposes of usage of limits, the former is currently used), including diversification and risk correlation (diversification benefits) criteria.

The general limit structure is determined by the following guidelines:

- The Board of Directors reviews and ratifies changes to limits proposed by the ALCO.
- The ALCO establishes a general framework of limits for the measurement of market risk.

Treasury room limits, monitoring and authorisation of limit overruns

There are two limit structures to control the market risk of Treasury activities:

- VaR limits measure the maximum authorised potential loss for a one-day time horizon based on the size and composition of the portfolio's risk exposure at the close of each day.
- Stop loss limits set the maximum authorised actual losses for both the Treasury Room and the various desks composing it, and include the results of intraday transactions. There are monthly and annual limits.

The stop loss limits are reviewed every six months and the review takes place at the same time as the review of VaR limits.

Liquidity risk 26

26.1 Liquidity risk management objectives, policies and processes

The aim of the Confederación (the Group entity in which liquidity risk is basically concentrated) as regards liquidity risk is to have in place at all times the instruments and processes to enable it to meet its payment commitments on a timely basis, so that it has available to it the instruments to enable it to maintain sufficient levels of liquidity to meet its payment commitments without significantly compromising the Confederación's results and, accordingly, the Group's results, and to maintain the mechanisms to enable it to meet its payment commitments in the event of various eventualities.

Traditionally, the Confederación has generally had several ways of obtaining liquidity, including attracting customer deposits, the availability of various cash facilities at official agencies and raising liquidity through the interbank market.

It should be mentioned in this context that the financial crisis that is affecting international and domestic markets, and which was caused by the so-called US sub-prime crisis, gave rise to a severe contraction in the financial markets and, accordingly, a significant decrease in the various sources of funding for international and domestic credit institutions. Thus, the raising of funds in the interbank market was considerably affected by the aforementioned financial crisis.

Accordingly, due to the situation in the financial markets, in 2008 certain decisions were taken with a view to adapting the Confederación to the new situation and ensuring that it has the liquidity required to enable it to meet its payment commitments on a timely basis and attain its strategic and operating investment and growth targets. Mention must be made of the adoption by the Confederación of a series of specific measures in 2008 to protect it from the systemic crisis, pursuant to a previously established plan.

Liquidity risk

Liquidity risk is defined as:

- The uncertainty regarding the availability, at reasonable prices, of funds to enable the Confederación to meet its commitments when recourse to external financing is difficult for a particular period of time.

- The maintenance or generation of levels of liquidity required to finance future business growth.

In other words, this risk reflects the probability of incurring losses or having to reject new business or growth in current business as a result of being unable to meet commitments normally when they fall due or being unable to finance additional needs at market rates. In order to mitigate this risk, the Confederación periodically monitors its liquidity conditions and assesses any action that may be required. Furthermore, the Group has planned measures to enable it to restore the Confederación's overall financial equilibrium in the event of a possible shortfall in liquidity.

26.2 Liquidity risk measurement

Following is a detail the measures employed by the Methodology and Treasury Control Division to measure liquidity risk.

Liquidity gap

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising therefrom) and shows the mismatch structure in the Confederación's balance sheet in terms of cash inflows and outflows.

It reflects the liquidity level maintained under normal market conditions and provides information on contractual and non-contractual cash inflows and outflows for a given period under certain assumptions regarding behaviour.

It is calculated monthly.

Liquidity inventory

At least twice a day, a list is made to enable monitoring of available liquid assets in order to identify possible available sources of liquidity in the event of a liquidity contingency.

Liquidity ratios

The purpose of liquidity ratios is to value and measure the Confederación's on-balance-sheet liquidity, as follows:

- Structural liquidity ratio: the purpose of this ratio is to identify the Confederación's funding mismatch, showing the liquidity generation structure and funding/lending structure by maturity.

- Short-term liquidity ratio: this ratio estimates the Confederación's potential capacity to generate liquidity in a period of seven days in order to cater for a liquidity eventuality over a particular time period.

Stress scenarios, in which the unavailability of various sources of funding is combined with scenarios of the immediate withdrawal by customers of positions classified as stable, are also analysed.

- Survival ratio: this ratio estimates the period of time for which the Confederación can meet its liquidity commitments for a seven-day period in the event of a lack of access to the interbank market or alternative sources of funding. As with the previous ratio, scenarios of the unavailability of sources of funding envisaged in the calculation are combined with scenarios of the immediate withdrawal by customers of positions classified as stable.

As part of the specific action programme arising as a result of the situation in the financial markets, the aforementioned ratios are monitored more frequently and the impact that potential stress scenarios might have on the Confederación's liquidity position is analysed. Also, a series of warning indicators showing the intensity of the liquidity crisis is monitored daily and a detailed permanently updated inventory is conducted of the capacity to liquefy on-balance-sheet assets.

26.3 Liquidity risk limits

As part of its function of monitoring the Confederación, the Board of Directors establishes a framework of liquidity risk limits based on monitoring the Confederación's short-term liquidity position.

In particular, limits were established on the following indicators:

- Short-term liquidity ratio:

This ratio estimates the Confederación's potential capacity to generate liquidity to meet its payment commitments over a given period of time on the assumption that recourse cannot be had to the interbank market.

Capability to generate liquidity includes:

- Collections from the current portfolio.
- Capability to continue to discount eligible paper.
- Potential liquidity, which is all cashable assets except repurchase agreements.

Also, in order to provide complete information to facilitate optimum liquidity management, an additional stress scenario is included which envisages an immediate withdrawal at one day of 20% of stable funding.

- Gap de liquidez a 1 mes respecto a financiación estable:

This ratio measures the net refinancing requirement at one month with respect to the amount of financing considered not to be volatile (i.e. the number of times by which the net refinancing requirement at one month exceeds the Confederación's stable funding). Thus, a limit can be placed on the level of concentration of the net lending position at very short term in relation to the amount of stable funding in an attempt to ensure that the term structure of the Confederación's funding is as balanced as possible.

Any overrun of these limits must be authorised by the ALCO and, when it is considered necessary, such overruns must be reported to the Board of Directors together with an action plan to correct the situation.

26.4 Analysis of the liquidity gap

The liquidity gap is the profile of maturities and settlements by risk type (assets and liabilities classified by residual maturity plus the interest flows arising from all the balance sheet aggregates) and shows the mismatch structure in the balance sheet in terms of cash inflows and outflows. Its purpose is to measure the net funding required or the net excess of funds for various time horizons. Accordingly, it reflects the liquidity level maintained under normal market conditions. This measure provides information on contractual and non-contractual cash inflows and outflows (using certain historical-behaviour-based assumptions).

Following is a detail at 31 December 2008 and 2007 of the Confederación's main financial assets and liabilities (other than derivatives) at those dates, classified by residual maturity and estimated on the basis of their contractual conditions, excluding the related valuation adjustments:

ASSETS: AT 31 DECEMBER 2008

	Thousands of Euros	
	On Demand	Less than 1 Month
Assets:		
Cash and balances with central banks	83,502	235,927
Financial assets held for trading - Debt instruments	-	83,876
Financial assets held for trading - Other equity instruments	-	-
Other financial assets at fair value through profit or loss - Loans and advances to credit institutions	-	821,292
Other financial assets at fair value through profit or loss - Loans and advances to customers	-	175,142
Available-for-sale financial assets - Debt instruments (*)	-	44,932
Available-for-sale financial assets - Other equity instruments (**)	-	-
Loans and receivables - Loans and advances to credit institutions	812,566	1,286,897
Loans and receivables - Loans and advances to customers	127,855	125,515
Loans and receivables - Debt instruments	-	-
Total at 31 December 2008	**1,023,923**	**2,773,581**

Thousands of Euros				
1 to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total
-	-	-	-	319,429
72,976	3,906,761	2,092,302	72,545	6,228,460
-	-	-	23,877	23,877
1,670,305	1,807,859	-	-	4,299,456
85,483	131,424	-	-	392,049
10,040	12,136	110,367	261,157	438,632
-	-	-	123,780	123,780
266,095	250,121	695,211	1,728	3,312,618
441	1,956	8,551	35,111	299,429
-	868	19,828	266,459	287,155
2,105,340	**6,111,125**	**2,926,259**	**784,657**	**15,724,885**

LIABILITIES: AT 31 DECEMBER 2008

	Thousands of Euros	
	On Demand	Less than 1 Month
Liabilities:		
Financial liabilities held for trading - short positions	12,854	220,032
Other financial liabilities at fair value through profit or loss - Deposits from central banks	-	-
Other financial liabilities at fair value through profit or loss - Deposits from credit institutions	-	1,817,592
Other financial liabilities at fair value through profit or loss - Customer deposits	-	4,767,041
Financial liabilities at amortised cost - Deposits from central banks	-	286,702
Financial liabilities at amortised cost - Deposits from credit institutions	1,370,297	2,150,563
Financial liabilities at amortised cost - Customer deposits	1,691,398	66,472
Total at 31 December 2008	**3,074,549**	**9,308,402**
Assets minus liabilities at 31 December 2008	**(2,050,626)**	**(6,534,821)**

(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.
(**) Presented at fair value.

Thousands of Euros				
1 to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total
-	44,557	-	-	277,443
20,389	-	-	-	20,389
38,190	422,555	-	-	2,278,337
14,967	-	-	-	4,782,008
12	-	-	-	286,714
87,711	218,695	38	16,380	3,843,684
98,506	203,347	696,965	4,096	2,760,784
259,775	**889,154**	**697,003**	**20,476**	**14,249,359**
1,845,565	**5,221,971**	**2,229,256**	**764,181**	**1,475,526**

ASSETS: AT 31 DECEMBER 2007

	Thousands of Euros	
	On Demand	Less than 1 Month
Assets:		
Cash and balances with central banks	40,134	600,000
Financial assets held for trading - Debt instruments	-	19,930
Financial assets held for trading - Other equity instruments	-	-
Available-for-sale financial assets - Debt instruments (*)	-	80,615
Available-for-sale financial assets - Other equity instruments (**)	-	-
Loans and receivables - Loans and advances to credit institutions	779,974	5,055,032
Loans and receivables - Loans and advances to customers	42,202	336,845
Total at 31 December 2007	**862,310**	**6,092,422**

LIABILITIES: AT 31 DECEMBER 2007

	Thousands of Euros	
	On Demand	Less than 1 Month
Liabilities:		
Financial liabilities held for trading - Short positions	25,230	278,506
Financial liabilities at amortised cost - Deposits from central banks	-	872,525
Financial liabilities at amortised cost - Deposits from credit institutions	1,661,528	3,383,434
Financial liabilities at amortised cost - Customer deposits	1,415,839	2,086,917
Total at 31 December 2007	**3,102,597**	**6,621,382**
Assets minus liabilities at 31 December 2007	**(2,240,287)**	**(528,960)**

(*) Including valuation adjustments relating to accrued interest and valuation gains or losses.
(**) Presented at fair value.

Thousands of Euros				
1 to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total
-	-	-	-	640,134
39,744	579,523	342,269	546,542	1,528,008
-	-	-	118,641	118,641
-	2,521	167,663	92,016	342,815
-	-	-	148,522	148,522
1,227,203	1,591,054	770,062	772	9,424,097
20,878	34,877	8,713	32,112	475,627
1,287,825	**2,207,975**	**1,288,707**	**938,605**	**12,677 844**

Thousands of Euros				
1 to 3 Months	3 to 12 Months	1 to 5 Years	After 5 Years	Total
-	8,359	-	-	312,095
153,998	-	-	-	1,026,523
197,323	161,143	924	16,379	5,420,731
31,564	157,190	772,505	4,575	4,468,590
382,885	**326,692**	**773,429**	**20,954**	**11,227,939**
904,940	**1,881,283**	**515,278**	**917,651**	**1,449,905**

With a view to the correct interpretation of the information contained in the foregoing tables, it should be stated that the assets and liabilities were classified therein in accordance with their contractual terms and conditions and, accordingly, there are liabilities, such as current accounts on the liability side of the consolidated balance sheet, which are more stable and more permanent than "on demand" (the criteria used to classify them in the foregoing tables). Also, the assets classified as financial assets held for trading will generally be realised earlier than their respective maturity dates (the criterion used to classify them in the foregoing tables).

Interest rate risk 27

27.1 On-balance-sheet interest rate risk management objectives, policies and processes

The Group's on-balance-sheet interest rate risk management objectives are as follows:

- To establish appropriate mechanisms to avoid unexpected losses from the impact of changes in interest rates by protecting the net interest margin and the economic value of capital.

- To adopt lending and hedging strategies that offset the financial impact of changes in interest rates at short term (net interest margin) and at long term (economic value of capital).

- To ensure adequate levels of liquidity to facilitate business growth at optimum funding costs by ensuring an appropriate level of short-term liquid assets and managing medium/long-term changes in liquidity through issues of promissory notes or by any other means.

- To execute lending and hedging strategies that boost the generation of earnings under approved risk limits.

To attain the objectives described above the Group has created an on-balance-sheet structural risk limit structure to guarantee that risk exposure levels are within the tolerance level set by senior management.

The Board of Directors defines the general framework for the management of the balance sheet and approves the risk limits based on its risk tolerance. Structural risks are managed at short, medium and long term using limits that are approved by the Board itself and monitored on a monthly basis.

Senior management is actively involved in on-balance-sheet risk management through the Asset-Liability Committee (ALCO). This committee is responsible for taking the action required to correct any possible on-balance-sheet risk imbalances.

The Methodology and Treasury Control Division is responsible for ensuring that the Group's exposure to fluctuations in interest rates remains within the levels approved by the Board, and for measuring, analysing and monitoring the on-balance-sheet structural risk management performed by the Finance Division.

On-balance-sheet structural interest rate risk can be defined as the exposure of the economic and financial position -resulting from the varying maturity and repricing dates of balance sheet items- to adverse fluctuations in interest rates. This risk is a substantial part of the banking business and can considerably affect the net interest margin and the economic value of capital. Consequently, interest rate risk management that keeps this risk at prudent levels is essential to the security and strength of the Group.

27.2 On-balance-sheet interest rate risk measurement

Analysis of the repricing gap

The objective of gap analysis is to measure the excess or shortfall in the volume of sensitive assets over sensitive liabilities, which is the unmatched (and therefore unhedged) volume subject to possible changes in interest rates. Thus, risk exposure is identified by studying the concentration of aggregates with repricing risk for significant time periods.

The interest rate gap reflects the Group's interest rate risk exposure based on the maturity and/or repricing structure of its positions. This indicator enables the Group to be aware of its interest rate risk exposures over the various maturities and thus attempt to ascertain where potential impacts might affect net interest margin and the market value of equity.

The interest rate gap is constructed by distributing by term the sensitive on-balance-sheet and off-balance-sheet banking book positions and balances. Items having no set maturity or repricing dates are allocated on the basis of historical-behaviour assumptions.

The interest rate risk gap at 2008 year-end, at aggregate level, is as follows:

TOTAL INTEREST

	1 Day to 1 Month	1 to 3 Months	3 to 6 Months
1 Assets	**2,805,279**	**194,397**	**95,128**
1.1 Loans and advances to credit institutions	2,516,523	-	-
1.2 Loans and advances to customers	1,368	3,772	43,414
1.3 Debt instruments	318,196	193,629	72,382
1.4 Other equity instruments	-	-	-
1.5 Equity securities and investees	-	-	-
1.6 Non-current assets and other non-sensitive assets	-30,809	-3,004	-20,668
2 Liabilities	**2,601,808**	**96,789**	**18,507**
2.1 Deposits from credit institutions	-	-	-
2.2 Other funding	-	-	-
2.3 Repurchase agreements	-	-	-
2.4 Customer deposits	2,601,808	96,789	18,507
2.5 Marketable debt securities	-	-	-
2.6 Short positions	-	-	-
3 Derivatives	-	4,500	-15,000
		-	-
Gap	203,470	**102,109**	**61,621**

Following is a summary of the main assumptions used to construct the interest rate risk gap:

- Floating-rate items are mapped by term to the next repricing date while fixed-rate items are placed according to their residual maturity. In both cases accrued interest is included in the mapping.

6 Months to 1 Year	1 to 2 Years	2 to 5 Years	5 to 10 Years	More than 10 Years
-12,881	**56,960**	**14,500**	**160,593**	**283,751**
-	-	-	-	-
9,789	-	-	-	-
-	56,960	14,500	160,593	32,400
-	-	-	-	-
-	-	-	-	132,531
-22,670	-	-	-	118,820
-	-	**131,496**	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	131,496	-	-
-	-	-	-	-
-				
	-	-	-	-
-4,500	-	-	15,000	-
-	-	-	-	-
-17,381	**56,960**	**-116,996**	**175,593**	**283,751**

- For demand deposits without predefined repricing schedules, repricing assumptions are made based on the analysis of the lives of these items per a study of historical data.
- For transactions related to securitisations, early repayment and default assumptions based on the historical behaviour of the portfolio using information provided by the securitisations vehicle are used.

- Dividends from equity securities and investees are included in the gap on the assumption that they are paid at year-end and that their amount is at least equal to the yield on a one-year deposit.

Simulation of the net interest margin

In order to include a dynamic analysis of the balance sheet to various interest rate scenarios, the Group performs simulations of the performance of the net interest margin over a time horizon of one year. This enables it to analyse the effect of changes due to fluctuations in interest rates based on the repricing gaps of the various balance sheet items.

The scenarios are as follows:

- Rates discounted by the market: the implied forward rates obtained from the spot zero-coupon curve are used.
- Upward shock: the spot rates are shifted proportionately upwards, and the level of probability of this change depends on the volatility observed in the market for each maturity period.
- Downward shock: the base spot rates are shifted proportionately, and the level of probability of this change depends on the volatility observed in the market for each maturity period.
- Steepening: increase in the slope of the spot rates.
- Flattening: decrease in the slope of the spot rates.

Sensitivity of the economic value of capital

In order to analyse the sensitivity of the net interest margin the Group analyses the impact of the use of stressed interest rate curves on the Net Present Value (NPV) calculated using data from the zero coupon curve. The scenarios envisaged are as follows:

- Upward shock: the spot rates are shifted proportionately upwards at all the nodes of the curve.
- Downward shock: the spot rates are shifted proportionately downwards at all the nodes of the curve.
- Steepening: increase in the slope of the spot rates.
- Flattening: decrease in the slope of the spot rates.

Interest rate risk limits

As part of its function of monitoring the Confederación, the Board of Directors establishes interest rate risk limits in terms of the sensitivity of both the net interest margin and economic value to changes in market interest rates.

Risk concentration 28

28.1 Risk concentration by geographical area

Following is a detail, by geographical area of residence of the counterparty, type and category of financial instrument, of the distribution of the carrying amount of the Group's financial assets at 31 December 2008 and 2007:

31 DECEMBER 2008:

	Thousands of Euros			
	Spain	Other EMU Countries	Rest of the World	Total
By type of financial instrument-				
Loans and advances to credit institutions	7,344,728	177,874	220,728	7,743,330
Loans and advances to customers	644,466	104	51,674	696,244
Debt instruments	6,260,848	560,905	128,096	6,949,849
Equity instruments	139,064	7,551	1,042	147,657
Trading derivatives	1,659,423	116,774	219,481	1,995,678
	16,048,529	**863,208**	**621,021**	**17,532,758**
By financial instrument-				
Financial assets held for trading-	7,573,292	397,269	277,454	8,248,015
Other financial assets at fair value through profit or loss	4,714,184	103,760	-	4,817,944
Available-for-sale financial assets (1)	461,967	94,269	6,176	562,412
Loans and receivables (2)	3,299,086	267,910	337,391	3,904,387
	16,048,529	**863,208**	**621,021**	**17,532,758**

(1) Excluding impairment losses on debt instruments.
(2) Excluding not specifically identified impairment losses on debt instruments and loans and advances to customers included in this category.

31 DECEMBER 2007:

	Thousands of Euros			
	Spain	Other EMU Countries	Rest of the World	Total
By type of financial instrument-				
Loans and advances to credit institutions	6,053,857	1,673,175	1,753,720	9,480,752
Loans and advances to customers	435,988	763	40,468	477,219
Debt instruments	1,265,008	408,422	197,393	1,870,823
Equity instruments	257,825	8,668	670	267,163
Trading derivatives	1,369,521	70,348	95,828	1,535,697
	9,382,199	**2,161,376**	**2,088,079**	**13,631,654**
By financial instrument-				
Financial assets held for trading	2,469,527	436,318	276,501	3,182,346
Available-for-sale financial assets (1)	422,827	51,121	17,389	491,337
Loans and receivables (2)	6,489,845	1,673,937	1,794,189	9,957,971
	9,382,199	**2,161,376**	**2,088,079**	**13,631,654**

(1) Excluding impairment losses on debt instruments.
(2) Excluding not specifically identified impairment losses on debt instruments and loans and advances to customers included in this category.

28.2 Concentration of equity instruments

Following is a detail, by type of market listing, if any, and issuer, of the equity instruments held by the Group at 31 December 2008 and 2007:

31 DECEMBER 2008:

	Thousands of Euros		
	Financial Assets Held for Trading (Note 8.1)	Available-For-Sale Financial Assets (Note 9)	Total
By market listing-			
Shares listed in the Spanish secondary market	22,423	16,783	39,206
Shares listed in secondary markets in the rest of the world	1,454	6,253	7,707
Unlisted shares	-	100,744	100,744
	23,877	**123,780**	**147,657**
By issuer type-			
Spanish financial institutions	7,133	3,750	10,883
Other Spanish companies	15,290	112,891	128,181
Other foreign companies	1,454	7,139	8,593
	23,877	**123,780**	**147,657**

31 DECEMBER 2007:

	Thousands of Euros		
	Financial Assets Held for Trading (Note 8.1)	Available-For-Sale Financial Assets (Note 9)	Total
By market listing-			
Shares listed in the Spanish secondary market	110,189	248	110,437
Shares listed in secondary markets in the rest of the world	8,452	-	8,452
Unlisted shares	-	148,274	148,274
	118,641	**148,522**	**267,163**
By issuer type-			
Spanish financial institutions	1,707	-	1,707
Other Spanish companies	108,482	147,636	256,118
Foreign financial institutions	1,354	-	1,354
Other foreign companies	7,098	886	7,984
	118,641	**148,522**	**267,163**

Welfare fund

29

Confederación Española de Cajas de Ahorros, within the framework of its welfare projects, finances Fundación de las Cajas de Ahorros (FUNCAS), a private not-for-profit organisation that engages in activities that benefit Spanish society, promote saving, and contribute to the raising of public awareness of savings banks by facilitating the service provided by them to society.

In particular, the objectives of the Fundación are:

- the promotion of economic and social studies and research
- the organisation of public events, and
- cultural dissemination in the broadest sense of the term and the fostering of all activities leading to a heightened awareness of the Spanish economy and society, thus encouraging useful recommendations regarding economic and social policy.

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At 31 December 2008 and 2007 and throughout those years, the Confederación's Welfare fund was not invested in any tangible or intangible assets.

The changes in 2008 and 2007 in the balance of "Welfare Fund" on the liability side of the consolidated balance sheets are as follows:

	Thousands of Euros	
	2008	2007
Beginning balance before distribution of profit	480	480
Transfer charged to prior period profit (Note 4)	6,428	4,487
Maintenance expenses for the year:		
Depreciation/amortisation of assets assigned to welfare projects	-	-
Budgeted current expenses for the year	(6,545)	(4,487)
Ending balance before distribution of profit	**363**	**480**

These consolidated financial statements were authorised for issue subsequently to the FUNCAS Board of Trustees meeting held on 18 February 2009, at which the budget settlement for 2008 was approved.

Other significant disclosures 30

30.1 Contingent liabilities

The breakdown of the balance of "Memorandum Items – Contingent Liabilities" in the consolidated balance sheets at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Financial guarantees provided-		
Financial bank guarantees	18,235	26,325
Documentary credits	70,113	57,855
	88,348	84,180
Other bank guarantees and indemnities	101,484	78,125
	189,832	**162,305**

"Financial Guarantees Provided" are defined as the amounts that would be payable by the Group on behalf of third parties as a result of the commitments assumed by the Group in the course of its ordinary business, if the parties who are originally liable to pay fail to do so. Note 24 includes information on the credit risk assumed by the Group in relation to financial guarantees provided.

A significant portion of these guarantees will expire without any payment obligation materialising for the Group and, therefore, the aggregate balance of these commitments cannot be considered as an actual future need for financing or liquidity to be provided by the Group to third parties.

The fee and commission income from these financial guarantees is recognised under "Fee and Commission Income" in the consolidated income statement (see Note 34).

The provisions made to cater for the financial guarantees provided, which were calculated using criteria similar to those applied in the calculation of the impairment of financial assets measured at amortised cost, were recognised under "Provisions - Provisions for Contingent Liabilities and Commitments" in the consolidated balance sheet (see Note 18).

30.2 Assets delivered as security

At 31 December 2008 and 2007, assets owned by the Group had been provided as security for transactions performed by it or by third parties, as well as for various liabilities and contingent liabilities assumed by the Group. The nominal amount, of the financial assets delivered as security for these liabilities, contingent liabilities and similar items at 31 December 2008 and 2007 was as follows:

	Thousands of Euros	
	2008	2007
Spanish government debt securities classified as available-for-sale financial assets	25,000	28,775
Other securities classified as available-for-sale financial assets	86,500	82,500
	111,500	**111,275**

At 31 December 2008, the Confederación had securities with a face value of EUR 111,500 thousand (31 December 2007: EUR 111,275 thousand) as security for the performance of the Group's obligations relating to transactions with the clearing and settlement services.

In addition, at 31 December 2008, the Group had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for a total amount of EUR 7,493,511 thousand (31 December 2007: EUR 4,257,637 thousand).

"Memorandum Item: Loaned or Advanced as Collateral", which is shown in each of the Group's financial asset categories in the consolidated balance sheets at 31 December 2008 and 2007, includes the amount of financial assets transferred, lent out or delivered as security in which the assignee is entitled, contractually or by custom, to retransfer them or pledge them as security, such as securities lending transactions or sales of financial assets under an agreement to repurchase them at a fixed price or at the sale price plus interest.

30.3 Contingent commitments

The breakdown of the balance of "Contingent Commitments" at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Drawable by third parties:		
Public sector - Spain	118,500	-
Credit institutions	56,521	142,952
Other resident sectors	304,993	468,977
Non-resident sectors	300	300
Financial asset forward purchase commitments	63,616	-
Regular way financial asset purchase contracts	106,821	11,413
Other contingent commitments	65,818	194,988
	716,569	**818,630**

30.4 Transactions for the account of third parties

The breakdown of the most significant transactions for the account of third parties at 31 December 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Financial instruments entrusted by third parties	128,634,282	139,114,496
Conditional bills and other securities received for collection	1,821,974	1,317,270
Borrowed securities	620,750	180,705
	131,077,006	**140,612,471**

30.5 Financial assets lent and borrowed

Pursuant to current legislation, the securities received by the Group in securities lending transactions are not recognised in the consolidated balance sheet unless the Group sells these securities in short sales transactions, in which case they are recognised as financial liabilities under "Financial Liabilities Held For Trading - Short Positions" on the liability side of the consolidated balance sheet (see Note 8).

Similarly, securities lending transactions in which the Group lends securities to third parties are not recognised in the consolidated balance sheet. The securities lent can be securities previously lent to the Group or securities owned by it, and in the latter case these are not derecognised.

Following is a detail of the fair value of the financial assets borrowed and lent by Group in securities lending transactions at 31 December 2008 and 2007:

	Thousands of Euros	
	2008	2007
Securities lent by the Confederación-		
Equity instruments-		
- Issued by credit institutions	10,939	878
- Issued by other resident sectors	57,186	152,489
- Issued by other non-resident sectors	44,259	-
	112,384	**153,367**
Securities borrowed by the Confederación-		
Equity instruments-		
- Issued by credit institutions	237,417	1,617
- Issued by other resident sectors	320,145	178,049
- Issued by other non-resident sectors	63,188	1,039
	620,750	**180,705**

Finance income recognised by the Group in 2008 in relation to securities lent totalled EUR 139,010 thousand (2007: EUR 117,735 thousand) and is recognised under "Interest and Similar Income" in the consolidated income statement for 2008 (see Note 31). In addition, "Income from Equity Instruments" in the consolidated income statement for 2008 includes EUR 25,311 thousand (2007: EUR 25,357 thousand) in relation to dividends accrued on securities borrowed by the Group, which were not lent out by the Group in securities lending transactions (see Note 33).

In 2008, finance costs relating to securities borrowed amounted to EUR 152,461 thousand (2007: EUR 143,551 thousand) and were recognised under "Interest Expense and Similar Charges" in the consolidated income statement for 2008 (see Note 32).

30.6 The Confederación's Customer Care Service

Following is a summary of the complaints and claims received by the Confederación's Customer Care Service in 2008 and 2007, the Confederación being the only Group entity providing this service, pursuant to the applicable legislation: Claims made to the service which were not admitted for consideration in 2008 relate to claims affecting entities other than the Confederación.

	2008	2007
Number of complaints and claims received	19	6
Number of complaints and claims admitted for consideration	-	1
Number of complaints and claims resolved	-	1
Number of complaints and claims resolved in favour of the complainant	-	-
Number of complaints and claims resolved against the claimant	-	1
Compensation paid to claimants	-	-
Number of complaints and claims outstanding	-	-

30.7 Reclassification of financial instruments

In view of the publication of Regulation 1004/2008 of the Commission of the European Communities amending International Accounting Standard 39 Financial Instruments: Recognition and Measurement, Bank of Spain Circular 6/2008 included the possibility of reclassifying financial assets out of the held-for-trading category in rare or exceptional circumstances. The current crisis in the markets led to assets recognised for accounting purposes at fair value through profit or loss because they were traded very actively in the market becoming illiquid because the liquidity and depth of the market have disappeared. Accordingly, from a conceptual standpoint, it no longer makes sense to recognise these securities in the held-for-trading portfolio, the purpose of which is to purchase and sell assets in the near term.

Accordingly, the assets considered to be more illiquid were reclassified out of the "held-for-trading" category into "available-for-sale financial assets" and "loans and receivables" categories, the detail being as follows:

Category from which Assets are Reclassified		Category to which Assets are Reclassified (Amounts in Thousands of Euros)		
Financial Instrument Category	Amount (1) (Thousands of Euros)	Available-For-Sale Financial Assets	Loans and Receivables	Total
Financial assets held for trading - Debt instruments	397,406	109,953	287,453	397,406

(1) Presented at the value at the date of reclassification.

Following is a detail of the carrying amount and the fair value at 31 December 2008 of the financial assets reclassified in the year as shown in the foregoing table, and the net amount recognised in the consolidated income statements for 2008 and 2007 in relation to the changes in the fair value of the reclassified instruments:

	Thousands of Euros			
Portfolio in which the Securities were Classified at 31 December 2008	Carrying Amount	Fair Value	Net Amount Recognised in the Consolidated Income Statement for 2008	Net Amount Recognised in the Consolidated Income Statemen for 2007
Loans and receivables - Debt instruments	281,750	272,988	(36,981)	(34,652)
Available-for-sale financial assets - Debt instruments	98,249	98,573	(10,306)	(2,771)
	379,999	**371,561**	**(47,287)**	**(37,423)**

Most of the portfolio is at floating rates and the effective interest rate obtained in 2008 was 6.19%.

Interest and similar income

31

The breakdown of the most important interest and similar income earned by the Group in 2008 and 2007, by type of instrument giving rise to it, is as follows:

	Thousands of Euros	
	2008	2007
Balances with central banks	5,671	2,396
Loans and advances to credit institutions	324,541	419,516
Loans and advances to customers		
Non-resident public sector	16	135
Other resident sectors	18,095	13,675
Other non-resident sectors	1,544	5,193
Debt instruments	121,760	156,549
Finance income from securities lending transactions (Note 30.5)	139,010	117,735
Other interest	702	1,353
	611,339	**716,552**

Additionally, the breakdown of the amounts recognised under "Interest and Similar Income" in the consolidated income statements for 2008 and 2007, by type of financial instrument category giving rise to them, is as follows:

	Thousands of Euros	
	2008	2007
Balances with central banks	5,671	2,396
Financial assets held for trading	100,966	139,468
Available-for-sale financial assets	18,146	16,993
Other financial assets at fair value through profit or loss	214,192	-
Loans and receivables	133,354	439,960
Securities lending transactions (Note 30.5)	139,010	117,735
	611,339	**716,552**

32 Interest expense and similar charges

The detail of the balance of "Interest Expense and Similar Charges" in the consolidated income statements for 2008 and 2007, by type of instrument giving rise to them, is as follows:

	Thousands of Euros	
	2008	2007
Bank of Spain	12,720	2,809
Other central banks	6,546	16,315
Deposits from credit institutions	143,703	311,216
Customer deposits	202,286	199,424
Money market operations	2,109	1,170
Cost attributable to pension funds (Note 18.2)	203	254
Finance costs attributable to securities lending transactions (Note 30.5)	152,461	143,551
Late-payment interest (Note 22.1)	129	-
Other interest	379	961
	520,536	**675,700**

The breakdown of the amounts recognised under "Interest Expense and Similar Charges" in the consolidated income statements for 2008 and 2007, by type of financial instrument category giving rise to them, is as follows:

	Thousands of Euros	
	2008	2007
Financial liabilities held for trading - Short positions	7,897	75,380
Financial liabilities at amortised cost	215,685	455,554
Securities lending (Note 30.5)	152,461	143,551
Other financial liabilities at fair value through profit or loss	143,782	-
Other liabilities	711	1,215
	520 536	**675,700**

33 Income from equity instruments

The detail of “Income from Equity Instruments” in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Dividends from securities lending transactions (Note 30.5)	25,311	25,357
Other dividends	6,316	4,541
	31,627	**29,898**

Fee and commission income

34

Following is a detail of the fee and commission income earned in 2008 and 2007, classified on the basis of the main items giving rise thereto:

	Thousands of Euros	
	2008	2007
Fee and commission income -		
Fees and commissions arising from contingent liabilities (Note 30.1)	1,448	1,117
Fees and commissions arising from contingent commitments	12	74
Fees and commissions arising from collection and payment services	68,728	66,061
Fees and commissions arising from securities services (*)	28,899	31,716
Fees and commissions arising from foreign currency and foreign banknote exchange	436	328
Other fees and commissions	8,257	9,490
	107,780	**108,786**

(*) In 2008, this item included, inter alia, EUR 21,020 thousand relating to custody services in connection with securities of third parties deposited with the Confederación (2007: EUR 21,359 thousand).

Fee and commission expense

35

Following is a detail of the fee and commission expense incurred in 2008 and 2007, classified on the basis of the main items giving rise thereto:

	Thousands of Euros 2008	Thousands of Euros 2007
Fee and commission expense -		
Fees and commissions assigned to other entities and correspondents	19,222	18,492
Fee and commission expenses on securities transactions	9,883	9,104
	29,105	**27,596**

Gains/losses on financial assets and liabilities

36

The breakdown of the balance of "Gains/Losses on Financial Assets and Liabilities" in the consolidated income statements for 2008 and 2007, by type of financial instrument giving rise to them, is as follows:

	Thousands of Euros	
	Income / (Expenses)	
	2008	2007
Financial assets and liabilities held for trading	**(92,071)**	**(58,697)**
Trading derivatives	(95,717)	18,447
Debt instruments	4,164	(69,811)
Equity instruments	(1,254)	(4,972)
Short positions	736	(2,361)
Other financial instruments at fair value through profit or loss	**28,337**	-
Reverse repurchase agreements	29,184	-
Repurchase agreements	(847)	-
Available-for-sale financial assets	**(8,015)**	**18,722**
	(71,749)	**(39,975)**

Other operating income

37

The breakdown of the balance of "Other Operating Income" in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Rental income (Note 14)	1,033	1,058
Costs recovered through their inclusion in the cost of intangible assets	895	1,900
Income from Confederación membership dues	18,084	18,251
IT project costs passed on to savings banks	17,788	15,968
Other income	52,751	49,129
	90,551	**86,306**

The balance of "Income from Confederación Membership Dues" in the foregoing table includes the dues collected from federated savings banks under the agreements between the latter and the Confederación (see Note 1). The balance of "Other Income" includes various items, most notably the income from various projects among federated savings banks. In 2008 the Confederación's auditor invoiced EUR 315 thousand for professional services provided in these projects for the savings banks through the Confederación (2007: EUR 566 thousand).

38 Administrative expenses - Staff costs

The detail of "Administrative Expenses – Staff Costs" in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Wages and salaries	58,107	53,229
Social security costs	10,767	9,635
Insurance premiums (Note 2.11.1)	1,927	1,300
Contributions to defined contribution plans (Note 2.11.1)	1,761	5,003
Normal cost for the year of defined benefit obligations (Note 18.2)	766	964
Income from insurance policies	(1,026)	(1,402)
Training expenses	274	412
Other staff costs	865	408
	73,441	**69,549**

In 2008 and 2007, the average number of employees at the Group, by level, was as follows:

		2008	2007
LEVEL	1 - LEVEL I	17	18
	1 - LEVEL II	18	17
	1 - LEVEL III	46	45
	1 - LEVEL IV	99	95
	1 - LEVEL V	50	49
	1 - LEVEL VI	256	249
	1 - LEVEL VII	84	87
	1 - LEVEL VIII	73	40
	1 - LEVEL IX	65	76
	1 - LEVEL X	39	39
	1 - LEVEL XI	28	29
	1 - LEVEL XII	46	45
	1 - LEVEL XIII	20	13
	2 - LEVEL I	2	2
	2 - LEVEL II	19	21
	2 - LEVEL III	1	2
	Other	14	13
	TOTAL	**877**	**840**

At 31 December 2008 the total number of employees was 897, of which 525 were men and 372 women (58.53% and 41.47%, respectively).

Administrative expenses - Other general administrative expenses

39

The detail of the balance of "Administrative Expenses - Other General Administrative Expenses" in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Property, fixtures and supplies	5,861	5,328
IT equipment	38,465	36,698
Communications	5,309	4,605
Advertising and publicity	704	425
Technical reports	1,109	782
Surveillance and cash courier services	4,772	4,775
Insurance and self-insurance premiums	224	218
Governing and control bodies	1,496	1,095
Outsourced administrative services	10,848	8,804
Levies and taxes	1,195	1,269
Entertainment and travel expenses	2,811	2,646
Association membership fees	1,759	1,648
External personnel	3,202	5,000
Subscriptions and publications	4,730	4,329
Other administrative expenses	8,924	7,616
	91,409	**85,238**

The balance of "External Personnel" in 2008 includes the fees paid for the audit of the financial statements of the various Group and jointly controlled entities amounting to EUR 143 thousand (2007: EUR 131 thousand), of which EUR 12 thousand were billed by auditors other than the Confederación's auditors (2007: EUR 6 thousand). Additionally, EUR 26 thousand were paid to the Group's auditors for other professional services, mainly related to regulatory compliance (2007: EUR 238 thousand).

Other operating expenses

40

The breakdown of the balance of "Other Operating Expenses" in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Contribution to the Deposit Guarantee Fund (Note 1.10)	53	47
Expense arising from tax assessments (Note 22.1)	155	-
Other	996	1,809
	1,204	**1,856**

Impairment losses on financial assets (net)

41

The breakdown of the balance of "Impairment Losses on Financial Assets (net)" in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros Net (Additions)/ Reversals (Charged)/ Credited to Consolidated Income (Note 24) 2008	2007
Available-for-sale financial assets	5	(513)
Loans and receivables	(5,558)	1,208
	(5,553)	**695**

Depreciation and amortisation

42

The detail of "Depreciation and Amortisation" in the consolidated income statements for 2008 and 2007 is as follows:

	Thousands of Euros	
	2008	2007
Depreciation of tangible assets (Note 14)	6,322	6,141
Amortisation of intangible assets (Note 15)	4,063	5,541
	10,385	**11,682**

Related party transactions

43

At 31 December 2008, the demand deposits held by the Confederación's senior executives, the members of its Board of Directors and related entities and individuals totalled EUR 1,985 thousand (2007: EUR 1,460 thousand), and the loans granted to them amounted to EUR 651 thousand (2007: EUR 708 thousand). These amounts bore interest of EUR 19 thousand (2007: EUR 26 thousand) and EUR 63 thousand (2007: EUR 32 thousand), which were recognised under “Interest and Similar Income” and “Interest Expense and Similar Charges”, respectively, in the consolidated income statement for 2008. At 31 December 2008 the Confederación had not provided any guarantees for related parties, as defined in Bank of Spain Circular 4/2004, of 22 December.

The breakdown of the balances arising from transactions with jointly controlled entities recognised in the consolidated balance sheets at 31 December 2008 and 2007 and in the consolidated income statements for 2008 and 2007 is as follows (Note 2.1):

	Thousands of Euros	
	2008	2007
Liabilities:		
Financial liabilities at amortised cost	721	245
Income statement:		
Interest expense and similar charges	7	3

Explanation added for translation to English

44

These consolidated financial statements are presented on the basis of IFRSs as adopted by the European Union. Certain accounting practices applied by the Group that conform with IFRSs may not conform with other generally accepted accounting principles.

Appendix I

SUBSIDIARIES INCLUDED IN THE GROUP AT 31 DECEMBER 2008

			Proportion of ownership interest (%)		
Entity	Location	Line of business	Direct	Indirect	Total
Caja Activa, S.A.	Madrid	IT	99.99	-	99.99
CEA Trade Services Limited	Hong Kong	Foreign trade	100	-	100

(*) These companies' financial statements at 31 December 2008 have not yet been approved by their shareholders at the respective Annual General Meetings.

SUBSIDIARIES INCLUDED IN THE GROUP AT 31 DECEMBER 2007

			Proportion of ownership interest (%)		
Entity	Location	Line of business	Direct	Indirect	Total
Caja Activa, S.A.	Madrid	IT	99.99	-	99.99
CEA Trade Services Limited	Hong Kong	Foreign trade	100	-	100

Thousands of Euros			
Entity data at 31 December 2008 (*)			
Assets	Liabilities	Equity	Profit for the year
206	35	171	10
31	27	4	-

Thousands of Euros			
Datos de la Sociedad al 31 de Diciembre de 2007			
Assets	Liabilities	Equity	Profit for the year
201	40	161	43
20	16	4	-

Appendix II

JOINTLY CONTROLLED ENTITIES AT 31 DECEMBER 2008

			Proportion of ownership interest (%)		
Entity	Location	Line of business	Direct	Indirect	Total
Ahorro y Titulización, sociedad gestora de fondos de titulización, S.A.	Madrid	Securitisation SPV management	50	-	50

(*) The company's financial statements at 31 December 2008 have not yet been approved by its shareholders at the Annual General Meeting.

JOINTLY CONTROLLED ENTITIES AT 31 DECEMBER 2007

			Proportion of ownership interest (%)		
Entity	Location	Line of business	Direct	Indirect	Total
Ahorro y Titulización, sociedad gestora de fondos de titulización, S.A.	Madrid	Securitisation SPV management	50	-	50

Thousands of Euros			
Entity data at 31 December 2008 (*)			
Assets	Liabilities	Equity	Profit for the year
16,798	10,883	5,915	3,147

Thousands of Euros			
Entity data at 31 December 2008 (*)			
Assets	Liabilities	Equity	Profit for the year
13,736	10,303	3,433	2,387

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Translation of a report originally issued in Spanish based on our work performed in accordance with generally accepted auditing standards in Spain and of consolidated financial statements originally issued in Spanish and prepared in accordance with IFRSs as adopted by the European Union (see Notes 1.2 and 44). In the event of a discrepancy, the Spanish-language version prevails.

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the General Assembly of Confederación Española de Cajas de Ahorros:

1. We have audited the consolidated financial statements of Confederación Española de Cajas de Ahorros ("the Confederación") and of the subsidiaries composing, together with the Confederación, the Confederación Española de Cajas de Ahorros Group ("the Group" – see Note 1), which consist of the consolidated balance sheet at 31 December 2008 and the related consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements for the year then ended. The preparation of these consolidated financial statements is the responsibility of the Confederación's Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

2. As required by Spanish corporate and commercial law, for comparison purposes the directors of the Confederación present, in addition to the 2008 figures for each item in the consolidated balance sheet, consolidated income statement, consolidated statement of changes in equity, consolidated cash flow statement and notes to the consolidated financial statements, the figures for 2007. Our opinion refers only to the consolidated financial statements for 2008. On 14 March 2008, we issued our auditors' report on the 2007 consolidated financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying consolidated financial statements for 2008 present fairly, in all material respects, the consolidated equity and consolidated financial position of the Confederación Española de Cajas de Ahorros Group at 31 December 2008 and the consolidated results of its operations, the changes in the consolidated equity and its consolidated cash flows for the year then ended, and contain the required information, sufficient for their proper interpretation and comprehension, in conformity with International Financial Reporting Standards as adopted by the European Union applied on a basis consistent with that of the preceding year.

4. The accompanying consolidated directors' report for 2008 contains the explanations which the Confederación's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2008. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the consolidated entities' accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

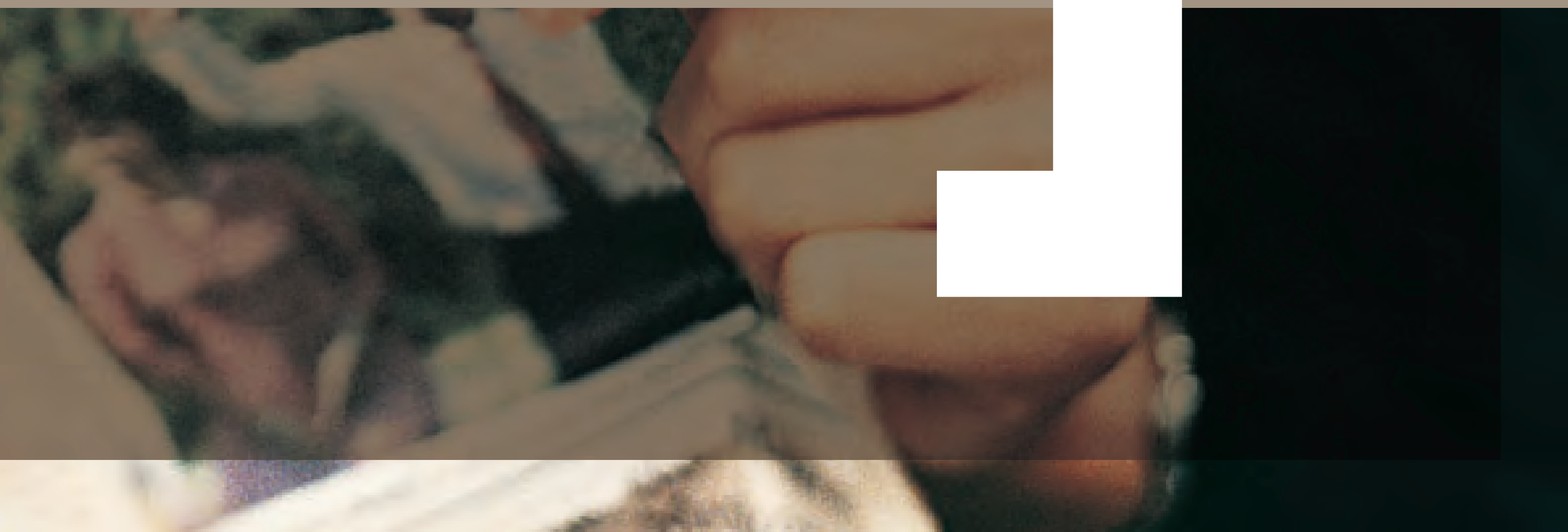
Miguel Ángel Bailón

20 March 2009

Deloitte, S.L. Inscrita en el Registro Mercantil de Madrid, Tomo 13.650, folio 188, sección 8, hoja M-54414, inscripción 96, C.I.F.: B-79104469. Domicilio Social: Plaza Pablo Ruiz Picasso, 1 - Torre Picasso, 28020 Madrid.

Profile 06

International Profile
Domestic Profile



International profile

6.1

International institutions, especially EC institutions, have increasing power over decision-making processes, both to set the general courses of action that guide economic-policy cycles and to take other, more specific decisions that regulate our members.

This progressive internationalisation of decision-making centres has meant that CECA, as the body which represents Spanish savings banks, has been increasingly responsible for defending their interests before a range of international bodies. CECA has thus complied with the objectives of its bylaws, which require that it "represent savings banks internationally and, in particular, before the World Savings Banks Institute, the European Savings Banks Group and other international organisations".

The primary objective is to enhance CECA's lobbying capacity and regulatory decision-making processes

6.1.1 Action plan for representing savings banks at the international level

In 2008, CECA reflected on its progress and achievements in the international sphere in recent years and concluded that its role had attained a high degree of maturity as a result of those representation efforts.

In this context, one of the annual strategic objectives set by the Confederation was to improve the international representation of Spanish savings banks. To this end, in June 2008, CECA's Board of Directors approved the Action Plan for the International Representation of Interests. The primary objective of this document is to enhance CECA's lobbying capacity in policy and regulatory decision-making processes. This greater influence should contribute to an enhanced international profile for the Confederation and its consolidation as a source of information in the financial field.

CECA's alliance with the ESBG allows it to access another highly important forum: the European Banking Industry Committee

6.1.2 Alliance with the ESBG and WSBI and participation in other international forums

One of the primary mechanisms through which CECA performs this role is by consolidating its participation in the World Savings Banks Institute (WSBI) and the European Savings Banks Group (ESBG). For this reason, CECA has had an increasing presence at the forums of these organisations and has played a more important role in the statutory bodies. Hence, CECA's Managing Director is the current President of the WSBI. We are also present on the Boards of the ESBG and WSBI and on both institutions' Coordination Committees.

In addition, CECA's contribution at the ESBG and WSBI is underscored by its proactive role in the working groups, both in their work committees and in their experience-sharing networks.

Our alliance with the ESBG gives us access to another highly important forum: the European Banking Industry Committee (EBIC). Our participation consists of an active presence in several of the EBIC's committees, including the committees on integration, consumption, capital adequacy, money-laundering prevention, and in working groups on consumer mobility and the mortgage market.

Through Melania, CECA channels all international information to the International Institutions Workshop

CECA is also directly involved in forums that it considers particularly important. This includes some of the ECB's operational and legal working groups.

As the representative of the Spanish saving bank sector, CECA belongs to several industry advisory committees, including the committee that deals with money-laundering at the Financial Action Task Force (FATF) and the Committee of European Banking Supervisors (CEBS), participating on their advisory panel as well as at specific working group meetings for industry experts.

We would stress that we have an important specific weight in the area of payments. This is evidenced by our strong role on the European Payments Council through the plenary, working group and Council. EURO6000 is also involved in the new Euro Alliance of Payment Schemes.

In 2008, to improve the coordination and structural management of all forms of participation in and contributions to all of the international institutions referred to above, CECA formed an International Task Force. The task force, in which directors of each area involved in CECA's international efforts participate, reviews different current affairs and its members exchange opinions on the need to take given specific actions.

6.1.3 Dissemination of information on international issues

Another objective of this plan is to increase sector information of an international nature, in particular EC-related information. Through the Melania knowledge management system, CECA channels all international information to the Melania International Institutions Workshop.

Another key mechanism for disseminating current EC-related information in the sector is the organisation of specialised events. In November 2008, the First Conference on the European Retail Financial Sector was held. Attendees included international managers of savings banks and of other financial institutions, as well as members of regulatory and oversight agencies.

The European Parliament defends the existence in the financial market of a diversity of ownership structures

6.1.4 International current events in 2008

Throughout the year, many topics on the international agenda were monitored, studied and acted upon by CECA. The most important were:

6.1.4.1 Retail financial services

In 2008, the European Parliament's reaction to the Communication from the Commission on the Sector Inquiry under Article 17 of Regulation (EC) No 1/2003 on retail banking was pending. After the publication of the Communication, the European Parliament expressed its intention to draft, on its own initiative, a report evaluating its conclusions. Following a lengthy internal debate, which CECA and the ESBG closely monitored, on 6 May 2008, the Report on the Inquiry on the European retail banking sector was published. In the end, the document defends the existence in the European financial market of a diversity of ownership structures (e.g. corporate, co-operative, foundation-owned, public) for the provision of banking services.

The topics of access to financing, financial education and microcredit have a prominent place on the EC agenda

Another point on which retail-sector financial news focused in 2008 was the mobility of current accounts. Following the 2007 publication of the conclusions of a group of experts, the European Commission expressed its concern over the problems that the customers of institutions in some EU countries might have when attempting to change their account from one institution to another as a result of the publication of these conclusions. In February 2008, the Commission asked the industry for a type of commitment to avoid possible erroneous practices. As a result, the banking industry formed a specific working group, in which Spanish savings banks have directly participated, to create common principles on account mobility.

The topics of access to financing, financial education and microcredit have a prominent place on the EC agenda. All are in line with the social mission and commitment of Spanish savings banks; hence, CECA is active, and has assumed an increasingly important role, in the forums that address them. Examples of this in the sphere of access to financing include its participation in the Financial Inclusion: Improving Access to Basic Financial Services conference in May 2008, and the invitation to two Spanish savings banks to the European Parliament's discussion session on a microcredit report.

6.1.4.2 Regulatory Environment:

The upheavals in the financial sector in 2008 had repercussions for the international regulatory environment. Therefore, we would emphasise the intense efforts made in the year, with numerous inquiries on revisions to some regulations or new regulatory initiatives.

CECA actively took part in successive inquiries on various regulatory issues, either through the ESBG or independently. Some examples are contributions referring to the revision of the directive on capital requirements, asset management, the inquiry on the application of the directive regarding taxation of savings income in the form of interest payments, the proposed regulations on rating agencies and on possible new oversight structures.

Intense efforts have been made, due to revisions to some regulations and new regulatory initiatives

6.1.4.3 Corporate Social Responsibility

Since the creation of the European Alliance for Corporate Social Responsibility in the May 2006 European Commission Communication, savings banks have shown a very active response to this commitment, which has been signed by 15 of them.

During the three years in which they have taken part in the Alliance, Spanish savings banks have developed three laboratories focused on aggregate reporting, the study of sustainability and the environment in the financial sector. All of them have been submitted to members of the European Parliament and the European Commission at the event organised by the CSR in Brussels on 4 December.

> **Fifteen Spanish savings banks have signed the commitments of the European Alliance for CSR**

As it had the year before, in 2008 CECA went before the European Commission's high-level panel on CSR, presided by Günter Verheugen, EU Commissioner for Enlargement and Vice-President of the European Commission responsible for Enterprise and Industry.

6.1.4.4 Other international forums

In the international arena, the Assembly of the International Association of Pledging and Social Credit Establishments, the members of which are pawnbroking institutions in Africa, North and South America, and Europe, was organised in 2008 in Madrid by Caja Granada, the Confederation and the ESCA.

The papers presented at the assembly focused on the possible effects of the economic crisis and the manner in which credit may be used to counteract its worst effects, especially among the most disadvantaged population groups.

Spanish pawnbrokers continue to play a significant role in the Association. The Chairmanship is currently held by Caja Granada, while Spanish pawnbrokers are active participants in the Executive Committee as well as the assembly workshops.

> **The International Association of Pledging and Social Credit Establishments is asking that access to credit be considered a universal right**

Lastly, CECA participated in the International Forum on Banking Management - Summer Forum", held in Stockholm, and jointly co-ordinated with the ESBG and the WSBI.

Domestic profile

6.2

CECA is present in various national forums, always in compliance with the statutory objectives set forth in this Report. Only the most important of these forums and those which were specially prominent in 2008 are listed here.

CECA continues to work particularly closely with the **Bank of Spain**. As part of this work, meetings have been held on a range of issues, including accounting issues related to the application of risk regulations, payments and operations related to transparency and complaints regulations.

CECA continues to work particularly closely with the Bank of Spain

CECA is also a member of the **Spanish XRBL association** headed by the Bank of Spain, alongside other financial institutions, official bodies and services companies. It is part of the Technology working group and the Tools subgroup, the aim of which is to compile first-hand knowledge of the technologies involved in the XBRL financial reporting process. The association seeks to promote the introduction, adoption and development of XBRL (Extensible Business Reporting Language) in Spain and internationally.

With regards to money laundering, CECA has undertaken important work with the Bank of Spain's **Executive Service for the Prevention of Money Laundering** (*Servicio Ejecutivo de Prevención de Blanqueo de Capitales* -SEPBLAC).

The Confederation maintained a regular dialogue with the **National Securities Commission (CNMV)** in 2008. Its **Advisory Committee**, on which CECA is represented, continued to perform its duties as the main forum for the exchange of opinions between the regulator and the financial industry, in relation to market supervision and the various administrative sanctions processed by this body. In addition, along with the Commission, CECA has created a working group to draft and implement electronic content from the Financial Literacy Plan, with the following learning units: how to make it to the end of the month, economic needs in different stages of life, the range of available financial services and products, advice for investing savings, financial survival kit and reminders.

Along with the CNMV, CECA has created a working group to draft and implement electronic content from the Financial Literacy Plan

CECA is also in permanent contact with the Spanish Banking Association (***Asociación Española de Banca*** - AEB), as well as with UNACC, ASNEF, INVERCO and other financial market associations, raising, analysing and debating matters of common interest. Prominent among these are the **Public Bodies Committee** (with a remit to liaise and collaborate with national, autonomous community, and local public authorities as well as Social Security institutions on tax collection and operational issues) and the **Settlement, Standardisation and Foreign Committee** (which basically deals with standardisation and settlement systems).

There was constant contact and uninterrupted exchange of ideas between the two bodies regarding issues that affected the Spanish and European mortgage market

The Confederation is also a member of the **Spanish Mortgage Association** (*Asociación Hipotecaria Española* - AHE) and regularly attends its statutory sessions and the meetings of its working groups. The Confederation attends these events both on its own behalf and in representation of the savings banks which are not direct members in it. As was the case in previous years, in 2008 there was constant contact and an uninterrupted exchange of ideas between the two bodies regarding issues that affected the Spanish and European mortgage market. Among these issues, we would highlight those related to the implementation of the legislative developments in the law passed in late 2007 amending the regulation of the mortgage market. At the end of 2008, this work was still ongoing.

The **Center for Inter-bank Cooperation** (*Centro de Cooperación Interbancaria – CCI*), at which all Spanish institutions are represented, oversees projects of common interest, such as the handling of cash, network security, e-billing, and common software.

CECA is also represented at the **Spanish Payments Systems Company** (*Sociedad Española de Sistemas de Pagos - SESP*), set up to manage and administer Spain's National Electronic Clearing System, taking over this role from the Bank of Spain.

The new FRS, treatment of financial goodwill, and documentation for related-party transactions are the main topics on the Tax Commission's agenda

CECA, the AEB and Spain's four largest financial institutions have periodically met with the **Tax Commission** —which includes representatives of the Tax Authority— to discuss the main problems relating to financial institutions and proposing solutions. These issues include the new Financial Reporting Standards, the modifications to corporate income tax introduced in the new Spanish National Chart of Accounts, the treatment of financial goodwill, documentation for related-party transactions, the treatment of personal withholding tax on income from property assets obtained from related parties when such income does not differ from that in an arm's length transaction. In addition, after the generalisation of the tax benefit applicable to non-resident income tax on public and private debt, which has been extended to beneficiary residents in tax havens, work has been carried out to adapt the procedures for the accreditation of the beneficiaries of such income.

The Working Group on VAT Reform for Financial Transactions, created in 2007, is composed of representatives of the Central Tax Agency (AEAT), CECA, the AEB and the largest financial institutions, and it is presided over by the head of the Directorate General for Taxation. In 2008, a list of topics was drafted to be submitted for discussion and to guide the scope of the reform: transactions submitted to dispute, securities-related transactions, brokerage, management of collective investment schemes, subcontracting of functions, finance leases, tax-deduction regime, etc., with an underlying view to establishing the possibility of waiving the exemption on financial transactions.

In 2008, this Group drafted a list of topics for discussion and to guide the scope of the reform

The aim of the rental Assistance Programme for Young People is to is to invigorate the rental housing market, making it easier for young people to rent housing

Working before the meeting of the **Commission for Monitoring Garnishment Proceedings** (*Comisión de Seguimiento de Procedimientos de Embargo*), on which the Tax Authorities, CECA, the AEB and the UNACC are all represented, discussed and agreed on improvements in applying codes that may be used in electronic garnishment proceedings.

The Confederation , together with representatives of the Housing Ministry, the AEB and UNACC, also belongs to the **Housing Framework Agreement Group**. This group provides a forum for debate on the problems and proposals that affect credit institutions in financing low-cost public sector housing. In 2008, the group produced reports on a range of issues related to the 2005-2008 State Housing Plan, the objective of which is to promote availability of housing to the public, as well as on issues related to the Rental Assistance Programme for Young People (*Renta Básica de Emancipación de los Jóvenes*), the aim of which is to invigorate the rental housing market by adopting a series of measures that make it easier for young people to rent appropriate accommodation. In the last quarter of 2008, the group held several meetings to analyse and discuss issues related to a draft Royal Decree intended to develop and improve the new State Housing and Renovation Plan for 2009-2012.

The **National Housing Council** (*Consejo Nacional de Vivienda*) is a collegiate body responsible to the Housing Ministry created to provide advice and consultation services for the government. Its members include representatives of the main financial entities involved in the Housing Plans, and its task is to convey to the ministry the opinions of these financial entities, and in the case of the Confederation, the opinion of the savings banks. The Council has met to analyse and discuss different proposals related to the new State Housing and Renovation Plan for 2009-2012.

The Committee for Monitoring the Arrangement for Financing the Improvement of Agricultural Structures, which brings together representatives of the Ministry of the Environment and Rural and Marine Affairs and CECA, approved a number of resolutions in 2008 on matters relating to implementation of the Arrangement, such as advance payment of subsidies to savings banks (both with regard to the regulations to be applied and the approval of the new advance payments schedule).

The Confederation attended the plenary session of the **Economic and Social Council** (CES), in representation of "group 2" (CEOE-CEPYME). CES issues opinions, either under obligation or upon request, depending on the circumstances, concerning matters about which the government submits inquiries, and, at its own initiative, it conducts research and issues reports on the matters which fall within its jurisdiction. The CES also drafts a report on the socio-economic and labour situation in Spain.

Since its creation, CECA has been involved in the **Experts' Forum on Corporate Social Responsibility (CSR)**, an initiative launched by the Labour and **Social Affairs Ministry**, involving another 45 public and private bodies and institutions. In 2008, the **State Council on Corporate Social Responsibility** was established, on which CECA serves as a representative of business organisations. The council is expected to begin its work in early 2009 and to produce nonbinding opinions on the initiatives of the government.

In 2009, the State Council on CRS will begin its work

Among these measures, we would mention CECA's active role in drafting the rules implemented through the Law on Environmental Responsibility, particularly in the chapters on the financial guarantees set forth. To this end, CECA has replied to the inquiries received from the Ministry of the Environment and Rural and Marine Affairs and has attended the related workshops.

The purpose of AUTELsi is to develop the information society in Spain

Together with some savings banks, CECA is a member of the Spanish Association of Telecommunications and Information Systems Users (*Asociación Española de Usuarios de Telecomunicaciones y Sistemas de Información* - AUTELsi) and is part of its **Commission for the Development of Telecommunications** and its specific working groups. The objective of the association is to develop the information society in Spain, promoting study, research and the dissemination of knowledge in society in general and among users in particular on issues related, directly or indirectly, to telecommunication services and the information society. It is also a meeting place for specialists from the user institutions and telecommunication and information society service providers. CECA's involved in trying to find answers and solutions to the issues identified through its bodies. CECA has also contacted other sectors, which have shared their experiences and concerns to it.

The **Spanish Quality Association** (*Asociación Española para la Calidad* - AEC) is a private not-for-profit body that seeks to foster and support a culture of quality as a way of increasing the competitiveness of Spanish companies and organisations. CECA sits on the **Financial Institutions Committee**, the mission of which is to be a dissemination, promotion and information forum for quality and excellence in the management of financial institutions and to promote ongoing improvement and excellence.

The Spanish Quality Association fosters and supports a culture of quality to increase companies' competitiveness

The Confederation is also present in the **Spanish Association for Standardisation and Certification** (*Asociación Española de Normalización y Certificación - AENOR*), a private and independent not-for-profit institution, recognised at the domestic, EU and international level, contributing, through standardisation and certification activities, to improving quality at companies and in their products and services, as well as to protecting the environment and thereby the well-being of society as a whole.

The Confederation is a member of the General Assembly, the Executive Committee and the Managing Trust of the **Spanish Confederation of Employers' Organisations** (*Confederación Española de Organizaciones Empresariales - CEOE*). CECA is represented in a number of CEOE working groups. For example, the ESCA training college represents the Confederation on the **CEOE's Educational and Teaching Policy Commission**, whose mission is to analyse changes in the training sector and their immediate implications for companies. This year, several meetings were held in preparation for the Sector Training Certification.

In addition, on the Joint Commission of the Savings Banks Sector (Comisión Paritaria Sectorial de Cajas de Ahorros), the ESCA holds the chairmanship of the business division before the **Tripartite Foundation for Employment Training** (*Fundación Tripartita para la Formación en el Empleo*), through which programme contracts intended for the sector have been prepared.

The **Group of Financial Institutions' Training Managers** (*Grupo de Responsables de Formación de Entidades Financieras - GREF*) brings together the training and human resources development directors of banks, savings banks, and rural and cooperative banks. Its mission focuses on the study of changes affecting the training plans of financial institutions. Within the GREF, various work sessions have been scheduled to analyse the financial sector's training needs in light of the new economic context.

Human Capital 07

Human Resource Management
Human Resource Development
National
Labour Relations and Personnel Management

Human Resource Management

7.1

In 2008, noteworthy progress was made on the ***Job Evaluation System*** through the following strategic actions:

a) A communication plan that has made it possible to provide information on the system to both directors and employees. Meetings were held to communicate the system's objectives and principles.

b) Positions that were modified or created in the last year were reviewed. As the Job Evaluation System is an ongoing process, the review carried out in 2008 will be conducted at the end of each year.

Accordingly, work began to design the ***Performance Management System***. The system will make it possible to:

a) Promote careers and professional development at CECA.

b) Match the best professionals with the most appropriate positions.

c) Differentially manage talent.

d) Encourage employee loyalty.

e) Improve communication processes.

The aim of the new remuneration policy is to improve internal fairness and external competitiveness

In addition, the new **remuneration policy** approved by Management in late 2007 was implemented. The aim of this new policy is to:

a) Improve internal fairness and external competitiveness in handling employee salary compensation

b) Ensure transparency in compensation packages

c) Project future remuneration

Attracting and retaining talent is a strategic objective of organisations in general and, naturally, of CECA. In 2008, 385 candidates participated in the different external-applicant processes (screening of CVs, aptitude tests, interviews and final negotiation of conditions with selected candidates). As a result of these processes, 62 people joined CECA in 2008. The total workforce comprises 897 people (525 men and 372 women).

On 26 June 2008, the announcement of the second internal competition examination, for promotion to levels 7 through 10, in which 12 positions were offered, was made. This process will conclude in June 2009, with the jobs being assigned to employees whose scores are above the established levels or thresholds.

This process of matching the profiles of employees with the positions to be filled within the organisation resulted in a total of 43 internal movements.

Attracting and retaining talent is a strategic objective of CECA

Human Resource Development

7.2

Regarding human capital development in 2008, the following actions stand out:

a) Director development:

In 2008, the directors continued to receive managerial training and to improve their ability to use management-by-objectives and performance evaluation tools, including online, and through coaching sessions. In addition, the understanding of competition law has been strengthened.

Sixty per cent of staff received training during the year, for an average of 50 hours of training per person

b) Training plan

In 2008, CECA's strategic objectives were brought in line with the need for ongoing innovation as an element that differentiates our business. In order to achieve this, CECA has:

- Given the training needed for compliance with current legislation on preventing occupational hazards, preventing money laundering and Internal Code of Conduct-Market in Financial Instruments Directive (ICC-Mifid).
- Provided specific training for the Innovation Committee.

- Applied new technologies for language teaching, to make it easier for employees to reconcile their work and personal lives through the 24-hours of availability for learning system.

- Taken steps to allow 70% of staff to receive training during the year, for an average of 50 hours of training per person.

- Achieved a 92% effectiveness rate with the plan, which is the percentage of training requests that have been processed.

- Invested more than EUR 600 has for each employee receiving training.

Invested more than EUR 600 has for each employee receiving training.

a. Support for training:

In order to improve their training and to help achieve a work-life balance, our employees have access to loans at 0% interest to acquire IT equipment (122 employees). In addition, 75% of our employees have taken advantage of broadband connections subsidised by CECA.

National

7.3

The HR Consultancy Department has developed cooperation projects for staff selection with other institutions, and has assessed over 3,000 people.

CECA is taking an active part in studies on and the development of future legal-labour regulations on social security and occupational risk prvention regulations

Labour Relations and Personnel Management

7.4

2008 was very important in terms of collective bargaining agreements signed by the company and worker representatives. An agreement was reached on schedules and loans, as well as on the initiation of a series of negotiations whose results will be seen throughout 2009.

At the sector level, CECA has been actively participating in negotiations both on a collective sector-wide agreement and on all commissions related to that agreement. In addition, CECA clearly plays a leadership role in all legal-labour bodies and commissions.

Moreover, through the CEOE and other national agencies, CECA is taking an active part in studies on and the development of future legal-labour regulations on social security and occupational-risk-prevention regulations.

A landmark for HR's labour relations and administration was its assumption of a new responsibility regarding loans, encompassing development, the application of the corresponding regulations, studies, approval, execution and tracking.

In other issues, we would point out the institution's optimal results in terms of occupational-risk prevention, with a legal audit carried out during the year, as well as issues related to immigration and successive inspections by the labour authorities, all of which had favourable results for the institution.

08

Strategic Forums For Sector Cooperation

Strategic Forum for Savings Banks
Chairmen and Executives Workshops
Forums Created by the Support Committees to the Board of Directors
Representational Forums

Strategic Forum for Savings Banks

8.1

For second time in the 170-year history of Spanish savings banks, the **Strategic Forum of Spanish Savings Banks** (*Foro Estratégico de Cajas de Ahorros Españolas*) was held, as part of the events to commemorate the 80th anniversary of the founding of CECA. The guiding theme of the forum was "Savings banks in scenarios for the coming decades." The members of the governing bodies and senior management of the 45 savings banks met to discuss the main issues affecting the economic sector in general and savings banks in particular.

The topics on the agenda were chosen to encourage the attendees and participants to evaluate the direction in which future actions by savings banks should move, in light of the complex situation expected in coming years.

More than 2,000 people attended the sector's Strategic Forum on savings bank intervention in the coming decade

The forum was attended by more than 2,000 people, many of whom are well-known in political and business circles, most notably, Pedro Solbes, Second Deputy PM of the government and Minister of the Economy and Finance; Joaquín Almunia, European Commissioner for Economic and Monetary Policy; Miguel Ángel Fernández Ordóñez, Governor of the Bank of Spain; Julio Segura Sánchez, President of the National Securities Market Commission; and Celestino Corbacho, Minister of Labour and Immigration. The Prince and Princess of Asturias led the closing ceremony of the event.

To encourage reflection on the issues included in the agenda, the forum was organised into several themes, such as economic perspectives; regulatory perspectives; technology and innovation; new social demands and new values; and State, society and savings banks vis-à-vis social demands.

8.2 Chairmen and Executives Workshops

The Confederation has set up a number of forums, as a framework to encourage collaboration within the sectors and joint analysis of issues of interest to savings banks. The most important of these are the **Savings Banks' Chairmen and Executives Workshops**. In 2008, two workshops were held, on the occasion of the meeting of the Board of the Directors and of the Welfare Projects Study Committee, in June, and the Ordinary General Assembly, in October. At the 20 June meeting of the Welfare Projects Study Committee, the Chairman and Executives were informed of three new initiatives: The second edition of the report titled Evaluation of the Impact of Welfare Fund projects; the joint events held on 31 October in commemoration of World Savings Day; and the travelling exhibitions funded by the savings banks themselves, on 20th century Spanish Art. The Chairmen and Executives Workshops were attended by the Bank of Spain's director general of regulation, José María Roldán, who put forward a series of considerations on the banking business of Spanish institutions over the medium term.

On 31 October, several joint events were held to commemorate World Savings Day

The remainder of the strategic forums can be classified into two large groups: those drawn directly from the committees set up directly by CECA's Board of Directors (the Welfare Projects Study Committee and the Committee for Organisation, Automation and Services [*Comisión de Organización, Automación y Servicios – COAS*]), and representative forums, which also seek to defend the interests of the sector but which do not report directly to the Board of Directors. All of these include representatives from the savings banks and the Confederation.

Most of these forums are structured around a Committee which meets periodically, an annual conference to which all 45 member banks are invited, or seminars or meetings. The most important forums or those that have carried out the most prominent work in 2008 are described below.

Forums Created by the Support Committees to the Board of Directors

8.3

Several years ago, CECA's Board created two support committees: the Welfare Projects Study Committee and the Committee for Organisation, Automation and Services (*Comisión de Organización, Automación y Servicios - COAS*).

The **Welfare Projects Study Committee** was created to do research and analysis and to move forward with new Welfare Fund initiatives. The committee agreed to organise, in 2009, the Savings Banks and Third Sector forum, the guiding theme of which is "Century of Equality". The committee also authorised the implementation of institutional publicity and communication plans of the Obra Social ("welfare fund") brand.

At the initiative of the Welfare Projects Study Committee, in 2009 the Savings Banks and Third Sector forum will be held

The **Committee for Organisation, Automation and Services (COAS)** is responsible for obtaining, exchanging and distributing knowledge related to best practices and experiences, both domestic and foreign, and for carrying out studies and projects designed to improve the organisation and operations of the savings banks, providing the required technical assistance and evaluating the needs resulting from developing common services. COAS promotes projects which savings banks and other bodies are free to join. These projects are undertaken within the framework of the technical committees.

The new human resources project is based on six strategies: culture and values, organisational flexibility, flexibility stemming from the business, leadership, talent, and strategic management of people

The projects may address regulatory needs, needs to improve efficiency and control and/or reduce costs, to increase "business intelligence " or promote innovation and technology. Above all, they provide an immediate response to problems and opportunities that continually arise.

The projects tackled by the COAS in 2008 include Fundamental Variables in Human Resource Management (*Variables fundamentales en la gestión de recursos humanos*), which is supported by an advisory committee.

An executive summary of the second phase of the project has been drafted, covering the differential management model, from which six fundamental strategies or variables have been derived: culture and values (commitment to people), organisational flexibility (designing organisational models and structures), flexibility stemming from the business (centred on people and decentralised organisations), leadership (identifying and motivating directors), talent and differentiation (defining, finding, developing and retaining talent), internal communication (as a catalyst of change) and strategic management of people aligned with the strategic objectives of the savings bank (development of a resource master plan.

These variables are developed and flow down, ultimately translating into proposals for action plans and concrete methods for executing them. Each savings bank may prioritise and more fully apply the variables, in accordance with its own strategy and the self-evaluation that it conducts of its own starting point.

Some of the projects carried out by COAS's technical committees in 2008 are detailed below.

The most important projects with which the Technology, Architecture and Innovation Committee is involved are as follows:

- *Standard signature-digitisation system*: this project, in which the entire sector is participating, falls within the scope of the strategic lines of reducing costs, enhancing the efficiency of processes and innovation in customer orientation. Its objective is to eliminate hardcopy documents at savings bank branches, especially documentation associated with institution-customer relations and to avoid the need of costly document-digitisation and scanning processes. The project is being carried out through the replacement of hardcopy documents with electronic format documents (PDF), and customer signatures are recognised digitally with handwritten-signature capture devices (digitising tablets).

Signature digitisation will make it possible to lower costs, eliminate paper and enhance process efficiency

Depending on the number of transactions at a given branch, its size, and the total number of signatures processed, etc., this investment is expected to be recovered in a few months. In addition, this solution significantly improves a large number of an institution's processes by promoting the use of electronic files, thereby radically improving processing and response times and fully automating documentation-auditing and control processes, thereby minimising operational risks.

The solution implemented makes it possible to adapt to evolving signature-digitisation technologies, electronic national identification cards and other means of identification, such as EMV cards or advanced biometrics. This is one of the key elements being promoted through the COAS' efforts to convert this system into a financial-system practice, as is already occurring in other EU countries.

- *Business continuity management tool*: The 2007 project provided a benchmark model for Business Continuity Plans in the event of disasters. After this project was completed, the business continuity management tool, which more than 30 savings banks have joined, took the form of a management tool, making it possible to automate all of the disaster-response intervention plans set forth by each savings bank.

The new business-continuity management tool avoids ad hoc or volunteer-based disaster management

Unlike the plans set forth in lengthy, static documents, this tool can be used to coordinate and determine the actions to be taken by each employee in the event of disasters, and it predicated on the occurrences and elements at each given institution and the required responses. The solution avoids ad hoc or volunteer-based disaster management, and introduces the highest possible degree of rigor and, above all, leaves no doubt on the actions to be taken. In addition, it makes it possible to manage and coordinate the periodic tests that must be conducted, requires that a record be kept of incidents and sets forth the required improvements for the plan to be as efficient as possible.

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The aim of the services oriented architecture project is to define a new information systems technology architecture

- *The services oriented architecture project (SOA)*: The purpose of this project is to define a new IT architecture to both improve responsiveness and flexibility in light of new demands in the business areas and to have a common architecture-reference framework making it possible to share services, including among different institutions. This new architecture will permit an orientation toward processes in all products in which the concept of service expediency and reuse is highly useful. The capacity for these processes to change, as well as the transparent incorporation of new internal or external services, is another key element of these architectures.

The aim of this COAS project, in which 36 savings banks are taking part, is to formulate a common model for the entire sector both in purely technological aspects and in the formulation of a governance model for this new type of systems, as well as regarding the impacts on the organisation of technology departments.

- *Impact of social networks and Web 2.0 on the services of the savings banks*: report and market analysis on the use of Web 2.0 technologies and of social networks in the services provided by credit institutions. The new social use of the Internet will transform the manner in which institutions interact with customers over the Internet. This study reflects both the current experiences of the various credit institutions in this regard, as well as expected trends in coming years.

Analysis of the new social use of the Internet will transform the manner in which institutions interact with customers

- *Directive on market abuse and reporting of suspicious operations*: A sector-wide project to provide technical support for implementing the directive at the savings banks. The project defines and quantifies the requirements set forth by the CNMV, specifies them in detail regarding the current business of the member savings banks, and analyzes the technological-solutions market in order to cover this new monitoring mechanism.

Videoconferences make it possible to lower costs, enhance efficiency and reduce environmental impact

- *Virtual meeting - Web videoconferencing system*: Within the strategic line of cost savings, efficiency enhancements and environmental-impact reduction, a new Web videoconferencing system has been implemented in which all of the savings banks are participating. It is intended to be used for the meetings held by CECA Committees at different venues with the savings banks. This has translated into substantial savings in travel expenses. In terms of functionality, it provides a noticeable improvement in the quality of document presentations and of interaction among attendees and gives administrators the ability to fully control the course of events at meetings. The solution has translated into a 90% cost savings compared with the traditional videoconferencing systems previously used.

The **Business Systems and Processes Committee** (*Comité de Sistemas y Procesos para el Negocio*) carried out the following projects in 2008:

- *Past-due bill management*: this project was undertaken to identify and evaluate good banking practices in monitoring risks and managing past-due collections. In the three months that the project lasted, and through 10 workshops with directors of the Risk Divisions of the 33 participating savings banks, various management models and practices were reviewed. The projects concluded with the release of a Practical Guide on Monitoring and Collecting Past-Due Accounts, making it possible for each savings bank to evaluate and improve its positioning in terms of symptom-, system- and management-based monitoring, as well as to incorporate past-due collection practices known to be successful in its toolbox of management techniques.

Identification and evaluation of banking good practices in monitoring risk and managing past-due collections

- *Customer loyalty*: project in which 31 savings banks have taken part and through which a COAS activity line was created, which is intended to be transformed into an ongoing activity. Retaining customers is critical for the institutions, and not only in the current financial situation. It has been demonstrated that the project encourages the adoption of effective retention actions, especially among the highest-value segments. Moreover, customer acquisition costs have been shown to be almost 10 times higher than customer retention costs. This project informs each participating savings bank of customers who change to a new institution, along with their customer segment and branch, and the savings bank's position relative to other savings banks. In addition, the savings banks have received a detailed retention plan.

- *Annual operating efficiency study*: A total of 44 savings banks are taking part in this study, through which the following objectives were met in 2008: (1) reduction in the time needed for data collection period so as to allow the savings banks to receive their comparative results as quickly as possible; (2) the creation for management of an early-warning scorecard, provided to each savings bank at the end of the period for delivering data and determining sectoral averages; and (3) the formulation of a new type of report —much more oriented to executives and focused on each institution's opportunities for improvement—. This has made it possible to have sectoral conclusions much earlier and to carry out up to 18 customised presentations for the savings banks' Management Committees.

Once the annual operating efficiency study is completed, a report is delivered to each savings bank, focusing on its opportunities for improvement

In addition, three specialised working groups have been created, in order to improve certain aspects of the model. These group were designed, respectively to: (1) complete the revenue model by extending it to all lending operations; (2) complete the costs model; and (3) create a methodology to carry out the office survey. All of these developments will be incorporated into next year's study.

In 2008, the **Distribution Channels Committee** (*Comité de Canales de Distribución*) concentrated its efforts on raising commercial productivity at branches. The aim of these efforts is to analyze the current marketing models in the banking sector, identify the key barriers to more proactive development of sales and determine which practices surpass or sidestep those barriers without a need for additional investments. Each savings bank will receive a series of customised recommendations on improving its sales capacity, keyed to its current infrastructure and resources.

The Distribution Channels Committee concentrated its effort on raising commercial productivity at branches

For this purpose, three broad categories will be analyzed: commercial management and relationship models; sales process and methodology; and personnel and human resource management. To this end, several sources, each providing a large amount of information, have been used. More than 2,000 surveys have been conducted in the participating savings banks' commercial network (zone managers, branch managers and assistant managers, sales managers and personnel directly in contact with the public). In addition, surveys and interviews have been directly conducted in commercial networks and central services and among customers (2,400 surveys in 205 interviews in the most important segments), and a study of market trends has been conducted at more than 50 institutions. In addition, we have several sectoral studies of the COAS on matters ranging from efficiency to human resources, in order to improve and compare the information obtained.

Moreover, the Committee has begun to examine the viability of a sector-wide project on mobile banking, in order to strategically position the sector vis-à-vis the opportunities and threats of this channel as regards customers.

The work of the **Quality and Knowledge Management Committee** (*Comité de Calidad y Gestión del Conocimiento*) included:

- The use of the savings banks' Knowledge Management System, Melania, a project supported by this committee for eight years, attained a high degree of maturity in 2008. The broad topics to which special attention has been paid are regulatory adaptation, innovation and the economic situation and the discussions on it. At the same time, the corpus of educational materials from international sources, especially US sources, has been enlarged.

Melania now has 50 clubs and workshops, virtual communities with 7,600 executives and technicians, 400,000 documents and more than 2.5 million visitors per year

The activity of its now-more than 50 **clubs and workshops** —virtual practice communities to which some 7,600 executives and technicians from the Central Service departments of the 45 savings banks belong— has resulted in the production and deposit of over 400,000 documents from some 1,100 sources. This translated into more than 2.5 million visits in 2008 by Melania members.

In addition, much of the sector's knowledge, especially knowledge related to customer orientation and financial-market operations, has become more horizontal.

This committee has also been involved in the following projects:

- Customer satisfaction benchmarking: branches, Internet and SMEs.

- Efficiency: the design and implementation of a system of efficiency indicators.

- The sectoral EFQM evaluation project: diagnostics of the management model of each savings banks based on the EFQM European excellence model.

Throughout 2008, the **Standardisation and Payments Systems Committee** was involved in developing payment systems —both domestic and pan-European— interbank settlement structures and cooperation with the different government authorities. In this, it has been supported by the Public Sector and Cash Committees.

In payment systems, particularly noteworthy were the introduction of the Single Euro Payments Area (SEPA) system and the effects of the publication of European Parliament and Council Directive 2007/64/EC on payment services, dated 13 November 2007.

SEPA began 2008 with an important milestone, pan-European transfer operations – through SEPA Credit Transfer, or SCT- which went into effect on 28 January. All Spanish savings banks began to offer the service from the first day, unlike some European institutions. The coordination of the adherence process with the savings banks, and their effort to adopt the specifications, made it possible for all savings banks to begin operating with the SCT from the first day.

SEPA began 2008 with an important milestone: pan-European transfer operations

In addition, there was cooperation to adapt Spanish interbank systems to this new SEPA mechanism, by making the needed changes in transaction clearing and exchanges. Meanwhile, the interbank transfer orders ledger was developed in collaboration with the other banking associations. In collaboration with the Bank of Spain and other parties involved, the committee worked on the SEPA migration process and developed the executive action plan, which complements the national migration plan.

In order to contribute as much as possible to the work at the SEPA and have adequate levels of information, the committee directly participated in various European-level forums for the development of the SEPA, mainly the Euro Payments Council (EPC).

The publication of the Payments Directive marked a change in the basic regulations governing payment execution and the beginning of the process for its transposition to the Spanish legal system. The contents and the legal and operational implications of the Directive were examined and the findings were reported to all the savings banks, with the support and collaboration of representatives of the European Commission and the European Central Bank, through a workshop and subsequent actions.

Within the scope of cooperation with public authorities, the committee worked on various objectives and projects intended to enhance the efficiency of information systems and cooperation on tax collection. These initiatives include the reduction of paper-based processes, the application of direct debiting to new collection processes, the file-based provision of information on transactions, the expansion of the sphere of electronic garnishments, etc. In addition, new systems that are useful for the savings banks were developed, such as a system to verify sources of income, while others, such as the exchange of electronic information with the justice authorities, began.

With public authorities, the committee has worked on various objectives and projects intended to enhance the efficiency of information systems and cooperation on tax collection

In the cash management field, the committee continued to apply the recycling framework agreement, collaborating with the savings banks to attain the levels required for 2008. In keeping with this cooperation objective, workshops were held, systems and best practices disseminated, and the use of Auxiliary Deposit Systems (SDAs) as a supporting element promoted. In addition, the committee participated in new developments of and improvements to solvency-reporting systems jointly managed by Spanish banking institutions--Register of Unpaid Acceptances (RAI), Experian Closed Users Group Database (Badexcug) and judicial incidents.

Representational Forums

8.4

CECA promoted the setting up of a network of strategic forums to examine all the management and advisory functions involved in savings bank activity. For explanatory purposes these can be broken down as follows: public profile forums (addressing issues of marketing, communications, advertising and customer relations), forums for regulatory guidance (notably on finances and tax), accounting and audit forums, and social project forums (including those relating to Welfare Fund projects and pawnbroking institutions).

8.4.1 International Forums

The **Marketing Commission** (*Comisión de Marketing*) has analysed national and international markets and the evolution of the business of Spanish financial institutions within a context of uncertainty. It has also discussed the possibility of conducting new market studies to become familiar with the different situations in these markets and has examined the different ways of dealing with customers under circumstances of intense transformation as well as the consumption trends of the different population segments.

The Communication Committee has analyzed the evolution of the international financial crisis and its consequences on the reputation of Spanish savings banks

The **Communication Committee** devoted much of its time in 2008 to analyzing the evolution of the international financial crisis and its consequences on the reputation of Spanish savings banks. The committee also replied to additional requests for information from customers in light of the reports appearing in the mass media.

In addition, progress was made in a study on the reputation of Spanish savings institutions, while the results of the image audit conducted by the Confederation among various segments of the public with which the savings banks deal were released.

The Marketing Commission has analysed national and international markets and the evolution of the business of Spanish financial institutions

For its part, the **Advertising Committee** continued to analyze and point out the incidents stemming from advertising authorisations and their consequences on the launching of campaigns. The committee also dealt with advertising initiatives in payment systems, as well as the manners of channelling the launch of new cards based on chip technology. Other topics of interest for this committee included the new forms of advertising and communication through new channels created by the development of technology, such as mobile phones, dynamic screens and virtual advertising.

New forms of advertising and communication using mobile phones, dynamic screens in offices and virtual advertising

The **Savings Bank Customer Service Commission** examined the treatment of complaints and claims received by our institutions, the institutions' classification criteria and the annual survey conducted by the Confederation, on which an annual report of the activity of these services is based. In addition, it guided the dialogue with the principal regulators with jurisdiction over credit institutions and the products being marketed: the Bank of Spain, the National Securities Market Commission and the Directorate General for Insurance.

Analysis of complaints and claims received at our institutions

8.4.2 Forums for Regulatory Guidance

In 2008, the **Legal Advisory Committee** examined the topics that had taken on a special legal importance during the year and, among others, those related to the Bankruptcy Law and the proposals to amend it in light of the implications of some of provisions contained therein for the savings banks. In addition, both domestic and international draft regulations were also analyzed, as was the implementation of the Mortgage Market Law, the new regulations governing the implementation of the Law on Personal Data Protection; the Cooperation Agreement between the General Counsel of the Judiciary and CECA; the implications of the entry into force of the Regulations on Pension Funds and Plans; new developments in money laundering; and, in general, the judicial and resolutions concerning the sector.

The Bankruptcy Law and Its implications for savings banks are the focus of studies by the Legal Advisory Committee

In 2008, the **Industry Regulatory Compliance Committee** dealt with several issues of special importance for the association. The most important of these are the implications of the rules for transposing the Market in Financial Instruments Directive (MiFID), the Internal Code of Conduct (RIC), an analysis of the implications of the new regulations on the implementation of the Law on Personal Data Protection, and, in the sphere of money-laundering prevention, several matters related to the handling of politically exposed persons (PEPs). In addition to the issues listed above, the groups that answer to the committee carried out work that culminated in the presentation, at the annual convention, of a risk map, an MiFID control map, a manual of RIC procedures and a reporting arrangement. Lastly, we must not overlook the committee's participation in the sectoral project on reporting transactions suspected of constituting market abuse (COS project), in which the Industry Regulatory Compliance Committee served as the guiding committee.

The Regulatory Compliance Committee heads the sectoral project on reporting of transactions suspected of constituting market abuse

The Savings Bank Taxation Committee, in its monthly meetings held in 2008, analysed tax matters affecting the sector along with the resulting interventions related to problems and proposed solutions, as well as to the maintenance of ongoing contact with the different Spanish tax authorities and with other sector representatives.

The Taxation Committee has analysed tax matters affecting the sector

The most important matters dealt with by the Committee during this period include the use of tax identification numbers in financial transactions that have changed significantly as a consequence of the new applicable provisions. In the ongoing contact with the central government, favourable clarifications were received, including the possibility of credit institutions themselves processing tax identification numbers for minors, thereby solving an important problem that has arisen with the new requirements. In addition, regarding the partial modification of the tax identification numbers of institutions, confirmation was received that the letter "G" will continue to be used for savings banks and their foundations.

The tax regime for related-party transactions, as well as documentation related to those transactions, and the adjustment of the tax to the new accounting rules are two of the issues related to corporate income tax that were examined in depth in 2008.

Regarding VAT, the committee worked on the new special tax regime for groups, proposing that up to three inquiries be binding on the Directorate General for Taxation on the treatment of revalued investment property, subsequent inclusions of entities into the group or the possible integration of their foundations into the group established by a savings bank. All of these inquiries were resolved satisfactorily for the interests of our entities.

Another topic addressed was the need to modify the individual income tax treatment indiscriminately applied to earnings on investment capital paid by their recipients, and which requires that earnings be included in taxable income —rather than in the savings base subject to a single 18% tax rate— with the consequent economic harm. In the end, the tax regulations had included this modification; hence, the inclusion of these earnings in taxable savings income is permitted when they are similar to those offered to other associations not related to the paying entity.

Regarding the transfer and stamp tax (ITP and AJD), the generalisation of the exemption applicable to securitisation funds in the charge on corporate operations was discussed. And in the non-residents' income tax (IRNR), after the extension of the tax benefit applicable to earnings on public and private debt, which now includes beneficiary residents and tax havens, work is being carried out to modify the accreditation procedures for these beneficiaries.

Regarding the draft law to eliminate the Wealth Tax, generalise the monthly VAT refund system and introduce other modifications to tax regulations, several amendments were proposed to mitigate the potentially negative effects of this law on savings banks.

Lastly, the content of the new tax-reporting models approved in late 2008 was discussed, with proposed improvements included in the various reports drafted for the Tax Administration.

In 2008, the two annual **Savings Banks' Tax Experts Meetings**, meetings 59 and 60, were held. The conference papers covered current issues such as the tax consequences of the new Mortgage Market Law; the treatment of related-party transactions; the application of the R&D deduction to savings banks; the use of the taxpayer identification number in financial transactions; taxation issues related to banking products, pension plans and insurance; documentation of related-party transactions; indirect taxation applicable to the recovery of property; the proposed regulation of real estate investment trusts (REITs) (*Sociedades de Inversión en el Mercado Inmobiliario - SOCIMI*).

The State Auditors' Coordinating committee analyses and coordinates actions required to ensure the correct and efficient discharge of internal audit functions

8.4.3 Accounting and Audit Forums

The **State Auditors' Coordinating Committee** raises, analyses and coordinates all actions required to ensure the correct and efficient performance of internal audit functions at savings banks.

The aim of the activities carried out in 2008, either directly through the Coordinating Committee or through the different working groups included in it, was to prepare audit programmes, and included:

- Internal control reports: Listing what the audit programmes are to contain to allow the Internal Audit Department to use them efficiently
- MiFID. Situation analysis
- Capital self-evaluation
- Updating of the Tax Department
- IT systems affecting financial statements
- Audit of the Business Continuity Plan
- Security audit of the electronic risk-assessment file

Taxation issues related to banking products, the new Mortgage Market Law and the treatment of related-party transactions were discussed at the Tax Experts Meetings

In addition, as part of the objective of providing ongoing training to the staff of the savings banks' internal audit departments, various courses on internal auditing and data protection were given, with the collaboration of the ESCA.

The savings banks' **Accounting Committee** devoted most of its work in 2008 to analyzing the regulatory changes introduced in CNMV Circular 1/2008 and the accounting changes set forth in Bank of Spain Circular 4/2004, as well as to developing Pillar III set forth in Bank of Spain Circular 3/2008 on setting and monitoring minimum equity requirements and, specifically, issues related to the Report on Prudential Relevance. Regarding CNMV Circular 1/2008 on the periodical reporting of issuers whose securities are admitted for trading on regulated markets, it was found that the semi-annual reports had been adapted to those that the Bank of Spain would later incorporate into the accounting changes. In addition, the scope and the issues related to the preparation of half-yearly accounts required for periods begin on or after 30 June 2008 were analysed.

The Accounting Committee has focused on the regulatory changes introduced by the CNMV in Circular 1/2008 and by the Bank of Spain circulars 4/2004 and 3/2008

An exhaustive analysis was conducted of the modification to Circular 4/2004 on accounting standards of financial institutions contained in the draft forwarded by the Bank of Spain in June 2008. Of particular interest were topics related to the recognition and classification of financial instruments, financial guarantees, the contents of new public and confidential statements, and modifications to be made in the notes to annual financial statements, which led to a proposal to the Bank of Spain for changes. Subsequently, a final study was conducted of the proposed modification of the Circular, which included the changes introduced in IAS 39 on reclassifications of financial instruments.

Another issue discussed by the Accounting Committee was the Report on Prudential Relevance. An initial study on the content was conducted. In addition, a draft standardised report was prepared and, after being submitted to the various inquiries and comparisons, was finally sent to the savings banks and included in the CAPTURA application. In addition, and as a result of the modifications introduced to the financial statements through the Accounting Circular, the standardised sectoral annual report was updated, following the implementation of the International Accounting Standards.

For the first time, the Accounting Committee prepared the Prudential Relevance Report

8.4.4 Welfare Fund Forums

The **National Welfare Fund Committee** continued with the intense pace of work begun in 2007, increasing the number of meetings held both by the Committee itself and its specialist working groups.

In 2008, the initiative proposed by the microcredits working group, which consisted of establishing the Spanish Micro-financing Network (*Red Española de Microfinanzas*), built around CECA and led by the savings banks, moved forward. During the year, a collaboration agreement was signed by the Ministry of Equality, the Ministry of Industry, Tourism and Trade and CECA to develop the microcredit programme, with the savings banks and some institutions that collaborate with the Women's Institute joining this initiative.

Promotion of microcredits through an agreement with the Equality Ministry and the Ministry of Industry

Second edition of the study titled Evaluation of the Impact of Welfare Fund Projects, which analyzes the impact of the Welfare Fund Projects on the creation of wealth and employment

Together with this working group, the National Welfare Fund Committee was active in standards, culture-copyrights and communication rights and was also responsible for increasing the amount of public information available on the Welfare Fund.

Altogether, between the Welfare Committee and the different working groups, more than 30 Savings Banks participated in the work, and for specific issues, steps were taken to accommodate people responsible for other areas, such as Communication, Marketing or Legal Services.

Regarding the Welfare Committee's collaboration with public authorities, through CECA, the savings banks were involved in a range of new activities as part of the agreement with the Ministry of Labour and Social Affairs for encouraging voluntary work in Spain. These activities are part of the State Volunteer Plans, which the savings banks have been contributing to since 2001.

The most important publications related to welfare fund forums were, once again, the preparation and publication of the fourth sectoral CSR report, which was classified as being "in accordance" with the Global Reporting Initiative (GRI).

In addition, the second report, titled Evaluation of the Impact of Welfare Fund Projects, was prepared. This is a social-welfare project in which 80% of the savings banks participated, providing information on the location of national and regional investments. The project included an assessment of the impact of Welfare Fund projects by savings banks in wealth and job creation in Spain, and looked at indicators to determine the role Welfare Fund projects played in issues such as the country's social, economic and geographical cohesion. As a complement to the sector-wide projects, some savings banks took individual action refining the indicators and conclusions to reflect the impact of their individual projects. In 2005, the Evaluation of the Impact of Welfare Fund Projects was the first study of this nature anywhere in the world, and, as was the case with the first study, in 2008 it was once again commissioned to the PriceWaterhouseCoopers consultancy firm, based on a proposal by CECA's Welfare Fund Department. In addition to this report, other studies were carried out through the project on CSR best practices in Spain and the strategic role of Welfare Fund projects, while the studies were complemented with tools such as a wealth- and job-creation simulator.

2008 marked the consolidation of the **Sectoral CSR Committee**, with the active participation of 16 savings banks. Created in late 2007, the Committee is intended to be a forum for sharing opinions and experiences and a platform for developing joint projects. One of the first projects to be implemented was a materiality study published as the *Libro Verde de la Responsabilidad Social Corporativa en entidades financieras* (Green book on corporate social responsibility at financial institutions), in November 2008. The aim of the study is to identify key aspects of the financial sector's contribution to sustainability. In addition, through interviews with external experts and managers of different savings bank departments, papers setting out long-term prospects were drafted, identifying future trends for savings banks participating in the study. The publication of these papers, during the current financial and economic crisis, is an ideal opportunity to place a value on elements on which the sustainability of and confidence in the financial sector may be based.

The "Green book on corporate social responsibility at financial institutions" identifies the most relevant aspects of the financial sector's contribution to sustainability

One of the Committee's most visible projects was the First Savings Bank Sectoral CSR Workshops, named "Investment and Socially Useful Products," in La Coruña on 6 and 7 November, with Caixa Galicia acting as the host savings bank.

We would also highlight the first Advanced Programme of CSR Strategic Management at Credit Institutions (*Programa Superior de Gestión Estratégica de la RSC en entidades de crédito*). The marked sectoral focus makes this programme a unique training initiative in the Spanish market, as it is open to participation from teachers and students from all types of credit institutions.

Another of the unique aspects of the savings banks' work in the fight against marginalisation: the work of pawnbrokers, saw an increase in contacts and meetings in 2008, in line with other welfare fund forums. The **Pawnbroking Institutions Committee**, in which some 10 pawnbrokers play an ongoing role, was responsible for a range of information and institutional strengthening initiatives relating to pawnbrokers. In 2008, the online auctions portal, which is in the testing phase, was definitively set in motion, and the first **Pawnbrokers' Report** was prepared. In addition, at the Committee, and in collaboration with ESCA, a technical workshop on treated and synthetic diamonds and imitations was carried out, headed by pawnshop appraisers and conducted by the Spanish Gemological Institute-Gómez Pardo Foundation UTE, in Madrid.

In 2008, the online auctions portal was implemented, and the first sectoral report has been prepared

Pawnbroking institutions now hold a joint auction of jewellery every year to coincide with the annual General Assembly. In 2008, Caja Duero organised the General Assembly, held at the Palacio de Garci Grande, and an open-door Workshop on Jewellery Appraisal, in a tent that set up in the Plaza Mayor. Once again, the interest elicited by the event helped ensure that the main objective of these institutions was achieved: making their work more relevant to the public.

8.4.5 Other Forum

In 2008, the **Savings Banks' Management Planning and Control Committee** met several times to discuss the main issues of relevance for the people responsible for these duties at our institutions. The Committee also created a working group on strategic planning and the balanced scorecard, which is expected to submit its conclusions at next year's workshops.

In May of 2008, in Vilafranca del Penedés, the 21st Workshop of the sector was held, attended by a large number of experts from savings banks and from CECA itself. This was the first meeting of planning and management-control experts with studies experts. The purpose was to utilise their experiences and knowledge on common issues. Regarding studies, the talks centred on the situation in and the outlooks for both the domestic and international economy, as well as for international financial markets. In addition, there was a roundtable on strengthening equity, in which credit institutions' initiatives for complying with the minimum Basel 2 requirements were debated. Other conference papers examined the two new instruments to help these experts (E-cubo and Consolida) and the issue of customers in the budgeting process.

Savings Banks' Management Planning and Control Committee

The **Research Committee**, which consists of research department directors from the savings banks, met once in the autumn and analysed the national and international situation and its impact on savings banks.

The Research Committee has analysed the international credit crisis and its impact on the savings banks

The **Property Group** met twice, resulting in the publication of the 3rd and 4th Savings Banks' Property Monitor, which analysed views of the housing market.

The **Statistics and Analysis** working group met twice and covered a range of issues related to the statistical information which savings banks provide to the Confederation, and the analyses of this information, both on an aggregate and on an individual basis. In particular, progress was made on redefining the savings banks' internal statements and conducting analyses based on the regulatory changes regarding accounting and equity.

Study of the statistical information that the savings banks provide to the Confederation

In addition, the **Historical Archives** (*Archivos Históricos*) working group was created, in which 20 savings banks are taking part. In 2008, the group held two meetings in which, among other topics, the situation at several savings banks was discussed. Progress was made in defining the group's objectives through the creation in Melania of a Historical Archives Workshop.

Creation of a Historical Archives Workshop in Melania

The **National Quality Committee** participated during the year in the Customer Satisfaction Benchmarking project, the scope of which was broadened, with four distinct versions, to include a range of channels for communicating with customers (branches and the Internet) and a range of market segments (individual customers and SMEs). It also participated in the Efficiency Project, which measures the objective performance of vertical and horizontal processes in savings banks and opportunities for improvement in each, and in which a more in-depth analysis of the horizontal process of insurance marketing was conducted. The Consulting Unit carried out the following projects for various savings banks: *Developing and implementing a general costs-reduction programme, the technological-operational integration of Caja Sol* (participating in its integration office, defining and promoting the implementation of the Master Plan of the Merger Project formulated in 2007 and drafting governing body reporting),

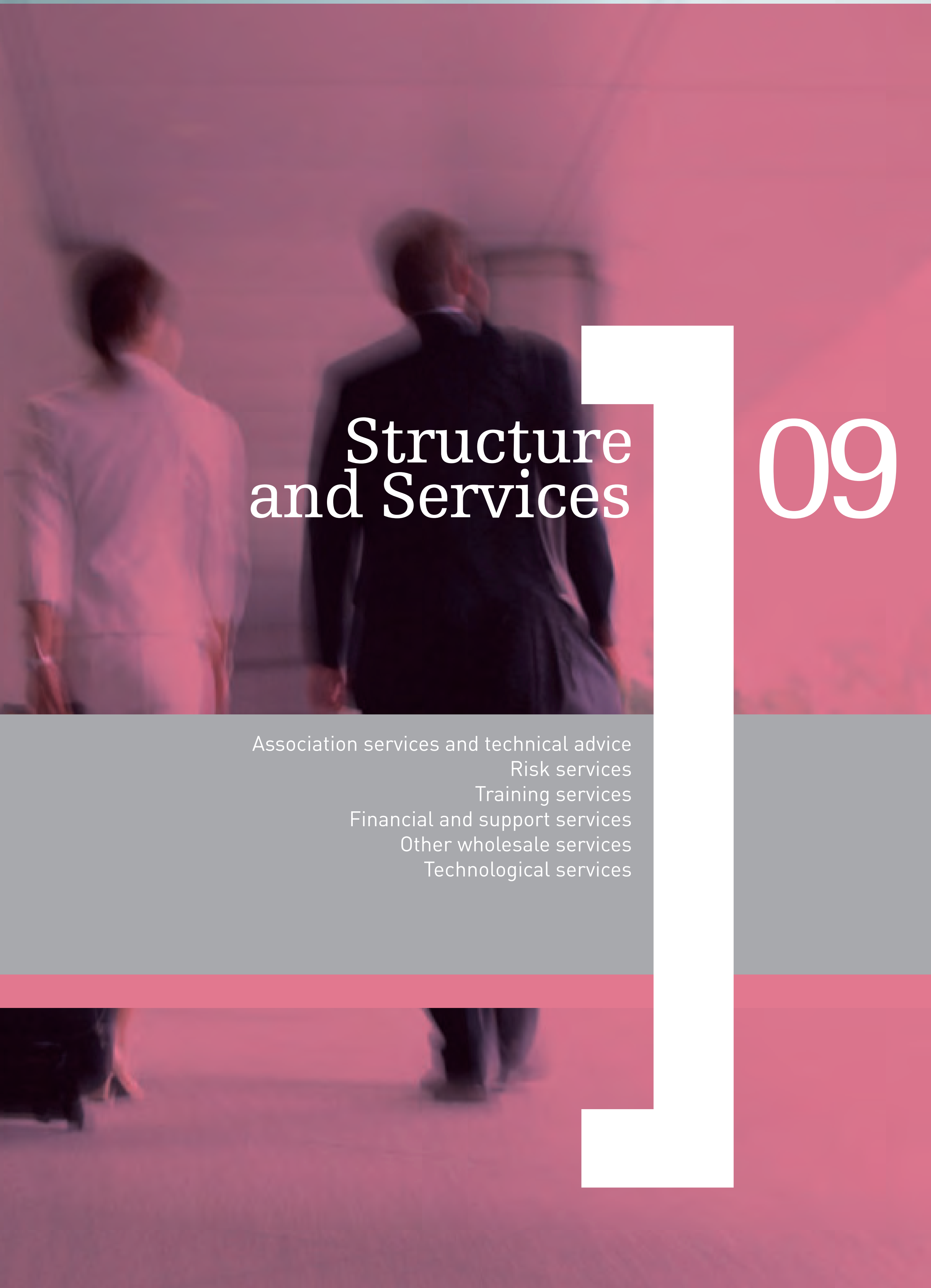
The National Quality Committee participated in the Customer Satisfaction Benchmarking Project and in the Efficiency Project

designing and implementing productivity-enhancement models for the branch networks of several savings banks, designing and developing projects to optimise central services and offices. The Quality Management Unit worked on the following activities: measuring and analyzing the satisfaction of CECA's external and internal customers, increasing the number of surveyed services; implementing the establishment of commitments to improve each of CECA's services with its customers; and renewing the Certificate of the Quality Management System ISO9000 (settlement, management and safekeeping services of securities and depository for Collective Investment Schemes by the Spanish Association for Standardisation and Certification - AENOR); among others.

The **Savings Banks' Housing Group** analyses and discusses matters concerning Spain's public and private housing sectors which affect savings banks in order to establish a joint position to present to the Housing Ministry and other official bodies. In 2008, it was very active on work to streamline the processing and payment of subsidies under the 2005-2008 State Housing Plan, and earlier plans which are still in force, using the new website created by the Housing Ministry for such purpose. The group has also met to analyse and prepare a report on the proposed Royal Decree, the purpose of which is to develop and improve the new State Housing and Renovation Plan for 2009-2012.

Intense work to streamline the processing and payment of subsidies under the 2005-2008 State Housing Plan

The **Savings Banks Technical Training Committee** is the forum for dealing with the impact of regulation and innovation through educational strategies and priority setting.



Structure and Services 09

Association services and technical advice
Risk services
Training services
Financial and support services
Other wholesale services
Technological services

CECA is not just a savings banks association, it is also a financial institution in its own right providing centralised services to the member savings banks that request such services. From this standpoint, the Confederation is a financial-services provider that offers its members a broad range of associative and technical-consultancy and risk-related, training, financial, support and technological services and structures. These services are contracted voluntarily by the banks at arm's length prices.

9.1 Association Services and Technical Advice

The Confederation collects and analyses public data on the sector and the financial system as a whole, as required by the Bank of Spain and other bodies, as well as data required by savings banks themselves to complement official data. CECA provides the savings banks with the necessary IT tools to efficiently receive, integrate and convey this information.

Once cleaned and aggregated, the information is sent to the members using a range of internal publications common to all savings banks which, with varying frequency, provide the tools needed for analysis at the sector level and to perform comparative surveys with other groups of institutions: Statistical Bulletin, Quarterly Report and Comparative Analysis.

The Confederation collects and analyses data on the system as a whole

More in-depth analysis is carried out in reports on particularly significant areas: the income statement, equity, liquidity, bad debts, loans and receivables, etc., which are supplemented with individualised annexes for each savings bank.

CECA has been commissioned to publish financial statements of each savings bank. balance sheets, income statements, statement of changes in equity and cash flow statements, both at the individual and consolidated group level. The Confederation makes the information available to the public on the corporate website in PDF and XBRL formats.

The CECA has a documentation centre for all issues which affect sector activity and a document archive, with all documents that have marked the history of the savings banks

It also prepares reports for savings banks on the Spanish and international economies, summaries of which are made public through a number of channels. The savings banks have immediate access to the main domestic and international economic indicators, which are updated on a daily basis at the Research and Planning Club, where publications with the most recent economic data are available to its members. In addition, CECA coordinates economic research on behalf of savings banks that choose to take part, using a standardised methodology, such as that of the Property Monitor.

CECA is also responsible for compiling and disseminating the savings banks' publications and has a documentation centre for all issues which affect sector activity, which is kept permanently up-to-date, and a historical document archive, with the most relevant documents in the history of the savings banks and CECA.

In addition, the Confederation has taken part in articulating various framework agreements with the Housing Ministry on financing the State Housing Plan for 2005-2008 and on the Plan to Support and Promote Rental Assistance; and with the Ministry of Environment and Rural and Marine Affairs, on financing for the improvement of agrarian structures. Especially noteworthy are the negotiations underway with the Ministry of Housing to sign a new Housing Agreement. This is a financial instrument through which the savings banks will collaborate with the Ministry on developing the new State Housing and Renovation Plan for 2009-2012.

The Framework Agreement on Collaboration was also renewed with the Spanish Association of Foundations, a public service organisation created from the merger of the Spanish Confederation of Foundations and the Foundations Centre, with the aim of promoting commercial and financial relations between the Association and CECA and its member savings banks.

In 2008, CECA also signed two new financing contracts with the Official Credit Institute (ICO). One was for the financing of EUR 1 million in investment projects by small- and medium-sized enterprises (SMEs), whilst the other was designed to promote and support investment projects carried out by entrepreneurs with a cost of less than EUR 1 million.

CECA signed two new financing contracts with ICO, to finance investment projects of SMEs and entrepreneurs

Risk Services 9.2

9.2.1 Start-up of the Central Risks Unit (CRU)

As a result of the creation and start-up, in late 2007, of the AFIANZA initiative, whose risk function is externalised in CECA, the Central Risks Unit (CRU) was created. A part of CECA's General Risks Division, this unit has the primary objective of serving as the starting point for the approval of risks eligible to be guaranteed by AFIANZA EFC and monitoring all credit risks in its guarantee portfolio. All of this is done through an out-sourcing arrangement.

> Creation of the Central Risk Unit as a consequence of the start-up in 2007 of Afianza

Specifically, the CRU's functions are:

- To prepare customer-risk analyses, which are used to guarantee EFC operations with appropriate credit quality, conducted on the basis of the following:
  - Establishment of credit approval and rejection policies that are clearly defined and conveyed internally and externally.
  - Drafting of independent risk reports for any participating institution.

- Drafting of an internal regulation setting forth each participant's duties and responsibilities.
- Creation of techniques and tools to support the evaluation of customer and transaction credit quality.

- To maintain the credit quality of the EFC's guarantee portfolio by:
  - Performing the function of monitoring the outstanding risk of the portfolio, to complement the monitoring conducted by the institution requesting a guarantee.
  - Maintaining appropriate portfolio diversification: the CRU is responsible for approving risks, while ensuring an appropriate diversification of AFINZA's guarantee portfolio, thereby reducing the potential systemic risk. To this end, the CRU is to establish and control the maximum concentration limits per customer, per group of companies, per activity sector and per geographic area.

- To support the EFC in establishing the portfolio's sectoral concentration limits and its periodic control.

- Risk prevention: to ensure the success of guaranteed transactions, the CRU will ensure that:
  - Transactions are carried out with legal supports to guarantee recovery in the event of difficulties with the borrower.
  - The type, term and repayment schedule match the purpose of the transaction to be guaranteed.

In the first quarter of 2008, the resource team was established and the tools for analysis and for monitoring customers and controlling the composition of the risk portfolio designed and implemented. Therefore, as AFIANZA begins its activity, it has the control systems needed to guarantee that its operations are carried out properly.

9.2.2 Risk Consultancy: Risk Management and Approval Models

Risk consultancy is carried out by the Risk Models and Strategies Division, which is part of the Risks Area. The division's activities in 2008 focused on developing credit-risk policies and services for the savings bank sector. This activity was undertaken based on a policy of continuously searching for new and better methodologies, the implementation of IT innovations and the development of cooperation projects within the sector.

In terms of developing new products, 2008 saw the consolidation of risk-management and approval policies for personal banking services through the introduction of integrated reactive and proactive risk systems, in which the savings banks have transferred the needed changes to adapt their management to current conditions. In this regard, the Sibila IT tool was implemented at five savings banks. This tool allows the savings banks to correctly manage their customer-classification strategies, as well as their contract criteria and to implement them in production environments. The integration of this tool in the assessment tool, which has continually evolved since 2005 and has been installed at 30 savings banks, provides a strategy-management platform for decision-making that ensures that users will have access to online operations with best practices in the market.

Consolidation in 2008 of risk management and acceptance policies for the segment of personal banking services

In terms of methodology, 2008 saw the evolution and introduction of the calibration and cycle-adjustment methodology for outstanding-risk portfolios and for severity and exposure. In the latter case, we would highlight the favourable results obtained from applying these methodologies from the standpoint of adjusting to the supervisor's requirements, as well as the necessary evolution in order to provide estimates for long-run and downturn severity.

Lastly, the introduction of the first Strategy and Model Monitoring Environments, developed in 2007, made it possible to monitor the situation and provide feedback for the Decision and Classification Strategies so as to have the necessary degree of confidence in the basic implementation hypotheses for the models integrated into them.

Training Services

9.3

	Thousands of euros	
	Programmes 2008	Students 2008
Classroom Training	**129**	**3,929**
Seminars	88	2,188
Experts - Long Course	15	391
Conventions	26	1,350
Non-classroom Training	**1,747**	**89,489**
Distance learning	303	13,158
On-line	956	64,300
In Company	488	12,031
Total	**1,876**	**93,418**

In 2008, substantial progress was made, both in the increase in the number of participants and in the training programmes carried out at the savings banks. In addition, online training became a further tool for adding value to the sector.

The number of students rose to 93,418 in a total of 1,876 financial- and management-training programmes.

A cursory examination of each of the business lines shows that all savings banks continued to collaborate in **CENTRALIZED TRAINING.** Its structure has been shored up for certain long-course training programmes, combining traditional classroom training with new, non-classroom technologies.

Important increase both the number of participants and in the training programmes carried out at the ESCA

Among other activities, we would highlight the conclusion of the advanced programme in Strategic Management of Corporate Social Responsibility, as well as the first Expert in Communication course. Similarly, in keeping with the new line of the ESCA's Certifications Service, the first Advanced Programme in Financial Issues and Insurance was concluded, in collaboration with the Insurance Brokerage for Financial Entities Association (*Agrupación de la Mediación Aseguradora de Entidades Financieras - AMAEF*).

The most significant development in terms of short-term specialised programmes is the large offering in the Regulatory Management, Payment Systems, International, Accounting, Distribution of Financial Services and Marketing, Risks and Legal areas.

Conclusion of the advanced program in Strategic Management of CSR, as well as the first Expert in Communication course

Two new workshops were held: the first Technical Workshop on Balance Sheet Risk, and the first Workshop on Corporate Social Responsibility: Socially Responsible Investment and Products.

The Catalan Savings Banks Federation carried out its fourth Experts for Credit Institutions programme, maintaining the programming commitment it assumed with Catalan savings banks.

In addition, IN-COMPANY TRAINING developed new integrated programmes covering banking financial management, bankruptcy law, monitoring and risk recovery. Moreover, external cooperation with the authorities was encouraged, through a specialised programme in State Security Management.

The ESCA reinforced its position in training in occupational hazard risk prevention

The ESCA reinforced its position in the savings banks sector as a benchmark in training in occupational hazard risk prevention, both because of the courses that it offers (16 programmes) and because of the number of students participating.

Its specialisations include the Advanced Technician in Occupational Risk Prevention course (given for the second time) and the Occupational Risk Prevention Management System Auditing course.

One of the main contributions of the ESCA to the sector was the obvious strengthening of **ONLINE AND DISTANCE TRAINING**, in which 77,400 students registered, with 89.41% completing their programmes.

More than 77,400 students received online and distance training from ESCA

In this way, the ESCA responded, among other needs, to the insurance industry regulatory requirement, by carrying out 23 generic and specific programmes, in which 40,000 students took part.

In addition, in line with the Certification Master Plan in Financial Consultancy, the programmes in Investment Products Consultancy (level 1) and Financial Consultancy (level 2) were designed.

Another product of special importance, given the related regulatory requirement, is the framework programme for bank notes, carried out online through the ESCA's electronic campus.

Through the ESCA's **TECHNICAL SECRETARIAT**, public subsidies on training were obtained for our sector, which apply to both supply and demand and to tax relief. Both systems constitute an important investment in training, which undoubtedly reduces costs and lessens the administrative burden of the participating savings banks.

Financial and Support Services

9.4

In cash management, through its **Cash flow Department**, and as the manager of the Bank of Spain's Auxiliary Deposits System (SDA), CECA continued to open operating centres, which currently number 33. The purpose of these efforts is to increase distribution cover for bank notes to savings banks and thereby help the banking sector boost operating efficiency in cash transactions, while at the same time improving the quality of the bank notes in circulation.

Throughout 2008, the Securities Department undertook various projects with the aim of reducing clients' costs or increasing their competitiveness.

The projects include the following:

- Actions taken to facilitate the daily reporting of transactions to the CNMV, pursuant to Article 59 bis of the Securities Market Law..
- Improved customer tax information, through the provision of data on gains or losses during the fiscal year.
- CECA is continuing to directly participate in developing the TARGET 2 Securities Project, a European settlement and safekeeping platform that could be used starting in 2012.

In 2008, the Securities Department introduced several projects to reduce costs for its customers or increase its competitiveness

Improved customer tax information, through the provision of data on gains or losses

The key figures for Securities Department's activity in 2008 were as follows:

DEPOSITS BY EFFECTIVE VALUE

(Amounts in EUR million) Type of Instrument	2007	2008	Change 2007/2008
Private fixed income	31,538	59,747	89.44%
Equities	28,577	14,680	-48.63%
Government debt	6,340	5,381	-15.13%
Foreign securities	42,036	32,866	-21.81%
Total Deposits	**108,491**	**112,674**	**3.86%**

STOCK MARKET TRANSACTIONS

(Amount settled, at effective value, in EUR million)	2007		2008		Variation 2007/2008	
Item	No. Transactions	Settlement Value	No. Transactions	Settlement Value	No. Transactions	Settlement Value
Securities purchased	660,016	30,117	497,002	19,746	-24.70%	-34.44%
Securities sold	752,803	31,439	546,105	21,846	-27.46%	-30.51%
TOTAL	**1,412,819**	**61,556**	**1,043,107**	**41,592**	**-26.17%**	**-32.43%**

BOOK ENTRY SYSTEM // GOVERNMENT DEBT

(amount settled, at nominal value, in EUR million)	2007		2008		Variation 2007/2008	
	No. Transactions	Settlement Value	No. Transactions	Settlement Value	No. Transactions	Settlement Value
Item						
Government debt added	97,269	345,944	65,175	244,648	-33.00%	-29.28%
Government debt removed	101,384	346,064	69,948	245,802	-31.01%	-28.97%
TOTAL	**198,653**	**692,008**	**135,123**	**490,450**	**-31.98%**	**-29.13%**

SPANISH FOREIGN INVESTMENT

(settled amount and deposit volumes, in EUR million)	No. of Transactions	Change from previous year	Amounts Settled	Change from previous year	Volumes deposited	Change from previous year
Year						
2006	199,030	11.25%	186,128	10.22%	42,757	10.53%
2007	255,877	28.56%	190,031	2.10%	42,036	-1.69%
2008	**212,541**	**-16.94%**	**138,085**	**-27.34%**	**32,866**	**-21.81%**

One of the most important activities carried out by the Centralised Accounts Administration Department, as the manager of central operational services for the savings banks, is its joint control of the Social Security's treasury accounts, in order to service the savings banks' customers. Along the same line, the Centralised Accounts Administration Department continued to provide services for the joint venture formed by 25 savings banks and CECA for the cash flow management of Spain's National Lottery and Gambling Agency (Loterías y Apuestas del Estado - LAE), of which CECA is the sole manager. This included 4,152 accounts opened in the name of the LAE.

In January 2008, the Exchange and Clearing Centre introduced both domestic and cross-border SEPA transfer clearing, providing comprehensive technical-operational coverage to 41 credit institutions. The results were fully satisfactory.

In addition, in February 2008, the technical coverage service for 39 credit institutions was also successfully introduced, within the scope of the new TARGET2 (Trans-European Automated Real-time Gross Settlement Express Transfer) platform.

New technical coverage service for 39 credit institutions in the sphere of the newTarget2

Lastly, in December 2008, SEPA transactions of CECA and the institutions that its represents cleared through EBA Clearing began to be settled at TARGET2 through the CCA's payments account at the Bank of Spain. This eliminated the need to have a specific settlement bank for these operations, consequently improving the treasury management of the funds linked to the operations.

The following activity took place relating to the exchange, clearing and settlement of transactions managed by the Exchange and Clearing Centre, both electronically and using physical documents, as a direct result of CECA's involvement on behalf of some savings banks and other institutions in national and international payment systems:

(Nominal amounts in EUR million)	2007	2008	Change
Item			
CROSS-BORDER EXCHANGE OF CHEQUES/FOREIGN CURRENCY CLEARING			
Cheques handled	561,942	480,691	-14.46%
SWIFT MESSAGES EXCHANGED			
Outgoing	1,315,743	1,656,618	25.91%
Incoming	1,313,248	1,853,307	41.12%
EBA (Euro Banking Association) - STEP1 and STEP2			
Transactions handled	1,181,613	1,054,272	-10.78%
Nominal value	11,180	12,943	15.77%
TARGET/SLBE (Fund and Cross-Border Transfer Orders)			
Transactions handled	411,524	280,847	-31.75%
Nominal value	717,038	774,961	8.08%
EXCHANGE OF SEPA TRANSFERS (EBA and SNCE)			
Transactions handled	-	2,565,740	-
Nominal value	-	11,494	-
EXCHANGE OF OPERATIONS USING THE SNCE (National Electronic Clearing System)			
Transactions handled	692,044,142	734,224,459	6.10%
Nominal VALUE	750,048	745,266	-0.64%
EXCHANGE OF DIRECT DEBITS			
Transactions handled	497,358,000	536,484,000	7.87%
Nominal	136,084	144,376	6.09%
EXCHANGE OF TRANSFERS			
Transactions handled	138,784,000	147,248,000	6.10%
Nominal value	321,114	358,748	11.72%
OTHER INSTRUMENTS			
Transactions handled	55,902,142	50,492,459	- 9.68%
Nominal value	292,850	242,142	- 17.32%

Furthermore, through its **Funds Depositary**, the Confederation also performs central operational support tasks relating to the **custody, supervision and control of investment funds, investment companies and pension funds.** These tasks include CECA's activity as a depository for investment funds, investment companies and pension funds.

The key figures in this activity in 2008 were as follows:

- 129 investment funds and companies supervised by CECA as the depository
- 60 pension funds supervised by CECA, as the custodian
- EUR 6 billion in assets supervised

The Confederation performs central operational support tasks relating to the custody, supervision and control of investment funds, investment companies and pension funds

The Confederation also shares a tool to for the supervision and control on fund deposit activity with some savings banks:

Highlights of this activity include:

- 14 savings banks adhered to the supervision and control application
- 296 investment funds and companies supervised
- 118 pension funds supervised

The Confederation supervised 296 investment companies and funds and 118 pension funds

Through the Discount Centre, CECA provides comprehensive bill-portfolio coverage for the savings banks: document processing (for both physical and electronic documents), safekeeping and deposit, information management and database interconnection (both online and batch processing).

During the year a range of projects were carried out to adapt the overall management services provided to the savings banks, either in line with legal or interbank regulations or to optimise their procedures. Some of the most important of these actions include:

- The creation of a procedure to automatically update data on unpaid bills, avoiding the need for the savings banks to report these data.
- New operational procedure to set aside, at the Discount Centre, original bills received by the savings banks represented by CECA at the General Subsystem of Bills of Trade (SNCE 007).

CECA actively collaborated with the working groups of the Spanish Payments Systems Company (Sociedad Española de Sistemas de Pago - IBERPAY).

In addition, along with the Quality Management Department, it has coordinated various actions to improve the service provided, most notably the savings bank visits plan.

Active colaboration with Spanish Payment Systems Company (IBERPAY)

The Central Discount Office, which handles documents related to bill discounting, recorded a decrease in both transaction numbers and total volumes compared to 2007 (see chart).

Nominal values in EUR million	2007	2008	Change 2007/2008
Item			
Incoming bills	16,621,704	15,232,045	- 8.36 %
Nominal value of incoming bills	58,917	51,610	-12.40 %
Outgoing bills	16,723,334	15,580,414	-6.83 %
Nominal value of outgoing bills	58,003	55,314	-4.64 %
Bills deposited	1,939,995	1,593,893	-17.84 %
Nominal value of bills deposited	10,493	6,817	-35.03 %
Truncated bills presented	7,431,122	6,670,926	-10.23 %
Nominal value of truncated bills presented	26,800	25,101	-6.34 %

Other Wholesale Services

9.5

In 2008, the process of dissolving the **joint venture** between 36 savings banks and CECA set up to manage cash held by the State Lotteries and Gambling Agency, with CECA as sole manager, concluded. During this period, the new **joint venture LAE 2007**, composed of 25 savings banks and CECA, with the Confederation acting as sole manager, continued its activity. The annual average sum held by the National Lottery and Gambling Agency in accounts at the member banks of the joint venture was approximately EUR 100 million, or about 45% of the LAE's total cash generated through the marketing of all its forms of gambling. In 2008, the joint venture continued managing the payment of large prizes for the National Lottery, which, as of mid-November, totalled EUR 240 Million.

Also in 2008, the **CECA-CAJAS HOGARES CONECTADOS joint venture** continued its activities. This joint venture, involving 27 savings banks and CECA, was set up in November 2005 under the collaboration agreement signed with the Ministry of Industry, Tourism and Trade, in order to promote actions to facilitate citizen access to the information society via the Connected Homes (Hogares Conectados) initiative. The initiative was widely backed by savings banks, which at the close of the period for granting loans under the cooperation agreement had granted more than 21,000 loans worth some EUR 24 million; of all the institutions that took part in this agreement, the joint venture was the financial group which granted the largest number of loans. In this respect, it should be noted that most of the loans granted (over 75%), were made in towns of fewer than 25,000 inhabitants and in deprived areas, which were among the priorities set by the Ministry of Industry when the agreement was signed and within the Avanza Plan, which the Ministry has made its priority.

> **The savings banks extended more than 21,000 loans, for a total of EUR 24 million, within the Connected Homes initiative**

9.5.1 Capital Markets

In 2008, market liquidity became extremely tight. As a result, CECA focused its efforts on seeking viable alternatives to offer the savings banks financing, without overlooking traditional capital market activity.

With Ahorro and Titulización, CECA has collaborated in developing a collateral programme

Regarding the first issue referred to, we continued to collaborate with Ahorros y Titulización (AyT) on developing and executing the collateral programme. This programme is designed to allow the savings banks to obtain discountable paper at the ECB. Begun in 2007 to handle mortgage collateral, the programming was expanded in 2008, and now offers the possibility of collateralising loans to companies. During 2008, five savings banks resorted to the first type, for a total of EUR 3.4 billion, and two savings banks have resorted to the second, for a total of EUR 360 million.

In addition to the actions through this programme, the near shutdown of the credit markets led us to work intensely on designing and putting together a specific securitisation to provide discountable paper to the savings banks. The scope of the CEAMI finally made it possible to establish, in October, the FTA AyT CEAMI EMTN, in which 10 savings banks have participated for a EUR 765.2 million issue of AA- rated bonds.

Moreover, we continued to cooperate with Securities to execute and monitor the payment-agency contracts for issues by savings banks and other companies. Specifically, contracts for 63 issues by savings banks and four issues by companies are in effect. Regarding CECA's activity as a counterparty, our collaboration with the Commercial Desk in the area of liquidity contracts was intensified. Liquidity is currently being provided to 36 savings bank issues and four company issues.

At the institutional level, of particular note were the activities within the framework of the CEAMI Group, which met several times to deal with the various aspects of the problems facing the sector. Participation and interest of the member savings banks were high. Especially noteworthy were the actions taken within the Group to interpret and utilise government measures to support the financial system.

In the framework of CECA's activity as a counterparty, the Confederation offers liquidity to 36 issues by savings banks and 4 by companies

Similarly, further efforts were made to explain the sector's situation to foreign investors. A roadshow was organised and promoted, with stops in the most important locations in the Middle East and East Asia. It was well received by all parties involved.

A road-show went to locations in the Middle East and East Asia to publicises sector among foreign investors

9.5.2 International Development

In 2008, in compliance with the objectives set in the Savings Banks' International Business Development Plan, CECA rolled out new products and services and promoted access, for both savings banks and their customers, to international financial and commercial markets.

It continued to expand its cooperative work with other public- and private-sector institutions during the year in order to foster international economic relationships. These bodies included the World Savings Banks Institute, the European Savings Banks Group, the International Chamber of Commerce, the Higher Council of Chambers of Commerce, the CEOE (Spanish employer's organisation), and the ESCA savings banks college.

CECA signed agreements with the Bank of America and Wachovia Bank, to offer financial services to Spanish companies in the US

In 2008, the Confederation, in addition to implementing the agreements already signed with international financial institutions, signed collaboration agreements with the Bank of America and Wachovia Bank, two of the most important financial institutions in the United States. The aim was to facilitate financial services for Spanish companies wishing to do business in that country. In addition, COFACE, an institution with which CECA had signed an agreement to provide business information reports, factoring services, and export insurance in over 90 countries, created an online management platform through which savings banks and their customers can request the services covered in the signed agreement. The Confederation also held a Collaboration Agreements Workshop that was attended by savings banks, during which all the international institutions with which CECA is cooperating submitted a description of the services and products that they offer to savings banks and their customers.

In addition, CECA, on behalf of Spanish savings banks, is a part of the Euro-Mediterranean project, which falls under the aegis of Paris Summit for the Mediterranean, held on 13 July 2008. The final declaration was signed by the heads of State or government of the Mediterranean countries that attended. The primary objective of the project is to promote banking penetration and savings in the countries of North Africa, as well as to establish SMEs and build infrastructure.

CECA represents Spanish savings banks in an economic and financial cooperation project in towns along the Mediterranean

In addition, the Pan-European Direct Debit Service, an international clearing system for payments for Germany, France and Italy, which the Spanish Confederation of Savings Banks had implemented in 2006, was expanded to include Portugal. This provides companies that are savings bank customers with a clearing system for export-related transfers which is quick, secure, inexpensive and offers widespread coverage.

In 2004, CECA established its CEA TSL subsidiary in Hong Kong to process import documentary credits issued by savings banks at the request of their clients; in 2007, both the number of countries covered by this system and the total number of transactions carried out increased.

Considerable increase in the number of transactions carried out through CECA's Hong Kong subsidiary

In late 2008, CECA extended the operational advantages obtained through its experience with the aforementioned affiliate to documentary credits for the United States. Through this service, savings banks may centralise the issuance, verification and repayment of documentary credits issued for the US, obtaining economies of scale and mitigating the technical risk of a mistake in the review of the documents.

Also in 2008, CECA opened its new representation office in Brussels, providing savings banks and their customers with larger facilities in the heart of that city's financial district.

Inauguration of the Confederation's new representation office in Brussels

In a bid to increase their international presence, the savings banks are establishing offices at the locations made available for them by the Confederation in London, Brussels, Frankfurt and Paris. Thus far, 12 savings banks have sent delegates to those cities. In addition, CECA has advised some savings banks that expect to open representation offices outside of Spain, including in the US.

The International Remittances Capability Agreement (IRCA), a World Savings Bank Institute project, was also developed to assist financial transactions by immigrant workers, while the Islamic Bank Agreement was implemented.

Lastly, CECA continues to innovate so as to enhance its quality, which lies at the core of its endeavours to improve the services offered to the savings banks, their customers and our correspondents.

9.5.3 Products and Services:

Within the framework of sectoral collaboration to channel payments from the annual programme promoted by the Insitututo de Mayores y Mejores Servicios Sociales (IMSERSO), new management systems have been introduced, lending flexibility and added value to the services provided to the beneficiaries of this programme.

Thanks to this agreement signed by CECA on behalf of the member savings banks, more than 60% of the payments for transactions related to trips promoted by IMSERSO are channelled through the savings banks. This enables the savings banks to provide a social service which is highly appreciated by a group closely linked to our sector.

Greater responsiveness and added value of the services provided to the beneficiaries of the Imserso programme

The Product and Services unit, in cooperation with investees, submitted a bid to provide custodian services for public institution pension funds. This invitation to participate was the result of experience and the recognition of CECA's security services, backed by various agencies with company registration certificate no. ER-0138/2005, dated 31 January 2005, for the Funds Depository Department and the Safekeeping Department, evidencing the compliance of its quality system with the UNE-EN-ISO-9100-2000 requirements.

In the same line of action, Products and Services coordinated the incorporation of different savings bank fund managers into CECA's depository services.

9.6 Technological Services

9.6.1 Payment Systems

CECA is responsible for managing the EURO 6000 System processing centre, which makes it possible to exchange transactions carried out using the 15.2 million cards issued by the savings banks at 15,800 ATMs and using the 290,000 point-of-sale (POS) terminals that rely on this system. In 2008, the volume of transactions processed exceeded 697 million, 6.1% more than in 2007. The availability of the service over the year, weighted for real traffic, was 99.996%.

In 2008, more than 697 million operations were processed in the EURO 6000 System, 6.1% more than in 2007

CECA is constantly developing the technological support that it provides to members of the EURO 6000 system. An example of this includes the introduction, in 2008, of the "Escudo" system, which makes it possible to guarantee the uninterrupted operation of transaction-exchange services. In addition to being able to act in response to contingencies that affect the normal technological platform, this system is flexible in terms of the savings banks' participation in authorisation processes. This permits actions to be taken on behalf of the savings banks, when the latter so require, and allows the savings banks to fully maintain their role in the transaction-authorisation process with issuing institutions.

The merchant-acquiring side of the payment cards business is demonstrating its strategic importance. For this reason, in 2008 CECA developed a set of important initiatives aimed at strengthening this area by improving the technical platform and communications systems and introducing innovative commercial services.

CECA also supports the savings banks in the issuer business. In 2008, the eMisión project was carried out. Through the use of data-mining tools, this project provides the savings banks with a large quantity of relevant data on customer behaviour regarding card use and allows customers to be segmented according to different approaches, which is particularly significant for generating specialised offerings and efficient campaigns.

Retail outlet transactions:

Retail outlet transactions:	543,438,831
ATM and branch transactions	153,602,685
TOTAL 2008	**697,041,516**
TOTAL 2007	656,855,990

Other technological services provided by the Confederation to its members in relation to payment systems were also improved in 2008:

- **PECA**, the service which enables savings banks to manage all payment system products, has now been adapted to the EMV standard, including point-by-point accreditation of all its developments. It has incorporated the use of anti-fraud tools based on neural networks. The solution takes a modular approach to the administration of cards, terminals and ATMs, providing support for credit, debit and cash transactions and handling the settlement of transactions between merchants and saving bank customers in line with the savings banks' commercial policies. In 2008, more than 104 million transactions were processed using PECA.

> **More than 104 million transactions were processed in PECA, which makes it possible to manage payment-system products**

- **SAT**, the service which enables savings banks to manage all of their credit payment systems, has also been fully adapted to the EMV standard. This service generates transaction statements, charges clients and credits merchants for transactions made with credit cards. This is done in line with the savings banks' commercial policies relating to charges, interest, etc. In 2008 the volume of transactions processed using SAT was EUR 19 million.

- The CARD service allows savings banks to delegate, to whatever degree each bank considers appropriate, the processing and control of incidents related to payment systems. In 2008, automated incident-handling mechanisms were improved and a set of tools designed to facilitate decentralised management and monitoring of incidents was made available to the savings banks which use this service, which can adapt these tools to their own organisational requirements. Members are showing great interest in this product as it resolves a central problem which in the past was extremely time-consuming for highly qualified personnel. At the end of 2008, 16 savings banks were using this service.

> **Sixteen savings banks use CARD, a product that makes that possible to process and control payment-system incidents**

9.6.2 New Channels

CECA provides services related to virtual channels for 43 savings banks. These services are aimed at achieving economies of scale with sufficient reach to enable the banks to distribute products and services via the new channels in the most efficient manner possible.

In 2008, the **multi-channel e-banking platform**, which New Channels is making available to the savings banks, handled 564,942,284 financial transactions carried out by 1.29 million users making monthly transactions, with a 99.72% availability, weighted by real traffic.

In 2008, plans were developed to make e-banking more accessible, as is required by the Information Society Promotion Law. This facilitated access by the handicapped and allowed users of digital certificates, such as those of eDNI, Izenpe or Catcert, to access e-banking. During the year, progress was made in reproducing the company signature endorsement system, which may be managed not only with signatures but also with coordinates or tokens.

The multi-channel e-banking platform process this year more than 654 million relevant financial transaction, for 1.129 million users

In 2008, CECA continued to be a reference point for e-banking security for **Spanish** savings banks. Services are provided by CECA for 43 institutions under the framework agreement for anti-fraud services signed with S21Sec-Verisign. In 2008, 374 attacks on savings banks covered by the service were detected and resolved. Further progress was made in developing a tool for the online analysis of customer behaviour in e-banking in order to detect possible fraudulent actions. The results of this tool have been combined with the sending of SMS messages to make certain transactions more secure as a way of avoiding fraud without substantially increasing costs from sending text messages. In addition, new technologies for making transactions secure, such as signatures with mobile phone certificates, were experimented with.

In 2008, 213,658 **securities trading** transactions were processed using CECA's New Channels infrastructure, via internet, telephone and mobile banking services and terminals in the branch network. During the year, we reengineered CECA's Online Broker, both from the standpoint of its infrastructure, which has been made more robust, and from the standpoint of its design and browsing capabilities, which have been adapted to Web 2.0 requirements and improvements. This will be fully rolled out in 2009.

CECA's New Channels infrastructure processed 213,658 securities-sales transactions

CECA continued with the work of optimising the **Contact Centre** to improve the quality of the service that it provides its customers, both at its own facilities as well as at the centres to which it provides technology. Along this line of action, in 2008 we installed the new CECA switchboard for the Contact Centre's activity, which will improve the availability and customisation of the service. During the year, 841,555 calls were received on the CECA platform.

Also in 2008, New Channels customers have increased the number of operations available on its **online mobile portal**, and at times have used it as their Internet-accessible portal, adapting it to the resulting programming requirements. In 2008, 872,468 operations were carried out. In addition, the adaptations for the savings banks to be able to offer their e-banking service from the new generation of iPhone mobile handsets were implemented.

Another channel that is expanding greatly is **SMS messaging**. In 2008, 13,380,871 messages were sent from 30 institutions for marketing or securisation purposes or related to links to information on products such as cards, accounts or securities. To improve the SMS messaging service, a new channel was opened with a second messaging provider. This benefited the entire system, ensuring that CECA's messaging queue is always operative.

Since December 2004, the New Channels technology platform has been the system for developing and operating the Bravo project for **immigrant remittances**. Currently, 30 institutions are taking part in the project, and 135,654 remittances were forwarded in 2008 to 22 correspondent banks, making the project a reference point for other European savings banks and banks.

The Bravo plan for sending remittances from the savings banks is a reference point for other European financial entities

In terms of management, New Channels provided data for the e-Misión project, which has made it possible to obtain highly relevant conclusions on the behaviour of savings bank customers.

The e-invoicing project, involving 31 savings banks, continued to move forward, with new institutions joining the project and making it available to their customers. Constant improvements were made to adapt the application to different e-invoicing formats released by the AEAT, currently in version 3.1, in order to make the savings banks' system an integral management invoicing portal for SMEs.

The institutions expanded their range of products and services that can be contracted through the new channels by using the **e-marketing** tool supplied by New Channels, in compliance with the Information Society Promotion Law. The institutions have found this to be an effective new marketing channel for their products and services: 14,023 contracts were concluded over the Internet.

Meanwhile, the **enCuenta** application, with more than 52,865 registered users, was further developed to enhance its usability for customers and to make it easier to obtain relevant information on customer accounts and cards.

> **The enCuenta application , with more than 52,865 registered users, is evolving to make it easier to attain relevant information on accounts and cards**

In e-commerce transactions, CECA's **virtual POS** is still one of the most highly valued e-commerce gateways in the market, with 2.6 million transactions pertaining to 34 institutions processed in 2008.

New Channels provided support to the development of the **Pan-European Direct Debit Service**, involving 21 savings banks, which thus far has processed direct debits with Germany, Italy and France for an amount of EUR 32.90 million from 18 savings banks. Throughout 2008, **Portugal's** debit system was incorporated into the service. There are plans for new countries to join, in order to boost international coverage for savings bank customers.

During 2008, development work began on processing mortgage loans through the **e-notary project**. In the sphere of personal loans, 19,803 transactions were carried out.

9.6.3 Management Support Services

CECA provides a range of support services for savings banks, including areas such as **human resources, administration and general services**, so as to facilitate work related to human resources management (payroll, staff development, risk prevention and health and occupational safety) purchases management and administration of suppliers and property.

Regarding the latter, in 2008, their scope was completely reviewed, in order to provide them greater added value. This resulted in the designing of a comprehensive expenditure management model, covering the complete expenditure cycle, from the initial phase of budgeting to ongoing monitoring, and including the corresponding phases of demand and purchasing management.

We would note that a substantial portion of the new functionalities developed in the framework of this project are located on the institution's intranet, making them more accessible and user friendly. Moreover, in the management-information section, a specific model was developed providing each manager in the organisation detailed information on the status of the budget items assigned to him or her (committed, incurred, available), and making it possible to examine the information in depth and even review a breakdown of each invoice processed.

9.6.4 Business Intelligence

In 2008, the ***BITs*** initiative, implemented in 2007, added the possibility of establishing virtual meetings among the members of a specific service (Bit) and of making use of chat, video and IP audio technologies, thereby facilitating communication among participants and strengthening the concept of “community”.

The **Pulso** service closely tracked the evolution of the financial system and the vision that the savings banks have of it. Specific reports were drafted, in addition to periodic summaries: "The most noteworthy deposits", "Negotiating agencies: operation and reflection in PULSO" and "Quick Credits: Traditional Banking versus Monoliners", among others.

Added to the service made available to the 20 savings banks that actively use it is the possibility of obtaining replies to ad hoc inquiries, with a breakdown of accounts according to the criteria that each savings bank deems appropriate for each case.

Lastly, and in line with the most recent situation in the financial sector in October, daily-monitoring reports were prepared, with a breakdown of the "sole-proprietorship movements". These reports provided information that was highly valued, both because of the content and its immediacy.

The Pulso service closely tracked the evolution of the financial system and the vision that the savings banks have of it

Geomárketing began operating as a service in June, in which the six savings banks that use it not only enhanced their knowledge of their customers, but also deepened the analysis that the new geographic dimension entails.

The savings banks that have signed up for the service also evaluated a series of improvements and the incorporation of new functionalities that will be developed throughout the coming year.

To support the payment systems acquisition business, and taking advantage of the technology developed on customer knowledge, **"in-Venta"** was rolled out in 2008. This is an information service that specifically targets merchants (the customers of savings banks), allowing them to be familiar with the performance of their own business, and, more importantly, to know their customers. It even gives them the possibility of conducting online campaigns by e-mail or SMS, and thereby increasing their customer loyalty.

This innovative initiative, introduced by one savings bank, was very well received by merchants since it brings small businesses close to the techniques and technology that previously were only within the reach of large businesses.

In-venta, a new information service that especially targets commerce

9.6.5 Technological infrastructure and services

In 2008, the **Activity Monitor**, developed in 2007, increased the number of services for which it provides information. It monitors now services such as SEP, Savings Banks Electronic Payment (PECA), e-banking, Broker, Content Manager, SMS, and many other outsourcing services provided to the savings banks.

In addition, for all of these services a service that reports incidents, notifications and alerts was developed, along with mechanisms that facilitate in-depth monitoring of the periodic processes executed in the operations.

Through the **Hidra network**, it was possible in 2008 to make 69 new services available to 44 savings banks and another 43 credit institutions and services companies. In addition, MPLS technology was incorporated at two access providers, Telefónica and BT, replacing frame relay technology and making a larger amount of broadband available for new services.

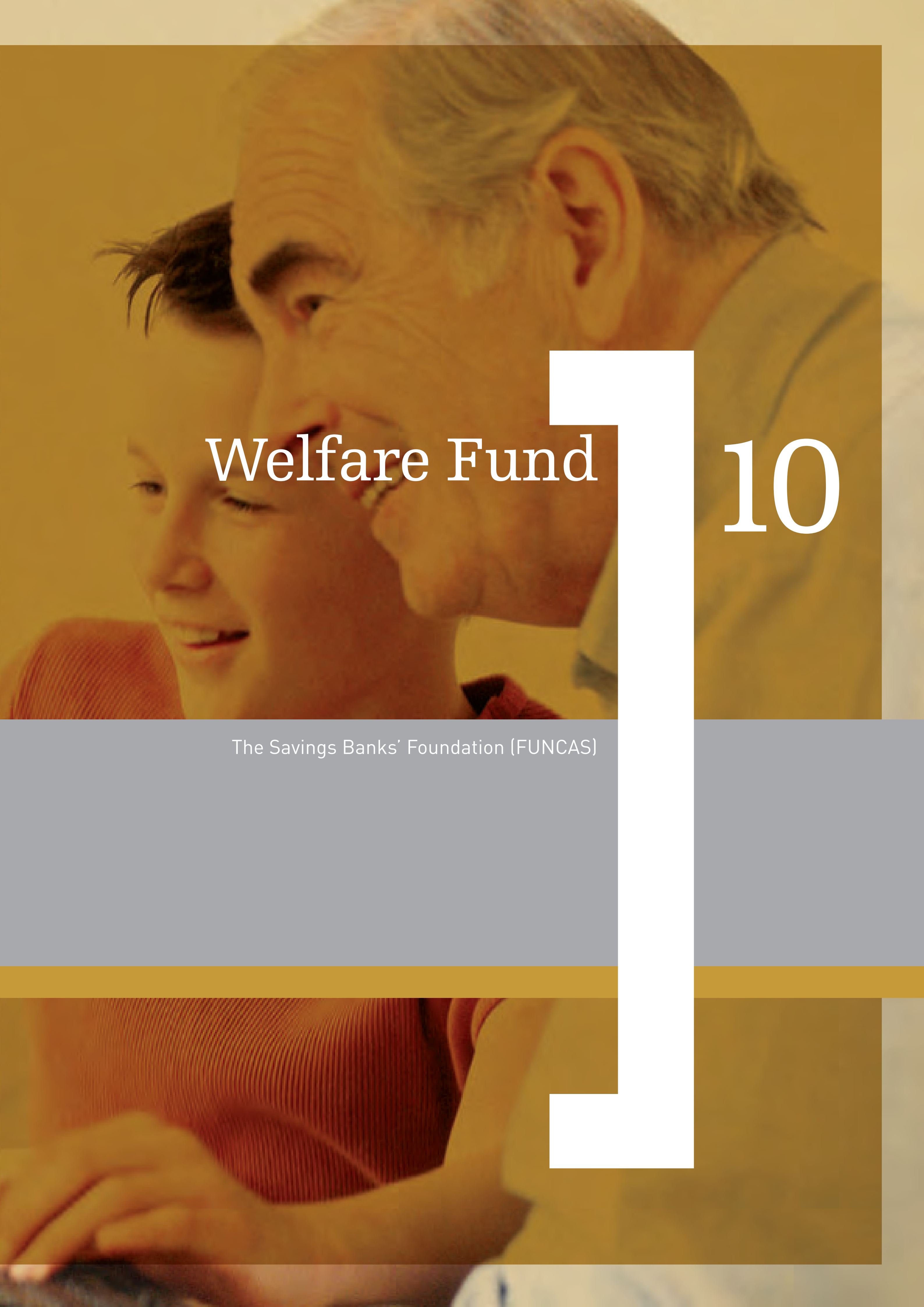
The Hidra network enabled CECA to make a total of 69 services available to 44 savings banks and to another 43 credit institutions

In 2008, two IBM 2064-114 computers have been replaced with advanced-technology computers, an IBM 2094-607 and an IBM 2094-707.

9.6.6 Outsourcing

In 2008, the main activities of the Technology Outsourcing Service were:

- The production service for transactions in Z/OS environments and Windows platforms for the six savings banks integrated into the service
- Operation of the private banking and retail banking system for 13 savings banks and two banks
- Prevention-of-Money-Laundering Service
- Operation of the insurance management system
- Infrastructure services such as website hosting, hosting of savings bank servers or corporate Internet and e-mail access, etc.



Welfare Fund 10

The Savings Banks' Foundation (FUNCAS)

In 2008, the Foundation's activities led to 14 new research studies on topics that have been primary concerns since the founding of FUNCAS. The Foundation has continually focused on issues related to the Spanish economy and its relations with the European Union. Topics researched during the year related to the financial markets and system, economic problems of the autonomous communities and, increasingly, social issues. Thirty-three other research projects are currently being conducted. All of these research projects are disseminated through the second branch of the Foundation's activity: publishing.

Analysis of Spain's economic and social reality through Funcas' publications

The first of FUNCAS' magazines is *Papeles de Economía Española*. The four issues published in 2008 dealt with competencies, financing and management of local sales; the external sector: disequilibrium and trends in a global economy; the agrifood economy: new focuses and perspectives; and territorialised public investment. Meanwhile, Perspectivas del Sistema Financiero dealt with off-balance-sheet operations; insurance and taxation; and banking harmonisation.

Panorama Social, the latest of the magazines published by FUNCAS, examined basic issues related to university reform: vectors of change; the keys to future health: research and management; and, lastly, foreign immigration in Spain. Finally, *Cuadernos de Información Económica* reached its issue number 207; for 21 years, it has offered rigorous information on the most relevant current economic problems in Spain. The 75 new *Documentos de Trabajo*, or working papers, are the last type of periodic publications.

Estudios de la Fundación included doctoral dissertations that received the Enrique Fuentes Quintana award, while four works of the *Economía y sociedad* series were published.

These important publishing efforts are justified by the fact that this is the manner in which the Foundation's work is offered to the public. However, the Foundation also reaches out to society in other ways. On more than 50 occasions, the Foundation has been present at public events organised either by the Foundation itself or by other institutions, including the Sixth Workshop on Banking and Quantitative Finance, in collaboration with the University of Valencia. In addition, Foundation researchers have attended numerous international and national meetings.

In teaching, the Foundation oversees the content of the Course for Experts in Managing Financial Institutions, as part of its collaboration with the Carolina Foundation.

In cultural matters, to which FUNCAS has also devoted part of its time, the two most common events are, firstly, the 35th Hucha de Oro (Golden piggy bank) short story competition, with more than 4,000 short stories submitted. The awards ceremony took place on 24 November at the Madrid Casino, and was attended by the members of the jury, presided by professor Luis Mateo Díez. In addition, in the literary field, FUNCAS sponsored a conference series on Spanish women writers' memories of the Civil War, directed by Marina Mayoral, at the School of Philology of the Complutense University in Madrid.

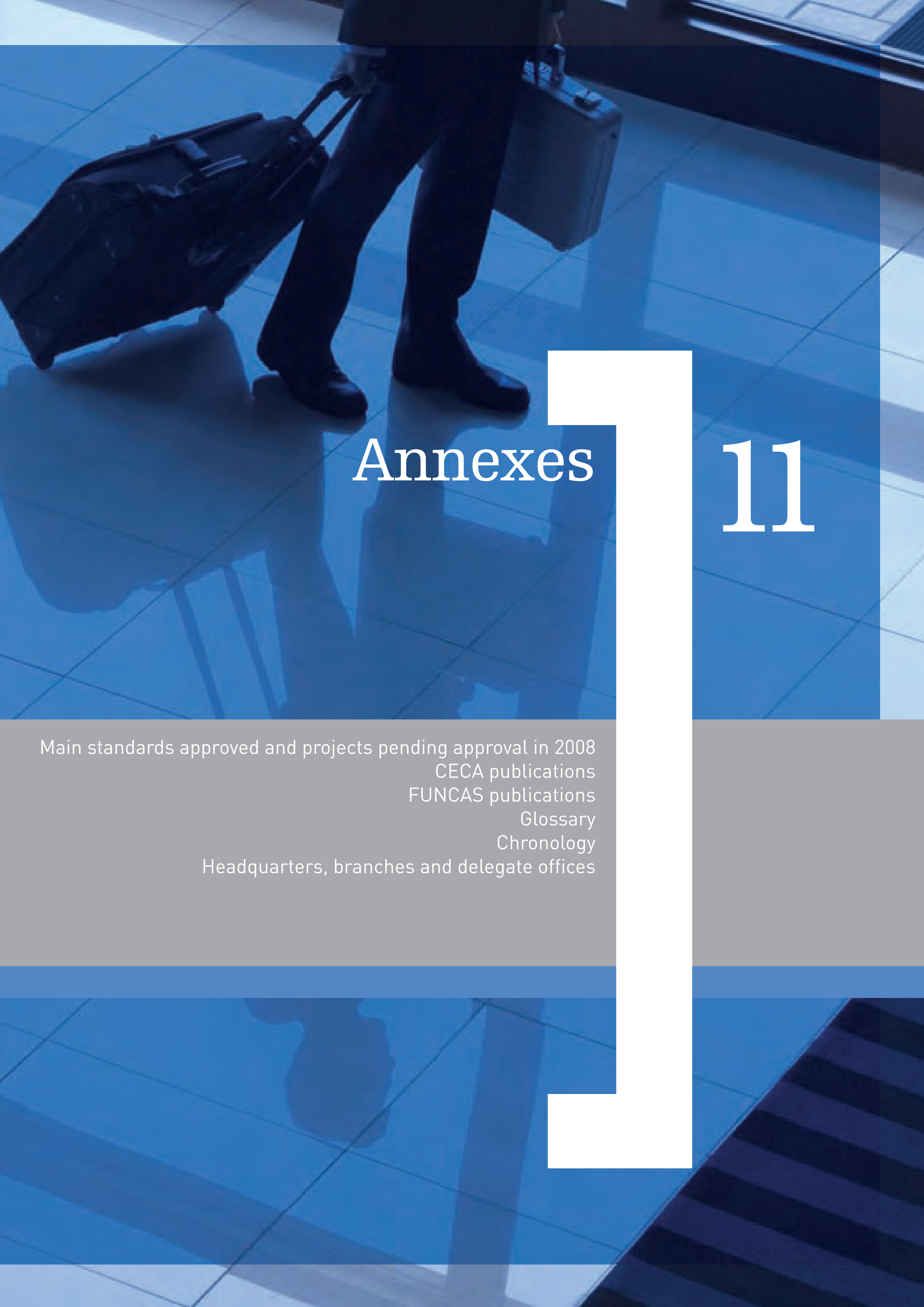
More than 4,000 short stories were presented at the 35th Hucha de Oro competition

As a new activity that is part of the work of the FUNCAS Library, books considered to be of special interest were presented publicly for the first time. This is the case of Alfredo Pastor's La ciencia humilde. *Economía para los ciudadanos* [The humble science: economics for citizens], or *El malestar de la democracia* [The malaise of democracy], by professor Víctor Pérez Díaz, as well as José María Gasalla and Leila Navarro's *Confianza: la clave para el éxito personal y empresarial* [Confidence: the key for personal and business success]. In addition, in homage to professor Enrique Fuentes Quintana, the facsimile edition of *Política económica*, co-authored by professor Juan Velarde, was presented.

For the third year, a musical soirée was organised, the theme of which was Time of Music, with the composer María Esther Guzmán offering a classical guitar concert. The host of the event was professor Takeshi Tezuka.

In addition, funding was provided for the European Park Day awards, and scholarships were given to students of the master's degree in protected natural spaces, which is awarded by Europarc-Spain.

The Foundation finances the European Park Day awards, and scholarships for the master's degree in protected natural spaces



Annexes 11

Main standards approved and projects pending approval in 2008
CECA publications
FUNCAS publications
Glossary
Chronology
Headquarters, branches and delegate offices

Main Standards Approved and Projects Pending Approval in 2008

11.1

This annex of the annual report lists the financial regulations, whether state, autonomous community or international, passed in 2008 and the main draft regulations on which CECA had issued a report and that were awaiting approval at the end of the year. It also lists the norms and projects that were published too late to be listed in the previous annual report.

All the approved regulations detailed herein can be consulted at **www.normativafinanciera.com**. This website includes CECA's financial regulations database, which is available to experts from savings banks and the general public. The database contains all legislation – current and repealed - at the central government, regional government and EU level affecting the savings banks and the Spanish financial sector, as well as basic laws governing lending activity across Latin America. The original text of each provision is presented and is updated to include all amendments. The most significant laws can be searched by article, to which descriptions have been attached.

The database also allows a consultation of draft regulations on financial matters being deliberated on at the time the query is made. This includes both those that have been submitted to a public hearing by various administrative instances (the State, the autonomous communities or the European Union), as well as those being deliberated on in various parliamentary bodies. Lastly, other relevant quasi-regulatory proposals from certain international agencies (CEBS, BIS or IOSCO, among others) are also included.

I Spanish State Legislation:

1. Main regulations approved

a) Money-laundering prevention:

- Order EHA/114/2008, of 29 January, which governs compliance with certain obligations of notaries in the sphere of money-laundering prevention.
- Resolution of 10 September 2008 from the General Directorate of the Treasury and Financial Policy publishing the 14 July 2008 Accord of the Commission for the Prevention of Money Laundering and Financial Violations, which lists the jurisdictions that set forth requirements equivalent to those in Spanish law on money-laundering prevention.

b) Remote selling of financial services:

- Royal Decree 103/2008 of 1 February, amending Royal Decree 225/2006 of 24 February, which regulates certain aspects of remote sales and registration in the registry of remote sales and companies.

c) Guarantee Funds:

- Royal Decree 1642/2008 of 10 October, setting the guaranteed amounts referred to in Royal Decree 2606/1996 of 20 December, of the Credit Institution Deposit Guarantee Fund and Royal Decree 948/2001, dated 3 August, on investor compensation systems.

d) Collective Investment Institutions:

- Circular 5/2007 of the CNMV, of 27 December, on significant event filings by Collective Investment Institutions.
- Order EHA/35/2008 of 14 January implementing regulations relating to accounting practices for collective investment institutions, the measurement of equity, the calculation of risk diversification ratios and certain aspects of collective investment institutions whose investment policy consists of reproducing, replicating, or taking as a benchmark a stock market or fixed income index, and the implementation of which is authorised by the Spanish National Securities Market Commission.
- Royal Decree 217/2008, of 15 February, on the legal regime for investment services companies and other institutions that provide investment services, partially amending the regulations of Law 35/2003, of 4 November, pertaining to Collective Investment Institutions, approved by Royal Decree 1309/2005, of 4 November.
- Royal Decree 215/2008, of 15 February, which amends Article 59 of the Regulations implementing Law 35/2003, of 4 November, on collective investment institutions, which was approved by Royal Decree 1309/2005, of 4 November.

- Order EHA/596/2008, of 5 March, which regulates certain aspects of the legal regime of the depository of collective investment institutions and which carries out the contents of the statements of position.

- Circular 2/2008 of the CNMV, of 26 March, partially amending Circular 4/1994, of 14 December, on accounting rules, reporting obligations, determining NAV and investment and operational coefficients and actions in the appraisals of the property of real-estate investment funds and companies.

- Order EHA/888/2008, of 27 March, on transactions of financial collective investment schemes in derivative financial instruments and clarification of certain definitions of the regulations of Law 35/2003, of 4 November, pertaining to collective investment institutions, approved by Royal Decree 1309/2005, of 4 November.

- Circular 4/2008 of the CNMV, of 11 September, on the content of quarterly, half-year and annual reports from collective investment institutions, as well as statements of position.

- Order EHA/3064/2008, of 20 in October, modifying the Order of the Ministry of Economy and Finance of 26 July 1989, which implements Article 86 of the Securities Market Law, and the Order of the Ministry of Economy and Finance of 24 September 1993, on real-estate investment funds and companies, in order to enable the National Securities Market Commission to implement certain aspects regarding the accounting of supervised institutions and the calculation of the ratios and limits of collective investment institutions.

e) Measures against the financial crisis:

- Royal Decree-Law 6/2008, of 10 October, creating the Financial Asset Acquisition Fund.

- Royal Decree-Law 7/2008, of 13 October, on urgent financial-economic measures relating to the plan for concerted action among euro-zone member states.

- Order EHA/3118/2008, of 31 October, implementing Royal Decree-Law 6/2008, of 10 October, creating the Financial Asset Acquisition Fund.

- Resolution of 31 October 2008 by the General Directorate of the Treasury and Financial Policy ordering the publication of the Accords adopted by the Financial Asset Acquisition Fund, of 27 October 2008, on the composition of the Executive Committee and the Fund's investment guidelines.

- Resolution of 7 November 2008 by the General Directorate of the Treasury and Financial Policy publishing the Accords adopted by the Financial Asset Acquisition Fund for the notification of the first two auctions of the Fund.

f) Payment systems:

- Royal Decree 322/2008, of 29 February, on the legal regime for electronic money institutions.

g) Securities Markets:

- Circular 2/2007, of 19 December, approving the standard forms for disclosing major holdings by directors and executives regarding transactions by the issuer in treasury shares, and other standard forms.
- Circular 3/2007 of CNMV, of 19 December, on liquidity contracts, in order for them to be accepted as a market practice.
- Circular 4/2007 of the CNMV, of 27 December, amending the standard annual corporate governance report of listed corporations.
- Circular 1/2008 of CNMV, of 30 January, on the periodical reporting of issuers whose securities are admitted for trading on regulated market in terms of half-yearly financial reports, interim management statements and, if applicable, quarterly financial reports.
- Criteria of the CNMV, of 24 July 2008, on detecting and reporting suspicious transactions.

h) Mortgage market:

- Order EHA/564/2008, of 28 February, which amends Order ECO/805/2003, of 27 March, on valuation regulations for property and certain rights related to particular financial objectives.

i) Data Protection:

- Royal Decree 1720/2007, of 21 December, approving the Regulation implementing Organic Law 15/1999, of 13 December, on personal data protection.
- Royal Decree 1665/2008, of 17 October, modifying the Statute of the Spanish Data Protection Agency, approved by Royal Decree 428/1993, of 26 March.

j) Equity:

- Bank of Spain Circular 2/2008, of 25 January, amending the list of multilateral development banks contained in Circular 5/1993, regarding the establishment and control of minimum capital requirements for credit institutions.
- Royal Decree 216/2008 of 15 February, on the equity of financial entities.
- Bank of Spain Circular 3/2008, of 22 May, regarding the establishment and control of minimum equity requirements.

- Bank of Spain Guide on Credit Institutions' Self-Assessment of Capital, of 25 June 2008.

- Bank of Spain Guide on applying a standardised approach in determining the capital required to cover operational risk, of 3 September 2008.

k) Government subsidised housing:

- Royal Decree 14/2008, of 11 January, amending Royal Decree 801/2005 of 1 July, approving the central government's 2005-2008 plan to promote the availability of housing to the public.

- Order VIV/946/2008, of 31 March, declaring the geographic areas with the highest maximum price for 2008, for the purposes of Royal Decree 801/2005, of 1 July, approving the central government's 2005-2008 plan to promote the availability of housing to the public.

- Resolution of the Under-Secretariat of the Housing Ministry, of 4 April 2008, publishing the Council of Ministers' resolution of 28 March 2008 which revised and modified effective annual interest rates for eligible loans granted within the framework of the 1993 programme (1992-1995 Housing Plan), the 1996 programme (1996-1999 Housing Plan), the 1998-2001 Housing Plan and the 2002-2005 Housing Plan.

l) Target:

- Resolution of 25 January 2008, of the Executive Committee of the Bank of Spain approving the general clauses applicable to the Interbank Deposit Clearance Service.

- Bank of Spain Circular 1/2008, of 25 January, of the clearance system in the event of a malfunctioning of the TARGET system and repealing the circulars of the Bank of Spain Clearance Service (SLBE).

2. Draft regulations announced and pending approval

- Draft order EHA on lending securities to collective investment institutions.

- Draft Royal Decree implementing certain aspects of Law 2/1981, of 25 March, regulating the mortgage market.

- Draft law amending Law 24/1988, of 28 July, of the Securities Market and Law 26/1988, of 29 July, on the regulation of and intervention in credit institutions.

- Draft law on payment services.

- Draft Royal Decree approving the regulations of the Environmental Responsibility Law.
- Draft order EHA implementing Article 82.5 of Law 24/1988, of 28 July, of the Securities Markets, relating to the communication of significant events.
- Draft Circular of the CNMV on determining the NAV and operational issues related to collective investment institutions.
- Draft law regulating contracts with consumers for mortgage credits or loans and brokerage services for the execution of credit or loan contracts.
- Draft order EHA approving SIC'2 application for the purpose of the electronic processing of payment transfers.
- Draft order EHA amending Order EHA/2688/2006, of 28 July, on Collaboration Agreements relating to government debt mutual funds.
- Draft Circular of the Bank of Spain to Mutual Guarantee Companies on information on minimum equity and other reporting requirements.
- Draft law modifying the legal unfair trade regime to improve consumer and user protection.
- Draft law containing measures to promote housing rentals and energy efficiency of buildings.
- Draft circular of the Bank of Spain modifying Circular 4/2004, of 22 December, on Rules regarding public and reserved financial information and model financial statements.
- Resolution 2008, issued by the General Directorate of the Treasury and Finance Policy, establishing the conditions in which Public Debt Market Makers in the Kingdom of Spain may intervene.
- Draft law regulating listed investment corporations in the real estate market.
- Draft order EHA implementing Royal Decree-Law 6/2008, of 10 October, creating the Financial Asset Acquisition Fund and the Draft basic agreement of the Governing Board of the Financial Asset Acquisition Fund of 27 October 2008.

II International Legislation

Main EC regulations enacted

a) Auditing:

- Directive 2008/30/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2006/43/EC on statutory audits of annual accounts and consolidated accounts, regarding implementing powers conferred on the Commission.
- Recommendation of the Commission, of 5 June 2008, on limiting the liability of auditors and audit firms.
- Decision of the Commission, of 29 July 2008, establishing a transitional period for the activities of auditors and audit firms from some third countries.

b) Money-laundering prevention:

- Directive 2008/20/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2005/60/EC on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing, as regards the implementing powers conferred on the Commission.

c) Accounting:

- Ruling by the European Central Bank, of 17 December 2007, modifying ECB Ruling 2006/17 concerning the annual accounts of the European Central Bank.
- European Central Bank Guideline, of 17 December 2007, amending Guideline ECB/2006/16 legal framework for accounting and financial reporting in the European System of Central Banks.
- Regulation (EC) no 297/2008 of the European Parliament and of the Council, of 11 March 2008, amending Regulation (EC) No 1606/2002 on the application of international accounting standards, as regards the implementing powers conferred on the Commission.
- Commission Regulation (EC) 1004/2008, of 15 October 2008, amending Regulation (EC) 1725/2003, adopting certain international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council in relation to international accounting standard 39 and International Financial Reporting Standard 7.

d) Consumer credit:

- Directive 2008/48/EC of the European Parliament and of the Council of 23 April 2008 on credit agreements for consumers and repealing Council Directive 87/102/EEC.

e) Credit entities:

- Directive 2008/24/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2006/48/EC relating to the taking up and pursuit of the business of credit institutions, as regards the implementing powers conferred on the Commission.

f) Statistics:

- Commission Regulation (EC) No 364/2008 of 23 April 2008 implementing Regulation (EC) No 716/2007 of the European Parliament and of the Council, as regards the technical format for the transmission of foreign affiliates statistics and the derogations to be granted to Member States.

- European Central Bank Guideline, of 26 August 2008, amending Guideline ECB/2002/7 on the statistical reporting requirements of the European Central Bank in the field of quarterly financial accounts.

- European Central Bank Guideline, of 5 September 2008, modifying the Guideline of the ECB of 17 February 2005 on the statistical reporting requirements of the ECB and the procedures for exchanging statistical information within the European System of Central Banks in the field of government finance statistics.

g) Euro:

- Ruling by the European Central Bank, of 7 December 2007, modifying ECB Ruling 2001/15 of 6 December 2001 concerning the issue of euro-denominated bank notes.

- Recommendation of the Commission, of 10 January 2008 on measures to facilitate future changeovers to the euro.

- Decision of the European Central Bank of 15 May 2008 on security accreditation procedures for manufacturers of euro secure items for euro banknotes.

- European Central Bank Guideline, of 19 June 2008, amending Guideline ECB/2006/9 on certain preparations for the euro cash changeover and on frontloading and sub-frontloading of euro banknotes and coins outside the euro area.

- Council Regulation (EC) 693/2008 of 8 July 2008 amending Regulation (EC) No 974/98 as regards the introduction of the euro in Slovakia.

- Council Regulation (EC) 694/2008, of 8 July 2008, amending Regulation (EC) No 2866/98 as regards the conversion rate to the euro for Slovakia.
- Council Ruling, of 8 July 2008, in accordance with Article 122(2) of the Treaty on the adoption by Slovakia of the single currency on 1 January 2009.

h) Collective Investment Institutions:

- Directive 2008/18/EC of the European Parliament and of the Council of 11 March 2008 amending Council Directive 85/611/EEC on the coordination of laws, regulations and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS), as regards the implementing powers conferred on the Commission.

i) Securities markets:

- Directive 2008/11/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2003/71/EC on the prospectus to be published when securities are offered to the public or admitted to trading, as regards the implementing powers conferred on the Commission.
- Directive 2008/26/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2003/6/EC on insider dealing and market manipulation (market abuse), as regards the implementing powers conferred on the Commission.
- Directive 2008/10/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2004/39/EC on markets in financial instruments, as regards the implementing powers conferred on the Commission.

j) Contractual Obligations:

- Regulation (EC) No 593/2008 of the European Parliament and of the Council of 17 June 2008 on the law applicable to contractual obligations (Rome I).

k) Monetary policy:

- Decision of the European Central Bank of 31 December 2007 on the paying-up of capital, transfer of foreign reserve assets and contributions by the Central Bank of Cyprus and the Central Bank of Malta to the European Central Bank's reserves and provisions.
- Guideline of the ECB of 20 June 2008 on the management of the foreign reserve assets of the ECB by the national central banks and the legal documentation for operations involving such assets (recast).
- European Central Bank Regulation (EC) 1052/2008 of 22 October 2008 amending Regulation (EC) No 1745/2003 (ECB/2003/9) on the application of minimum reserves.

- European Central Bank Regulation (EC) 1053/2008 of 23 October 2008 on temporary changes to the rules relating to eligibility of collateral.

l) Consumer protection:

- Commission Decision of 17 March 2008 amending Decision 2007/76/EC implementing Regulation (EC) No 2006/2004 of the European Parliament and of the Council on cooperation between national authorities responsible for the enforcement of consumer protection laws as regards mutual assistance.

- Commission Decision of 30 April 2008 setting up a group of experts on financial education.

- Directive 2008/52/EC of the European Parliament and of the Council of 21 May 2008 on certain aspects of mediation in civil and commercial matters.

- Commission Decision of 13 June 2008 setting up an Expert Group on Credit Histories.

ll) Equity capital:

- Directive 2008/23/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2006/49/EC on the capital adequacy of investment firms and credit institutions, as regards the implementing powers conferred on the Commission.

m) Financial oversight:

- Regulation (EC) No 1052/2008 of the European Central Bank of 22 October 2008 amending Regulation (EC) No 1745/2003 (ECB/2003/9) on the application of minimum reserves.

- Memorandum of Understanding on cooperation between the Financial Supervisory Authorities, Central Banks and Finance Ministries of the European Union on cross-border financial stability. 1 June 2008.

o) Transparency of information:

- Directive 2008/22/EC of the European Parliament and of the Council of 11 March 2008 amending Directive 2004/109/EC on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market, as regards the implementing powers conferred on the Commission.

III Regional Legislation

Main regulations enacted affecting the savings banks

- Order of 2 January 2008, of Extremadura, establishing the guidelines for community welfare work by savings banks domiciled outside the region.
- Legislative Decree 1/2008, of Catalonia, of 11 March, approving the revised text of the Savings Bank Law of Catalonia.
- Decree 123/2008 of the Basque country, of 1 July, on the language rights of consumers and users.
- Decree 164/2008 of Catalonia, of 26 August, regulating the composition and operations of the governing bodies of Catalan savings banks.
- Order ECF/445/2008, of Catalonia, of 15 September, repealing the 30 December 1983 Order on the audit reports that savings banks are required to submit to the Ministry of Economy and Finance.

CECA Publications 11.2

Monthly
- **Agrocajas**
  Review of European agrarian legislation.

Quarterly
- **Análisis Comparativo** (*)
  Comparison of basic data relating to financial entities by province and Autonomous Community. Market shares. League table of institutions.

Annual
- **Anuario Estadístico de las Cajas de Ahorros**
  Statistical yearbook containing relevant data for each savings bank and sector statistical series. Includes the year-end public financial statements of each savings bank.

Monthly **Apunte de Coyuntura Económica**
General overview of economic developments, both domestically and internationally.

Annual **Asamblea de Montes de Piedad** (*)
Publication of the papers presented at the 17th General Assembly of Pawnbroking institutions held in León.

Monthly **Balances de las Cajas de Ahorros**
Public balance sheets of each savings bank and for the whole sector.

Quarterly **Boletín COAS** (*)
Bimonthly R&D&I bulletin. Brief roundup of latest news on new technologies in the field of information and communications systems.

Monthly **Boletín Estadístico** (*)
Statistical gazette containing all the monthly data available for the savings bank sector, including basic details of each institution and the financial system.

Quarterly **Cuentas de Perdidas y Ganancias de las Cajas de Ahorros**
Public Income Statements for each savings bank and for the sector as a whole.

Quarterly **Estados Financieros Consolidados de las Cajas de Ahorros**
Consolidated balance sheet and income statement for each savings bank.

Quarterly **Informe Estadístico** (*)
Compilation of all the quarterly statistical information available for the savings banks sector. Breakdown by province of basic details and number of branches.

Quarterly **Resultado de los Grupos Consolidados de las Cajas de Ahorros** (*)
Analysis of the aggregate results of the financial groups of savings banks.

Monthly **Revista "Ahorro"**
Savings Banks Sector journal. Issues published in 2008 (439-448).

(*) Restricted publication, available only to savings banks.

Other Publications

September 2008 **Guía del Sistema Financiero Español (5th edition)**
Summary of the development of the Spanish economy and study of international financial reporting standards.

September 2008 **Historia de la cooperación entre las Cajas. La Confederación Española de Cajas de Ahorros 1928-2007**
Study on the history of CECA during its first 80 years and its contribution to the success of Spanish saving banks.

October 2008 **Valoración del impacto de la Obra Social**
Second study evaluating the impact of welfare projects conducted by savings banks on Spain's economy and social structures.

Digital publications

(only for savings banks)

Daily 2008 **Boletín Fiscal**
Legislation, theory and case law on taxation for savings banks newsletter.

Half-yearly 2008 **Boletín M@rketing**
Marketing newsletter with the latest developments and articles relating to the financial market.

Three times a year 2008 **Boletín Melania de Auditoría**
Internal and external audit function, money laundering, compliance and risk management newsletter.

Ocational 2008 **Boletín Melania de Calidad**
Quality management at savings banks newsletter.

Annual 2008 **Boletín Melania de la COAS**
Newsletter on savings banks' projects.

Six times a year 2008 **Boletín Melania de la ESCA**
Business management, training and leadership newsletter.

Monthly 2008 **Boletín Melania de Marketing y Publicidad**
Marketing and advertising of financial products newsletter.

Half-yearly 2008 **Boletín Melania de Operaciones**
Operating management newsletter.

Three times a year 2008 **Boletín Melania de Recursos Humanos**
Selection, recruitment, hiring, human resources management, labour relations, prevention of occupational hazards training newsletter.

Weekly 2008 **Boletín Melania de Seguridad**
Newsletter on financial security, security products, topics and interviews relating to these areas.

Daily 2008 **Facsímiles de Billetes Extranjeros**
Facsimiles of foreign notes in operation for CECA.

Annual 2008 **Legislación de las Cajas de Ahorros**
Compilation of the legislation enacted by Spain's autonomous regions on matters affecting savings banks.

Ocational 2008 **Libro verde sobre la Responsabilidad Social corporativa en el Sector Financiero**
Green book discussing sustainability at financial institutions.

Funcas Publications

11.3

Papers on the Spanish Economy

April 2008 Competencias, financiación y gestión de los entes locales. 2008. Nº 115.

July 2008 El sector exterior: Desequilibrio y tendencias en una economía global. 2008. Nº 116.

November 2008 Economía agroalimentaria. Nuevos enfoques y perspectivas. 2008. Nº. 117.

January 2009 Inversión pública territorializada. 2008. Nº 118.

Prospects for the Financial System

March 2008 Operaciones fuera de balance. 2008. Nº 92.

July 2008 Seguros y fiscalidad. 2008. Nº 93.

January 2009 Armonización bancaria. 2008. Nº 94.

Economic Review

March 2008 La coyuntura en el punto de mira. 2008. Nº 202.

April 2008 Crecimiento 2007: Una perspectiva regional. 2008. Nº 203.

June 2008 La situación económica: examen de junio. 2008. Nº 204.

July 2008 La economía, primer problema de los españoles. 2008. Nº 205.

October 2008 ¿Ahorrar en crisis? 2008. Nº 206.

December 2008 Crisis financiera, crisis real. 2008. Nº 207.

Social Panorama

July 2008 Las claves de la sanidad futura: Investigación y gestión. 2008. Nº 7.

December 2008 Inmigrantes en España: participación y convivencia. 2008. Nº 8.

Studies Conducted by the Foundation

April 2008 — Inmigrantes, nuevos ciudadanos. ¿Hacia una España plural e intercultural? /Colectivo Ioé. 2008. Nº 28.

June 2008 — El stock de gasto público en los países de la OCDE (Serie Economía y Sociedad)/Encarnación Cereijo and Francisco Javier Velázquez. 2008. Nº 29.

July 2008 — La industria de alta tecnología en España: Factores de localización y dinámica espacial (Serie Tesis)/José Miguel Giner Pérez. 2008. Nº 30.

July 2008 — Convergencia en renta per cápita entre las comunidades autónomas españolas (1955-2004): Una aplicación basada en métodos de panel dinámico (Serie Tesis)/Fernando Martín Mayoral. 2008. Nº 31.

July 2008 — El desdoblamiento de acciones en el mercado español: Factores determinantes y efectos (Serie Tesis)/María Eugenia Ruiz Molina. 2008. Nº 32.

July 2008 — El trabajo doméstico cuenta: Las cuentas de los hogares en España 1996 y 2003 (Serie Economía y Sociedad)/María Luisa Moltó y Ezequiel Uriel. 2008. Nº 33.

July 2008 — Gestión del medio natural en la Península Ibérica: Economía y políticas públicas (Serie Economía y Sociedad)/Pablo Campos Palacín and José María Casado Raigón. 2008. Nº 34.

October 2008 — Patrimonio inmobiliario y balance nacional de la economía española (1995-2007) (Serie Economía y Sociedad)/José Manuel Naredo, Óscar Carpintero and Carmen Marcos. 2008. Nº 35.

December 2008 — En torno a la familia española: Análisis y reflexiones desde perspectivas sociológicas y económicas (Serie Economía y Sociedad)/Elisa Chuliá and José Félix Sanz. 2008. Nº 36.

Others Publicatio

June 2008 — Política Económica/Enrique Fuentes Quintana and Juan Velarde Fuertes (facsímil); (2008).

December 2008 — Balance Económico Regional (autonomías y provincias). Años 2000 a 2007/Julio Alcaide Inchausti and Pablo Alcaide Guindo; (2008).

Digital Publications

Working Papers

February 2008 — Trade in capital goods during the golden age, 1953-1973/Mª Teresa Sanchís and Antonio Cubel. 2008. Nº 361.

February 2008 — El capital económico por riesgo operacional: Una aplicación del modelo de distribución de pérdidas/Enrique José Jiménez Rodríguez and José Manuel Feria Domínguez. 2008. Nº 362.

February 2008 — The drivers of effectiveness in competition policy/Joan Ramon Borrell and Juan Luis Jiménez. 2008. Nº 363.

February 2008 — Corporate governance structure and board of directors remuneration policies: Evidence from Spain/Carlos Fernández Méndez, Rubén Arrondo García and Enrique Fernández Rodríguez. 2008. Nº 364.

February 2008 — Beyond the disciplinary role of governance: How boards and donors add value to Spanish foundations/Pablo de Andrés Alonso, Valentín Azofra Palenzuela and M. Elena Romero Merino. 2008. Nº 365.

February 2008 — Complejidad y perfeccionamiento contractual para la contención del oportunismo en los acuerdos de franquicia/Vanesa Solís Rodríguez and Manuel González Díaz. 2008. Nº 366.

February 2008 — Inestabilidad y convergencia entre las regiones europeas/Jesús Mur, Fernando López and Ana Angulo. 2008. Nº 367.

March 2008 Análisis espacial del cierre de explotaciones agrarias/Ana Aldanondo Ochoa, Carmen Almansa Sáez and Valero Casanovas Oliva. 2008. Nº 368.

March 2008 Cross-Country Efficiency Comparison between Italian and Spanish Public Universities in the period 2000-2005/Tommaso Agasisti and Carmen Pérez Esparrells. 2008. Nº 369.

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Glossary

11.4

AEAT	Agencia Estatal de Administración Tributaria (Central Tax Agency)
AEB	Asociación Española de Banca (Spanish Banking Association)
AENOR	Asociación Española de Normalización y Certificación (Spanish Quality Association)
AHE	Asociación Hipotecaria Española (Spanish Mortgage Association)
AJD	Actos Jurídicos Documentados
AMAEF	Agrupación de la Mediación Aseguradora de Entidades Financieras
ASF	Asset Securitisation Fund
ASNEF	Asociación Nacional de Establecimientos Financieros de Crédito (National Association of Financial Credit Establishments)
AUTELsi	Asociación Española de Usuarios de las Telecomunicaciones y de los Sistemas de Información (Spanish Association of Telecommunications and Information Systems Users)
AyT	Ahorro y Titulización
BCPs	Business Continuity Plans
BIS	Bank for International Settlements
BSR	Business Social Responsibility
CARD	Centro Activo para Resolución de Disputas (Active Centre for Dispute Resolution)
CEA TSL	Cajas Españolas de Ahorros (Spanish Savings Banks) Trade Services Limited

CEAMI	Centro de Apoyo a Microempresas
CEBS	Comité Europeo de Supervisores Bancarios (Committee of European Banking Supervisors)
CECA	Confederación Española de Cajas de Ahorros (Spanish Savings Banks' Confederation)
CEOE	Confederación Española de Organizaciones Empresariales (Spanish Confederation of Business Organisations)
CEPYME	Confederación Española de la Pequeña y Mediana Empresa (Spanish Confederation of Small and Medium-sized Businesses)
CES	Consejo Económico y Social (Economic and Social Council)
CGPJ	Consejo General del Poder Judicial
CIL	Exchange and Clearing Centre
CIRO	Comisión de Identificación de Riesgos Operacionales (Operational Risk Identification Commission)
CIT	Corporate Income Tax
CMOF	Contrato Marco de Operaciones Financieras (Framework Agreement for Financial Transactions)
CNMV	Comisión Nacional del Mercado de Valores (National Securities Market Commission)
COAP	Comité de Activos y Pasivos (Assets and Liabilities Committee)
COAS	Comisión de Organización, Automación y Servicios (Organisation, Automation and Services Commission)
COFACE	Compagnie Francaise D'assurance pour le Commerce Exterieur
COS	Comunicación de Operaciones Sospechosas (Suspicious Transaction Report)
CRU	Central risks unit
CSR	Corporate Social Responsibility

DGT	Dirección General de Tributos
DNI	Documento Nacional de Identidad
EAPS	Asociación Europea de Sistemas de Pago
EBA	Euro Banking Association
EBIC	European Banking Industry Committee
EC	European Commission
ECB	European Central Bank
ECF	Consejería de Economía y Finanzas de Cataluña
EEC	European Economic Community
EEES [EHEA]	Espacio Europeo de Educación Superior [European Higher Education Area]
EFQM	European Foundation for Quality Management
EHA	Ministerio de Economía y Hacienda (Ministry for the Economy and Finance)
EMA	European Master Agreement
EMTN	Euro Médium Term Notes
EMU	European Monetary Union
EMV	Europay Mastercard Visa
EPC	European Payments Council
ESBG	Agrupación Europea de Cajas de Ahorros/Asociación Española de Contabilidad y Administración de Empresas
ESBG	Agrupación Europea de Cajas de Ahorros (European Savings Banks Group)
ESCA	Escuela Superior de Cajas de Ahorros (Savings Bank college)
EU	European Union

FATF	○	Financial Action Task Force
FEPCMAC	○	Federación Peruana de Cajas Municipales de Ahorro y Crédito (Peruvian Federation of Municipal Savings and Credit Banks)
FUNCAS	○	Fundación Cajas de Ahorros (Savings Bank Foundation)
GMRA	○	Global Master Repurchase Agreement
GMSLA	○	Global Master Securities Lending Agreement
GREF	○	Grupo de Responsables de Formación de Entidades Financieras (Financial Institutions Training Managers Group)
GRI	○	Global Reporting Initiative
HR	○	Human Resources
IAS	○	International Accounting Standards
IBERPAY	○	Sociedad Española de Sistemas de Pagos (Spanish Payment Systems Company)
ICCA	○	Instituto de Crédito de las Cajas de Ahorros (Savings Bank Credit Institute)
IFRS	○	International Financial Reporting Standards
IMSERSO	○	Instituto de Mayores y Servicios Sociales (Institute for the Elderly and Social Services)
INVERCO	○	Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones (Association of Collective Investment institutions and Pension Funds)
IOSCO	○	International Organisation of Securities Commissions
IRCA	○	International Register of Certificated Auditors
IRNR	○	Impuesto sobre la Renta de los no Residentes (Non-Resident Income Tax)
IRPF	○	Impuesto sobre la Renta de las Personas Físicas (Personal Income Tax)
ISDA	○	International Swaps and Derivatives Association

ITP	Impuesto sobre Transmisiones Patrimoniales [Transfer Tax]
JV	Joint Venture
LAE	Lotería y Apuestas del Estado (Spanish State Lottery Company)
LMP	Límites Máximos Ponderados (Weighted Maximum Limits)
LORCA	Ley Órganos Rectores de las Cajas de Ahorros (Law on the Governing Bodies of Savings Banks)
MiFID	Markets in Financial Instruments
NCV	Net Current Value
NIF	Tax Identity Number
OBS	Obra Benéfico Social (Social Work)
OECD	Organisation for Economic Co-operation and Development
PAC	Credit Institutions' Self-Assessment of Capital
PAT	Profit after tax
PBT	Profit before tax
PECA	Pago Electrónico Cajas de Ahorros (Savings Bank e-payments)
PEPs	Politically exposed persons
POS terminal	Point of Sale terminal
RAI	Registro de Aceptaciones Impagadas (Register of unpaid bills of acceptance)
ICC	Reglamento Interno de Conducta (Internal Code of Conduct)
RoVaR	Ratio between Results and VaR

SAT	Servicio de Autorización de Tarjetas (Card Authorisation Service)
SCT	SEPA Credit Transfer
SDA	Auxiliary Cash Deposits System
SEPA	Single Euro Payment Area
SEPBLAC	Servicio Ejecutivo para la Prevención de Blanqueo de Capitales e Infracciones Monetarias (Executive Service for the Prevention of Money Laundering and Monetary Crime)
SESP	Sociedad Española de Sistemas de Pagos (Spanish Payment Systems Company)
SICAV	Sociedad de Inversión de Capital Variable (Open-ended Collective Investment Scheme)
SICE	Sistema de Intercambio Centralizado (Centralised Exchange System)
SLBE	Sistema de Liquidación del Banco de España (Bank of Spain Settlement System)
SMEs	Small and Medium-sized Enterprises
SNCE	Servicio Nacional de Compensación Electrónica (National Electronic Settlement Service)
SOA	Services oriented architecture
SOCIMI	Real estate investment trusts [REITs]
TARGET	European Central Banks Payments System
UCITS	Collective Securities Investment Body
UNACC	Unión Nacional de Cooperativas de Crédito (Spanish National Union of Credit Cooperatives)
VaR	Value at Risk
VAT	Value added tax
VIV	Residential property.

WSBI	World Savings Bank Institute
WSBI	World Savings Banks Institute
XBLR	Extensible Business Reporting Language

Chronology 11.5

16 January	Board of Directors
17 January	Meeting of the Organisation, Automation and Services Commission (COAS)
23 January	Monitoring Committee Meeting
24 January	SEPA Workshop
24 January	CECA visited by an OECD delegation
28 January	Presentation of issue no. 6 of *Panorama Social* magazine (*La reforma de la Universidad: vectores de cambio*), by FUNCAS
29 January	Road-Show "Evoluciona", at the Hotel Hesperia in Madridx
30 January	Presentation of issue no. 114 of *Papeles de Economía Española* (*Competencia en los servicios financieros minoristas*), by FUNCAS

14 February	Meeting of the Organisation, Automation and Services Commission (COAS)
19 February	Welfare Projects Study Committee
20 February	Board of Directors
20 February	Monitoring Committee Meeting
20 February	AFIANZA Board of Directors meeting
20 February	Annual workshop of the Risks Club
20 February	Meeting of FUNCAS trustees
4 March	Meeting with the European Commission at the High Level Committee of the European Alliance for Corporate Social Responsibility, in Brussels, Belgium.
5 March	Presentation of diplomas to Spanish winners of the Stock Market Game (*Juego de la Bolsa*), in the Trading Room of the Madrid Stock Exchange
7-9 March	Presentation of diplomas to the European winners of the Stock Market Game (*Juego de la Bolsa*), in Berlin, Germany
11 March	14th Executives Convention
12 March	Board of Directors
12 March	Presentation by FUNCAS of *La Ciencia humilde. Economía para los ciudadanos*, by Alfredo Pastor
12 March	Visit by a delegation of rural and urban savings banks from Mexico
13 March	Meeting of the Organisation, Automation and Services Commission (COAS)
13-14 March	I Technical Workshops on Balance Sheet Risk, in Seville
24 March – 4 April	Internships by four directors of municipal credit and savings banks from Peru
26 March	Monitoring Committee Meeting
7 April	5th workshop for Secretaries General

15 April	COAS Coordinators Meeting
16 April	Board of Directors Meeting
16 April	Monitoring Committee Meeting
16 April	96th General Assembly
17 April	Meeting of the Organisation, Automation and Services Commission (COAS)
23 April	Meeting of the Association of Retired Executives
24 April	Visit by a delegation of Norwegian savings banks
25 April	Videoconference participation in the 5th FEPCMAC's International Congress on Finance (Peru)
29 April	Signing of an agreement on the expansion of mortgages with the Ministry of Economy and Finance
30 April	Presentation of a FUNCAS study: *Inmigrantes, nuevos ciudadanos. ¿Hacia una España plural e intercultural?*
5 May	Visit of a delegation from the National Bank of Costa Rica
6 May	Signing of an agreement to expand microcredit with the Women's Institute and the General Directorate of Small and Medium Enterprises
6 May	Participation in Europe Day, in Brussels, Belgium
7-9 May	Global Conference of the Global Reporting Initiative, in Amsterdam (Netherlands)
8 May	Presentation of diplomas to winners of the Stock Market Game (*Juego de la Bolsa*) for university students, in the Trading Room of the Madrid Stock Exchange
9 May	Presentation of issue 203 of the *Cuadernos de Información Económica* magazine (*Crecimiento 2007: una perspectiva regional*), by FUNCAS, in Santander
12 May	Workshop of Analistas Financieros Internacionales (AFI): A financial crisis: Its impact and the response from authoritiesx

14-15 May	○	Presentation of issue 203 of *Cuadernos de Información Económica (Crecimiento 2007: una perspectiva regional*), by FUNCAS, in San Sebastián
19 May	○	Performance of the play *Balada de los tres inocentes*, in commemoration of the 80th anniversary of CECA, at the Teatro Gran Vía in Madridx
20 May	○	Visit by a delegation of rural and urban savings banks from Mexico
20 May	○	Meeting of the Organisation, Automation and Services Commission (COAS)
21 May	○	Board of Directors
21 May	○	Presentation to the Board of Directors on the activities of the COAS in the project Efficiency 2007
21 May	○	AFIANZA Board of Directors meeting
22-23 May	○	68th Convention of Legal Advisors, Salamanca
22-23 May	○	Financial Regulation Committee of the World Savings Banks Group
24 May	○	Award of the prizes for European Parks Day sponsored by FUNCAS
26 May	○	Presentation by FUNCAS of *El malestar de la democracia*, by Víctor Pérez-Díaz
28 May	○	Monitoring Committee Meeting
28 May	○	Presentation by the On That Committee of the Project Efficiency 2007
28 May	○	Participation in the European Commission Conference Financial inclusion: Improving Access to Basic Financial Services
28-30 May	○	21st series of workshops on Management Planning, Studies and Control in Vilafranca del Penedès (Barcelona)
29-30 May	○	Meeting of Treasury and Capital Markets Managers, in London
29-30 May	○	10th Advertising Convention, in Lisbon
29-30 May	○	Visit of the COAS' digital-signature project team to German savings banks

1-2 June	Attendance of the COAS to the Business Technology Committee of the European Savings Banks Group, in Brussels
5 June	Tribute to Enrique Fuentes Quintana
4-6 June	54th Meeting of Tax Advisors, en Santander
5-6 June	10th Convention on Customer Service, in Valencia
9-10 June	17th General Assembly of Pawnbroking Institutions, Salamanca
12 June	Award of the Investment Prizes to the Savings Banks' Welfare Fund, at the Real Casa de la Moneda, Madrid
12-13 June	4th Series of Technical Workshops on Operational Risk, in Vigo (Pontevedra)
12-13 June	8th Convention of Securities and Funds Depositories Managers, in Oviedo
13 June	Corporate Social Responsibility Committee of the European Savings Banks Group
17 June	Visited by representatives of the Associations of Cajas de Compensación Familiar, of Colombia
19 June	Meeting of the Organisation, Automation and Services Commission (COAS)
20 June	Meeting of the Board of Directors, Paris
20 June	Monitoring Committee Meeting, Paris
20 June	CEAMI, SICAV and Internationalisation Plan meeting, Paris
20 June	Workshop of Savings Bank Presidents and Directors General, Paris
20 June	Welfare Projects Study Committee
23-24 June	Visit of directors of the Banco Popular de Ahorro de Cuba
25-27 June	26th Convention of Human Resources Managers, Zaragoza
26-27 June	10th Communication Conference, Zaragoza

1 July	○	Bankruptcy Law Workshop
1 July	○	2nd Series of Workshops on the Evolution of Virtualisation at Savings Banks
2 July	○	Presentation of the FUNCAS study *Gestión del medio natural en la Península Ibérica: economía y políticas públicas*
10 July	○	COAS Coordinators Meeting
16 July	○	Board of Directors
17 July	○	Meeting of the Organisation, Automation and Services Commission (COAS)
21 July	○	Presentation of the doctoral theses that received the Enrique Fuentes Quintana award for 2006-2007
23 July	○	Monitoring Committee Meeting
8-10 September	○	National Welfare Fund Convention, in Zaragoza
9 September	○	Meeting of FUNCAS board of trustees, Zaragoza
10 September	○	Meeting of the Board of Directors, Zaragoza
10 September	○	Monitoring Committee meeting, Zaragoza
15 September	○	Presentation of the *Nuevo Lunes* award for information transparency in business organisations, 2008, to CECA
18 September	○	Meeting of the Organisation, Automation and Services Commission (COAS)
18-19 September	○	20th International Department Heads Convention, Geneva
18-19 September	○	4th Convention on Regulatory Compliance, Vigo, Pontevedra
18-19 September	○	2nd Series of Technical Workshops on Market Risk and Collateral, Palma de Mallorca
22-23 September	○	Meeting of the ESBG Strategic Presidents' Committee, in Seville
24 September	○	Meeting of the Capital Markets Committee of the WSBI/ESBG

24-27 September	Assembly of Pawnbroking Institutions
25-26 September	6th Accounting Convention, Tenerife
26-27 September	Meeting of the AECA (Spanish Association of Accounting and Business Administration), in Aveiro, Portugal
1 October	Presentation of *Historia de la cooperación entre las Cajas. La Confederación Española de Cajas de Ahorros* (1928-2007) and holding of the 2nd Strategic Form of Spanish Savings Banks
1-3 October	33rd Auditors' Conference, Barcelona
1-3 October	33rd Convention of Training and Development Managers, Menorca
6 October	Presentation by FUNCAS of *Confianza: la clave para el éxito personal y empresarial*
8 October	Board of Directors meeting
8 October	Monitoring Committee Meeting
8 October	98th Ordinary General Assembly
8 October	Workshop of Savings Bank Presidents and Directors General
8 October	Workshop on draft law on payment services
9-10 October	2nd Strategic Forum of Savings Banks
10 October	Participation and the 9th National Meeting of Savings Banks in Barquisimeto, Venezuela
15-16 October	Participation in the 7th European Round Table on Poverty and Social Exclusion, organized by French Presidency of the European Union, in Marseille
15-17 October	27th National Conference of Security Managers, La Coruña
22-24 October	28th Conference of Technical Managers of Organisation, IT and New Services departments, as part of the series of COAS workshops, Sabadell, Barcelona
23 October	Meeting of the Organisation, Automation and Services Commission (COAS)

30-31 October	6th Convention of Portfolio and Exchange Managers, in León
31 October	World Savings Day. Classical guitar concert performed by Mª Esther Guzmán; organised by FUNCAS
3 November	Speech by the President at the seminar *Bienestar social hoy: ¿hacía dónde vamos?* organized by the Chile's Asociación Gremial de Cajas de Compensación, in Santiago, Chile
4 November	Inauguration of CECA's new facilities in Brussels
6 November	Workshop on credit risk management
6-7 November	1st Series of workshops on corporate social responsibility in La Coruña
6-13 November	3rd Series of workshops to pool experience from the Internal Audit working groups
19 November	Board of Directors meeting
19 November	Welfare Projects Study Committee
19 November	Meeting of FUNCAS trustees
20 November	Meeting of the Organisation, Automation and Services Commission (COAS)
21 November	5th Series of technical workshops on the integral treasury management system
21 November	Appearance before the Ad Hoc Committee of the Extremadura Assembly to discuss Extremadura's financial system
21 November	1st Workshop on the European Retail Financial Sector
21 November	Award ceremony for the 35th *Hucha de Oro* (Golden Piggy Bank) short story contest, at at the Madrid Casino
20-21 November	30th Marketing Convention, in Seville
24-25 November	Attendance of the COAS to the Business Technology Committee of the European Savings Banks Group, in Brussels

25 November	Bankruptcy Law Workshop
25 November	Presentación of issue no. 117 of *Papeles de Economía Española* (*Competencia en los servicios financieros minoristas*), by FUNCAS
26 November	Monitoring Committee Meeting
26-27 November	6th Conference of Quality Controllers, Burgos
27 November	2nd Convention of Property and General Services Managers
27 November	Meeting on the UTE Management Committee "*Tesorería Loterías CECA-CAJAS 2007, Unión Temporal de Empresas*, Law 18/1982"
2 December	Visit of a delegation of the International Monetary Fund
10 December	Roundtable organised by FUNCAS on Biomedical research in Spain: evaluation and outlook
15 December	COAS Coordinators Meeting
15 December	Presentation by FUNCAS of *La crisis financiera internacional y económica española*, by Antonio Torrero Mañas
17 December	Board of Directors meeting
17 December	Monitoring Committee Meeting
17 December	60th Meeting of Tax Advisers
18 December	Meeting of the Organisation, Automation and Services Commission (COAS)
20 December	5th award for the best Savings Bank Welfare Project (*Actualidad Económica* magazine)

* Where no mention is made of an event's location, it took place at CECA's head office in Madrid.

Confederación Española de Cajas de Ahorros

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