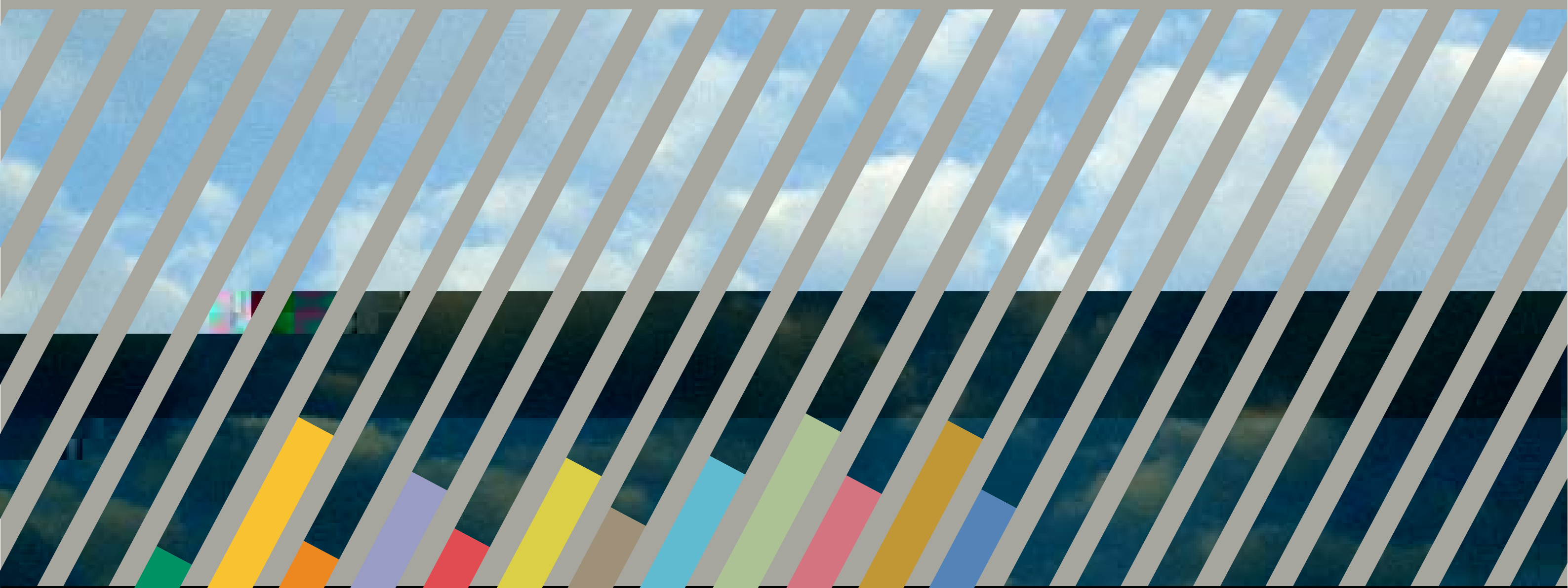


ANNUAL REPORT 2005

ceca
CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

contents

This year, Confederación Española de Cajas de Ahorros ("the Confederation" or "CECA") again renews its commitment to full and transparent disclosure in the form of this annual report. In addition to the legal disclosure requirements (essentially the management report and the annual accounts), we have opted to include in a single report other information we consider of interest to our customers, suppliers and the institution as a whole. This is why this report includes, for example, detailed information concerning the corporate governance policies undertaken by CECA's governing bodies and a description of the initiatives carried out by the foundation which manages the company's earnings that are not allocated to reserves: FUNCAS.

Economic growth was strong in 2005, both in Spain and abroad (see the economic environment section for detail). Specifically, Spanish GDP growth accelerated for the third consecutive year. Savings banks leveraged this propitious environment, combining corporate efficiency with advanced social responsibility to consolidate their position as Spain's leading financial force, playing a meaningful role in the country's social development.

In fact, against the backdrop of a financial services sector marked by continuous change and rapid expansion, savings banks have demonstrated their readiness in the face of economic growth, technological change and regulatory changes. They have often proven their ability to adapt to rapidly changing and complex environments, all the while intensifying their underlying commitment to social issues.

This annual report supplies in-depth information on the development of CECA's most important strategic and vocational objective: the representation, protection and institutional development of its member savings banks. The institution was particularly active on this front in 2005.

The report also highlights CECA's pivotal role in managing and organising multiple intra-sector cooperation forums. The Strategic Forum for Savings Banks, held under the slogan *"Savings banks, at the forefront of social responsibility"*, was particularly noteworthy in this regard. This was the first time, in over 100 years of history, that the Boards of Directors, Control Committees and Senior Management of all our members sat down together. This Forum, which was widely covered by the media, served mainly to highlight the unique and identifying characteristics of the business and social model followed by Spanish savings banks. Cooperation between savings banks also extended in 2005 to the fields of R+D+I, homogenisation and standardisation, and the development of new products, especially those designed in response to new market challenges deriving from tougher competition and increasingly sophisticated customers. Savings banks can always count on CECA to meet these challenges.

This report also describes how CECA has redoubled its efforts this year in the area of technical advisory, financial and support services. The report also outlines the progress made in relation to upgrades to the institution's management, control and risk management systems. In 2005, CECA implemented an integrated human resources system and a new management system. The idea is to lead by example, continuing its long track record of organisational upgrades, promoting more proactive, change-oriented attitudes within CECA.

As with last year's report, we end this annual report with a chronology of the most noteworthy events spearheaded by CECA. While this list cannot be complete, we hope that it testifies to the level of professionalism and efficiency with which the professionals at CECA face challenges on a daily basis, these challenges being essentially those of Spanish savings banks. We trust that 2006 will be an excellent year for our member banks, and here at CECA, we will dedicate all our best efforts to ensuring it is so.

Juan Ramón Quintás Seoane
Chairman

VISION

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

MISSIÓN

To achieve this goal, the Confederation is committed to disseminating, upholding and representing the interests of the savings banks in all economic and social areas, and to providing them with guidance, serving as a forum for reflection and a framework for cooperation, and furnishing them with the most competitive products and services in the administrative, technological and financial fields.

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 cooperation, efficiency, professionalism, innovation, soundness, modernity, competitiveness, and corporate social responsibility.

2.1 PRINCIPAL OBJECTIVES

The goal of CECA is to promote, facilitate and increase the domestic and international operations of its member savings banks. Its philosophy is based on the significant socio-economic importance of savings, while safeguarding the interests of its members.

As set forth in the 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 significant socio-economic importance of savings, and on safeguarding the general and reciprocal interests of its members. Within this framework, its main goals are as follows:

- 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 that specifically affect a particular savings bank or federation.

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

- 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 provide the support required for members to make optimal use of their resources.

- To act as a centre for operational coordination and information and counselling on legal, administrative, tax, technical and investment matters and as a supervisory body in relation to changes affecting savings in general and the activities and operations of member banks in particular. To this end, it falls to the Confederation to compile statistical data concerning savings banks and to analyse and manage said data on an individual and group basis; to carry out commercial research in order to optimise efficiency among savings banks; to provide them with advisory services on organisational matters; to promote both savings and the federated savings banks; and any other action to contribute to the optimal achievement of the interests of the Confederation and its member banks.

- To cooperate with the financial authorities in enhancing management at savings banks and their compliance with financial regulations.

- To provide a centre to pool research into all matters affecting savings banks, to ensure that they are optimally structured and function as efficiently as possible, including the publication of such technical and cultural publications as appropriate.

- To enter into all types of agreements and arrangements with the central government, state, regional and local authorities pursuant to prevailing legislation in pursuit of the foregoing objectives.

2.2 HISTORY OF CECA

Confederación Española de Cajas de Ahorros 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 in different forums.

In 1971 the Confederation took over a large number of the functions of Instituto de Crédito de las Cajas de Ahorros (ICCA), including: the purchase and trading of securities and the investment of funds on behalf of savings banks; the drawing and transfer of 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 in granting loans to savings banks, using the funds that they had deposited voluntarily.

With the liberalisation of the Spanish financial system in 1977, savings banks recovered their traditional model of independence and full operational capacity.

With this, 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 a basis for the reform of the Spanish financial system.

At that time, addition to recruiting new professional profiles, new training policies were introduced in the sector and the training school (Escuela Superior de Cajas de Ahorros - ESCA) was opened.

With the liberalisation of the Spanish financial system in 1977, savings banks recovered their traditional model of independence and full operational capacity. These legislative changes had a significant effect on savings banks, from the standpoint of both operating procedures and organisation, since 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 configuration of the governing bodies was put in place with the participation of depositors, employees, founding entities and local scientific, cultural or charitable institutions.

Royal Decree 2290/1997 clearly defined for the first time 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 reforms of the 1970s. Since then, and taking into account the major expansion undertaken by the savings bank sector within the Spanish financial system as a whole, cooperation among savings banks within the Confederation had to be reconciled with the increasing commercial competition between 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. With this new arrangement, it became general practice to set rates for the operating, financial and technological services offered to savings banks

Dues paid to CECA by its members have been declining steadily since 1995 and are currently set at 0.181 for every 6,010 of deposits.

and voluntarily purchased by them, with the ultimate aim of making them self-financing. Apart from that, the growth in productivity of membership functions has made it possible to steadily reduce membership dues since 1995. The amount is currently set at 0.181 for every 6,010 of deposits.

The most recent milestones were the Financial Law of 2002 and the Transparency Act of 2003. The Financial Law's objective was three-fold: to make further strides in professionalising management of savings banks, to facilitate their access to capital markets and to promote cooperation through the Confederation.

The Transparency Act increased savings banks' disclosure requirements to the state, regulatory bodies and the public. Since its entry into force, savings banks publish annual corporate governance reports to explain and divulge their governing bodies' decision-making processes.

Corporate governance

Structure and roles of the governing bodies

Group structure and investees

Changes in senior posts at savings banks

Other information concerning CECA's corporate governance

Investor protection has always been and remains one of the basic pillars of the financial system. Without prejudice to the classical measures for protecting investors' interests, the transparency of the corporate governance model is today considered a further linchpin of their defence. This explains the recent trend in passing legal measures designed to reinforce issuers' duties in relation to transparency within the context of their governance models.

This means that not only must banks adopt internal policies for good governance, but these practices must also be disclosed to investors so that they are equipped to judge the bank. The trend towards good corporate governance is considered a key element in the rationalisation of financial structures and the maintenance of investor confidence.

Savings banks have not remained on the sidelines. Far from representing a redefinition of the savings banks' corporate model, the challenges currently involved in adopting good governance practices offer the opportunity to consolidate and leverage that model.

In this context, the approval of Circular 2/2005 on 21 April by the Spanish securities regulator, the CNMV, implementing the requirement that savings bank issuers prepare and publish an annual corporate governance report, represents an excellent opportunity for savings banks to publicise the virtues of their corporate governance model to their Spanish and international investors.

CECA is not an issuer of securities admitted for trading on official secondary markets and is accordingly not obliged to prepare and publish an annual corporate governance report. Nonetheless, this chapter of the annual report provides a general perspective of the internal workings of the Confederation: the structure and functions of its governing bodies, the activities of the various bodies and committees set up pursuant to the recent regulations enacted in the area of corporate governance, the group's business structure, its risk control systems and other disclosure-related governance matters.

3.2 STRUCTURE AND ROLES OF THE GOVERNING BODIES

The General Assembly comprises all savings banks

3.2.1 GENERAL ASSEMBLY

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

Each of the savings banks is represented in the General Assembly by its chairman or a member of its Board of Directors and its Managing Director.

The General Assembly holds two ordinary meetings a year, one in each calendar half, and also holds an extraordinary meeting whenever such a meeting is called by the Board of Directors or at the request of the Control Committee, of two savings bank federations or of a group of federated savings banks.

In 2005, the General Assembly of CECA held two ordinary meetings, on 20 April and 15 December.

It is the responsibility of the CECA General Assembly, among other functions laid down in the bylaws, to appoint the members of the Board of Directors and the members of the Control Committee, and to approve the annual report and the annual accounts.

In 2005, the General Assembly of CECA ratified the following resolutions, as can be seen from the session agendas:

XCI ORDINARY GENERAL ASSEMBLY

20 April, 2005

Agenda

I
- Preparation of the list of attendees to determine the quorum and subsequently call the Assembly to order.

II
- Report of the Chairman.

III
- Reports of the Control Committee:

  on economic-financial performance.

  approving the annual accounts for 2004.

IV
- Review and, if appropriate, approval, of the annual accounts (balance sheet, income statement and annual report), the management report and the allocation of earnings in line with the purposes of the Confederation, the Board of Directors' performance, all of the above in relation to fiscal year 2004 and submission of the previous year's accounts.

V
- Review and approval, if appropriate, of the settlement of the Charity-Social Work budget for 2004 and the Charity-Social Work maintenance budget for 2005.

VI ■ Ratification and appointment, where appropriate, of Directors to the Board.

VII ■ Analysis and resolution of matters proposed by the Board of Directors.

VIII ■ AOB.

IX ■ Appointment of controllers to approve the minutes for the Assembly.

XCII ORDINARY GENERAL ASSEMBLY

14 December, 2005

Agenda

I ■ Preparation of the list of attendees and calling of the Assembly.

II ■ Report of the Chairman.

III ■ Ratification and appointment, where appropriate, of Directors to the Board.

IV ■ Control Committee report on the first half of 2005.

V ■ Definition of CECA's strategy for 2006.

■ Annual budget and CECA membership dues for 2006.

VI ■ Appointment of controllers to approve the minutes for the Assembly.

VII ■ Appointment of the external auditor for the entity's annual accounts for 2006.

VIII ■ Various matters.

IX ■ AOB.

At December 31, 2005, the General Assembly of CECA comprised the following members:

Chairman:

D. Juan Ramón Quintás Seoane

General Assembly Members:

Vicente Sala Belló	**José María Loza Xuriach**
Roberto López Abad	**Ricardo Fornesa Ribó**
Feliciano Blázquez Sánchez	**Isidro Fainé Casas**
Antonio Martín Jiménez	**Xabier de Irala Estévez**
José Manuel Sánchez Rojas	**Guillermo Ibáñez Calle**
José Antonio Marcos Blanco	**José Ignacio Mijangos Linaza**
Narcís Serra Serra	**Santiago Ruiz Díez**

José María Arribas Moral
José María Achirica Martín
Jesús Medina Ocaña
Florentino Reinoso González
Juan Moreno Gutiérrez
José Ruíz Ortiz
Juan Pedro Hernández Moltó
Ildefonso Ortega Rodríguez-Arias
Arcadi Calzada Salavedra
Aleix Gimbernat Martí
Antonio María Claret García García
Ildefonso Pastrana Sánchez-Crespo
José Luis Ros Maorad
Félix Pérez Rodríguez
José Antonio Arcos Moya
Dionisio Martín Padilla
Mauro Varela Pérez
José Luis Méndez López
Antonio Marrero Hernández
Juan Manuel García Falcón
Victorino González Ochoa
José Ignacio Lagartos Rodríguez
Fernando Beltrán Aparicio
Jorge Albajar Barrón
Miguel Blesa de la Parra
Matías Amat Roca
Braulio Medel Cámara
Miguel Ángel Cabello Jurado
Joan Contijoch Pratdesaba
Didac Herrero Autet
Valentín Roqueta Guillamet

Adolfo Todó Rovira
Jaume Boter de Palau i Ràfols
Pedro Antonio de Doria Lagunas
Juan Roca Guillamón
Carlos Egea Krauel
Rafael Soriano Cairols
Francisco Sanchís Penadés
Manuel Menéndez Menéndez
Felipe Fernández Fernández
Llorenç Huguet Rotger
Pere Batle Mayol
Miguel Sanz Sesma
Enrique Goñi Beltrán de Garizurieta
Martín Torrandell Orell
Jaime Amengual Llompart
Lluis Brunet Berch
Pere Rifá Pujol
Julio Fermoso García
Lucas Hernández Pérez
Carlos Etxepare Zugasti
Jesús María Iturrioz Aizpuru
Rodolfo Núñez Ruano
Álvaro Arvelo Hernández
Jesús Cabezón Alonso
Víctor Javier Eraso Maeso
Atilano Soto Rábanos
Manuel Escribano Soto
Luis Pascual Navarrete Mora
José María Ramírez Loma
José María Bueno Lidón
María Luisa Lombardero Barceló

CECA's website address is **www.ceca.es**. It features a new section entitled "Corporate Information", where readers can access information on the Confederation's governing bodies, a well as the annual report, management report and annual accounts, etc.

3.2.2 BOARD OF DIRECTORS

The administration and representation of Confederación Española de Cajas de Ahorros is entrusted to the Board of Directors, in which all the Autonomous Communities of Spain are represented through their savings banks.

The Board of Directors of CECA has a minimum of 17 members and a maximum of 35, elected by the General Assembly in accordance with the provisions of the bylaws, of which two deserve special mention:

- One member for each of Spain's Autonomous Communities, with candidates being proposed by the respective savings bank federations.

- Other members allocated in a greater number to Autonomous Communities in which the savings banks who have their registered office there administer an amount of customer funds according to the scale laid down in the bylaws.

In 2005 the Board of Directors met monthly on eleven occasions. At December 31, 2005, its members were as follows:

The Board of Directors met on a monthly basis

Chairman:

Juan Ramón Quintás Seoane

Deputy Chairmen:

Ricardo Fornesa Ribó

Miguel Blesa de la Parra

Braulio Medel Cámara

Vicente Sala Belló

Secretary:

Carlos Egea Krauel

Members:

Miguel Sanz Sesma

Manuel Menéndez Menéndez

José María Loza Xuriach

Pedro Batle Mayol

Amado Franco Lahoz

Fernando Beltrán Aparicio

José Luis Olivas Martínez

Juan Pedro Hernández Moltó

Luis Pascual Navarrete Mora

José Manuel Sánchez Rojas

Juan Manuel García Falcón

Jesús Cabezón Alonso

Didac Herrero Autet

Pere Rifà Pujol

Aleix Gimbernat Martí

Antonio Martín Jiménez

Julio Fermoso García

José Luis Méndez López

Carlos Etxepare Zugasti

The Board of the Confederation has two committees for specific topics that performed their functions on a regular basis during 2005. They are the Community Welfare Projects Study Committee, chaired by Jesús Medina Ocaña, and the Organization, Automation and Services Committee, chaired by Álvaro Arvelo Hernández.

AUDIT COMMITTEE

In accordance with the provisions of the Spanish Securities Markets Law, all entities issuing securities which are admitted for trading on official secondary markets must have an Audit Committee. The legislation provides that given the special configuration of the savings banks, the duties of audit committees can be assumed by the Control Committee.

CECA is not an issuer of securities admitted for trading on official secondary markets. However, in 2004 its Board of Directors agreed that the Audit Committee function be assumed by the Control Committee. This possibility was provided for in CECA's bylaws in 2004.

REMUNERATION COMMITTEE

CoLegally and mandatorily incorporated as a delegate committee of the Board of Directors, the role of the Remuneration Committee at CECA is to report to the Board of Directors on matters related to the overall compensation policy and incentive programs for the Board and senior management. CECA already had a Remuneration Committee in place with very similar duties before it was legally required.

The Committee's operating regime is provided for in CECA's bylaws and in its internal regulations which were approved by the Board of Directors on 18 June 2004.

The Remuneration Committee analysed directors' variable compensation

In 2005 the Remuneration Committee presented the Board of Directors with two reports on variable management compensation at CECA.

CECA's Remuneration Committee consists of the following members:

Miguel Blesa de la Parra (Chairman)

Vicente Sala Belló

Pedro Batle Mayol

INVESTMENT COMMITTEE

Legally and mandatorily incorporated as a delegate committee of the Board of Directors, CECA's Investment Committee reports to the Board of Directors on investments and disposals of a strategic and stable nature undertaken by the entity, either directly or via allocated, member or associate entities, as well as reconciling these investments and disposals to CECA's budget and strategic plans.

The Committee's operating regime is provided for in CECA's bylaws and in its internal regulations which were approved by the Board of Directors on 18 June 2004.

CECA did not make any strategic investments in 2005

In 2005 the Investment Committee met on four occasions and issued as many reports. Among others, it presented the Board with the required annual report stating that no strategic or stable investments or disposals were undertaken during the year.

CECA's Investment Committee consists of the following members:

Amado Franco Lahoz (Chairman)

Manuel Menéndez Menéndez

Juan Manuel García Falcón

The Control Committee ensures that the Board of Directors conducts its activities with the maximum efficiency

3.2.3 CONTROL COMMITTEE

The purpose of the Control Committee is to ensure that the Board of Directors conducts its activities with the maximum efficiency and within the general lines of action set by the General Assembly and in compliance with financial regulatory provisions.

Specifically, its functions 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 accounts that summarises the year's activities and to submit to the General Assembly a report on the examination performed.
- To inform the General Assembly about the budgets and allowances allocated to community welfare projects, and to monitor compliance with projected investments and expenses.
- To ensure the transparency of the procedures for the election and appointment of members of the governing bodies.
- To propose the suspension of the enforceability of resolutions adopted by the Board of Directors, when it deems that they violate current legislation or unfairly and seriously affect the asset situation, results or standing of the Confederation or member savings banks.

The Committee has six members, elected by the General Assembly from among the Chairmen and General Managers of the savings banks for a term of 4 years.

In 2005 the Control Committee met monthly on eleven occasions. At December 31, 2005, its members were as follows:

Chairman:

Rafael Jené Villagrasa

Deputy Chairman:

Rafael Soriano Cairols

Secretary:

Antonio Mª. Claret García García

Members:

Martín Torrandell Orell

Atilano Soto Rábanos

José María Bueno Lidón

3.3 GROUP STRUCTURE AND INVESTEES

CECA's corporate investments are aimed at furthering its strategic mission. Its main investees are:

- **AHORRO CORPORACIÓN, S.A.: 13.87%**
  Financial services holding company and securities broker-dealer

- **AHORRO Y TITULIZACIÓN, SOCIEDAD GESTORA DE FONDOS DE TITULIZACIÓN, S.A.: 50.00%**
  Mortgage securitisation fund manager

- **BOLSAS Y MERCADOS ESPAÑOLES: 0.72%**
  Financial markets and systems holding company

- **SOCIEDAD ESPAÑOLA DE SISTEMAS DE PAGOS: 18.96%**
  Emission, settlement and clearing of transfer orders

- **CAJA ACTIVA, S.A.: 99.98%**
  Internet or other network links

- **CASER GRUPO ASEGURADOR: 1.60%**
  Insurance

- **EURO 6000, S.A.: 10.00%**
  Administration of credit and debit card systems

■ **MASTERCAJAS, S.A.:** 0.61%

Payment systems

■ **LICO CORPORACIÓN, S.A.:** 8.85%

Leasing and banking services

■ **TINSA TASACIONES INMOBILIARIAS, S.A.:** 11.93%

Real estate appraisal

■ **SWIFT:** 0.64%

International electronic payments

■ **CEA TSL:** 100%

Credit document management

■ **EUROPAY ESPAÑA, SOCIEDAD CIVIL:** 33%

Payment system licenses

All the investees carry out activities designed to expand the range of services provided by CECA.

Except for AHORRO Y TITULIZACIÓN, CAJA ACTIVA, S.A., and CEA TSL, the Confederation owns less than 20% of the companies detailed above and none of them 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.

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 one operative branch in London which channels savings banks' transactions in international markets.

CHANGES IN SENIOR MANAGEMENT AT SAVINGS BANKS

Independently of the structure of CECA's governing bodies, the Confederation keeps a register of the Chairmen and Managers of all the savings banks. In 2005 the following appointments were made:

- At Caixa d'Estalvis de Catalunya

  Chairman:

  NARCÍS SERRA SERRA

- At Caja de Ahorros y Monte de Piedad de Córdoba

  Chairman:

  JUAN MORENO GUTIERREZ

  General Manager:

  JOSÉ RUÍZ ORTIZ

- At Caja de Ahorro Provincial de Guadalajara

  General Manager:

  FÉLIX PÉREZ RODRIGUEZ

- At Caixa d'Estalvis Comarcal de Manlleu

  Chairman:

  JOAN CONTIJOCH PRATDESABA

- At Caja de Ahorros de Santander y Cantabria

  Chairman:

  JESÚS CABEZÓN ALONSO

- At Caja de Ahorros de la Inmaculada de Aragón

  General Manager:

  TOMÁS GARCÍA MONTES

3.4 OTHER INFORMATION CONCERNING CECA'S CORPORATE GOVERNANCE

CECA CUSTOMER SERVICE

All financial institutions must deal with and resolve the complaints and claims made by their customers, for which purpose they must have a Customer Service Department or Office; they may also choose to appoint a Customer Ombudsman.

These bodies must handle and resolve complaints and claims presented by any Spanish or foreign individuals or corporate entities that are users of the financial services provided by the institutions, provided that such complaints and claims refer to their legally recognised interests and rights, whether derived from contracts, regulations governing transparency and customer protection or simply from good financial practice and customs, in particular, the principle of equity.

The Confederation, insofar as it is a credit entity with users of its services (the savings banks themselves, employees or third parties) who may present complaints or claims, set up the CECA Customer Service Office and approved its internal regulations on July 21, 2004. No complaint or claim was processed in 2005.

"AD HOC" INTERNAL CODE OF CONDUCT BODY

Royal Decree 629/1993 in relation to rules of conduct in the securities markets and mandatory registers, includes as an appendix the "General Securities Market Code of Conduct". This code must be observed by all issuers of securities and by entities that either provide investment services in the sphere of the securities market, or give advice or act as intermediaries in connection therewith.

On October 21, 1993, CECA's Board of Directors approved the institution's first Rules of Conduct in Securities Markets.

CECA put its Rules of Conduct on the Securities Markets in place in 1993

Subsequently, in compliance with the reforms introduced by the Financial Law, the Confederation drew up a new set of Internal Regulations governing Conduct in Securities Markets that was approved by the Board of Directors on July 16, 2003.

These regulations regulate the "ad hoc" body that monitors compliance at the Confederation, currently consisting of four members all of whom are CECA executives. It is the responsibility of this body to receive and examine the reports referred to in the regulations, to resolve cases of conflicts of interest and, in general, to ensure compliance with the regulations. Periodically, and in other cases when it considers appropriate, it reports to the Board of Directors or to the committee designated by the Board, on the degree of enforcement and on any incidents occurring.

In 2005 the "ad hoc" body met periodically, focusing particularly on analysing and preventing potential conflicts of interest (especially by means of monthly declarations of securities transactions undertaken by personnel subject to the Internal Regulations of Conduct). Furthermore, it verified the effectiveness of insider information controls by means of Chinese walls.

The Money Laundering Prevention Committee is made up of representatives of all the areas involved in prevention policy

MONEY LAUNDERING PREVENTION COMMITTEE

The Money Laundering Prevention Committee is the Confederation's internal control body for discussing and making proposals on the policy for the prevention of money laundering. The Committee is made up of representatives of all the areas involved in prevention policy, and it met monthly in 2005.

The Committee monitored the latest domestic and international regulatory developments; in particular, it followed the process of Royal Decree 54/2005, modifying Royal Decree 925/1995, which implemented the Regulations provided for in Law 19/1993.

In 2005 the Committee analysed the implementation of the "Know Your Customers" policy (following up on the questionnaires and forms prepared for this purpose), continued to provide employee training on money laundering, completed the launch of the related IT tools, and, together with other entities, collaborated with the Commission for the Prevention of Money Laundering and Financial Abuses with the preparation of a "Catalogue of transactions which are complex, unusual or lack obvious lucrative purpose" as a reference guide for the savings banks to assist them in detecting these kinds of transactions.

General Lines of Action

Income Statement

Risk Management

Business Outlook

Financial Statement Audit

04

Management Report

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 2005.

Since CECA represents approximately 99.96% of the assets and 98.97% of the profit attributed to the Group at 31 December 2005, the data and comments contained in this directors' report relate only to CECA. The main objectives of the directors' report are to describe the most significant actions taken in 2005; to present the results obtained, as compared with the initially budgeted figures; and to set forth the activities that will be performed to comply with the strategies defined for 2006.

First of all, reference will be made to the major role played by CECA in the institutional representation, defence and development of the federated savings banks. Successive sections will present the results obtained in innovation through projects launched by COAS (CECA's Organisation, Automation and Service Committee) and in technological progress; the new financial and operating services provided; the steps taken to disseminate the Corporate Social Responsibility model for savings banks; and the improvement of corporate governance. The report will also address the far-reaching renewal of management and control systems through the Human Resources strategic plan; the implementation of the management platform; the reorganisation and improvement of the control systems; and the enhancement of the reporting systems as a result of adaptation to international accounting standards. Lastly, the report will detail the efforts made to increase the efficiency and effectiveness of the services provided to the savings banks by the Confederación.

4.1

GENERAL LINES OF ACTION

INSTITUTIONAL REPRESENTATION, DEFENCE AND DEVELOPMENT

Since its foundation, CECA's most important strategic objective has been the institutional representation, defence and development of the federated savings banks. The Entity was especially active in this connection in 2005.

In 2005 the new Statue of Autonomy of Catalonia was drawn up. This project covered the legal regime of the distribution of competences with respect to savings banks. The sensitivity of the Catalonia Autonomous Community Government to our concerns regarding the project, together with the intelligent cooperation of the saving banks of the Catalonian federation, led to an exemplary process of cooperation resulting in wordings of the Statute that are in line with our savings bank model.

A second focus of activity related to the visit by the International Monetary Fund in the framework of the Financial System Assessment Program (FSAP). The industry, coordinated by CECA, repeatedly demonstrated its transparency, solvency and professionalisation in the course of the interviews conducted by IMF officials. Although the report will not be delivered until early 2006, the details that are already known of the first draft point to a positive evaluation of our entities.

The debate within the European Commission on financial consolidation in Europe led to a third area of activity. The major European banks swiftly endeavoured to convert this discussion into a source of new legislation to repeal the specific regulations on governing savings banks (public or private) and credit co-operatives. CECA alerted all these European financial institutions to the threat and asserted the principles of solidarity and competition over and above oligopolistic temptations. The ECOFIN meeting on 8 November

2005 brought this matter to a favourable conclusion; the European Commission declared that it would not adopt any EU initiative relating to the diversity of legal structures in the financial market and stressed that this should be regarded as a true asset of the European Union.

The steps taken in 2005 to defend the interests of the federated savings banks were both intense and far-reaching. CECA took a stance, on the basis of its technical knowledge and experience, in numerous state and autonomous community legislative projects. Also, in 2005 CECA managed and organised many industry-wide and professional forums, most notably the Strategic Forum of Savings Banks, under the title of "Savings Banks, Pioneers of Social Responsibility", which is referred to below.

INNOVATION

Strengthening of cooperation through COAS

In the context of cooperation between savings banks, 2005 witnessed the launch of CECA's R&D+I activities, the aim of which is to serve as an instrument for the creation of more competitive products and to review processes in order to obtain greater efficiency through the application of new methods and technologies. The lines of action pursued by CECA in this regard basically targeted two goals: the creation of a permanent observatory to detect technological and operational trends and advances at national and international level; and, on the basis of the data and analyses obtained at the observatory, the promotion of projects and developments specifically adapted to savings banks. Noteworthy among the specific actions taken in this area was the publication of a "Technical Virtualisation Note", followed by the organisation of related symposiums, the arrangement of framework agreements for the application of these technologies at savings banks, and monographic publications on the current situation of electronic bills and Business Process Management (BPM) systems. Also, further progress was made in the use of the standard XBRL model as a means of sending financial information, and an Innovation Committee was created to study, pre-select and propose any matters of interest to savings banks. Additionally, CECA analysed the methods used to manage innovation and the R&D+I Forum was set up on the Melania website to enable savings banks to obtain timely information on the progress made and the work underway in this project.

COAS proposed an analysis and redefinition of the services of savings banks; this was based on the study of the banking business model in Spain, compared with the customer service activities and legislation of major European countries. Additionally, an analysis was performed on the models of cooperation between financial institutions and government agencies. A Steering Committee was created to manage this project, in which 40 savings banks took part.

Another objective pursued by COAS was to facilitate a reflection on the services provided to companies, especially SMEs, with a view to promoting them. After compiling the information available to financial agents, market studies and research, publications, and the experience gained in other industry-wide projects –such as those on efficiency, channel development and operating and technological platforms–, a report was prepared on the positioning of savings banks. This report covers the current situation and market distribution and analyses supply and demand, unhedged products, distribution channels, organisational matters, and measures to promote services for SMEs.

Development of new products and services for savings banks

In order to contribute to improving the efficiency of savings banks' cash distribution, in 2005, once the related logistical structure and software had been developed and updated, the Bank of Spain's Auxiliary Deposit System (SDA) came into operation. The SDA has 31 operating centres, in which the savings banks are gradually becoming involved. As an extension of this service, the implementation of currency management in the SDAs in 2006 is currently being studied.

As regards financial activity, the Confederación has established itself in the market as the benchmark entity for savings banks in the equity securities (shares) lending business, which it commenced in 2005. CECA increased its presence in the capital markets considerably through active participation in numerous securitisation transactions for savings banks.

In the sphere of electronic payment management, the electronic billing platform is at a very advanced stage of development and will enter into operation upon publication of the legislation on electronic billing, which will provide the system with an adequate legal framework.

It should be noted in relation to the operational support provided to savings banks that C.E.A.TSL Hong Kong commenced operations in 2005. This entity was formed with a view to reducing import documentary credit costs for savings bank customers. Although it did not become operational until May, in 2005 1,006 documentary credits totalling approximately EUR 40 million originated in 16 countries in Asia and Oceania were channelled through C.E.A.TSL Hong Kong for 13 savings banks.

As part of its support of the savings banks belonging to the EURO 6000 System, the Confederación paid particular attention to the technological development of this card and encouraged across-the-board use by the savings banks of the sprint protocol, which facilitates the application of the EMV standard and the evolution of terminals and cards towards chip technology. Additionally, advances were made in the use of new communication tools (GPRS, UMTS, ADSL, WiFi) and in the development of anti-fraud systems, which are already operational for the savings banks belonging to the EURO 6000 System. As a result, 2005 saw an increase in the range of payment instruments and the possibilities of using them, in terms of both new applications (digital certificates, authentication mechanisms, citizens' cards, public transport cards, university cards) and new environments (e-commerce, wireless telephony).

FOSTERING CORPORATE SOCIAL RESPONSIBILITY

Organisation of the Savings Banks' Strategic Forum

In 2005 the industry-wide Strategic Forum was held under the title of "Savings Banks, Pioneers of Social Responsibility". For the first time in the industry's history, the Forum brought together the Boards of Directors, Control Committees and senior executives of Spanish savings banks with a view to addressing a fundamental issue for the industry from various points of view.

The Forum was attended by more than two thousand people, including numerous public figures, and consisted of four working sessions which analysed Corporate Social Responsibility (CSR) from an international standpoint, the CSR model which the savings banks represent, the role of savings banks in matters relating to Social Responsibility, and CSR in the 21st century.

The Savings Banks' Strategic Forum highlighted two fundamental matters: the hallmark of the Spanish savings banks' corporate and social model; and the pioneering role played by savings banks in Corporate Social Responsibility since its very beginnings.

Improvements in Corporate Governance

One of the focal points of legislative activity in 2005 was corporate governance. In this connection, in April the Spanish National Securities Market Commission (CNMV) approved the Circular regulating the annual report on corporate governance which must be prepared by savings banks that issue securities listed on secondary markets. Pursuant to this Circular, 42 savings banks presented annual corporate governance reports, which have become an ideal instrument for the dissemination of the Spanish savings banks' corporate model in the markets and, at the same time, an effective means of conveying to society the savings banks' commitment to transparency.

Noteworthy within the corporate environment is the importance that the entities' directors and executives attach to regulatory risk, in terms of its possible impact on results, and, in particular, to compliance risk, defined as the possibility of receiving administrative penalties or adverse court decisions due to the failure to adapt to legal requirements or standards of conduct, which could have negative repercussions on an entity's reputation. In accordance with the recommendations of the Basel Committee, regulatory and supervisory bodies are increasingly encouraging entities to manage this risk specifically through a regulatory compliance function. In response to this situation, the Confederación's strategic objectives include the development and implementation of this function and, accordingly, the following measures were taken in 2005:

- A Regulatory Management Department was set up within the General Secretariat. It will be responsible for the daily management of compliance risk, the drawing up of internal regulations, and the counselling of, and ongoing reporting to, the organisation regarding regulatory risk. This department will initially focus on corporate governance, anti-money laundering, standards of conduct in securities markets, and the protection of personal data.

- A Compliance Committee was set up. This committee is responsible for debating and decision-making regarding the key issues affecting the compliance function. Its duties supplement the functions performed by the Anti-Money Laundering Committee, the ad hoc Committee for the Monitoring of Compliance with the Internal Code of Conduct in Securities Markets, and the Data Protection Committee.

RENEWAL OF CECA´s MANAGEMENT AND CONTROL SYSTEMS

Development of the Management Platform

One of the key strategic objectives in 2005 was the development of an integrated information management system. The specific aims of the management platform, which was presented to CECA executives in November under the name of "Ágora", are as follows:

- To provide information to management with a view to analysing the activities of the various Centres and their contribution to innovation, effectiveness, growth, efficiency and profitability.

- To detect strengths and weaknesses to encourage the development of coordinated strategies.

- To undertake organisational and resource planning improvements.

- To promote the use of a shared management language and to involve executives in the successful implementation of corporate strategies.

- To encourage managers to cultivate a proactive attitude featuring long-term vision, adaptability to change and an ongoing reflection on strategic issues.

In December 2005 the Management Results modules were operational, including a new internal analytical allocation methodology and the Integral Balanced Scorecard The Scorecard was designed in such a way as to maintain both global indicators (ie. those which are key elements in facilitating comparative analysis and the Entity's development over time and which once established can be reproduced for all centres) and personalised indicators, which supplement the global indicators by providing a specific view of each centre's mission. Considerable progress was made in adapting the Scorecard to the methodological changes made to the Target's Monitoring module.

Implementation of the Integral Human Resources System

Since highly qualified resources are required in order to improve the quality and efficiency of the services provided, to implement innovative processes and to meet the Confederación's foundational objectives, human resources management has become an issue of prime strategic importance. A plan for the implementation of an Integrated Human Resources System was drawn up with a view to achieving a planned development over time. The following actions envisaged in the plan were performed in 2005:

- Design of the Integral Internal Communication Plan, aimed at promoting participation and transparency.

- Implementation of the training scheduled in the 2004/2005 Executive Development Plan, through workshops aimed at developing managerial skills, encouraging the reflection and target-setting process and promoting the dissemination of the management platform.

- Job position inventory and description (as part of a skills analysis); the work in this area is being evaluated by a multidisciplinary committee in order to update the Entity's functional structure and to ensure job suitability and professional development.

- Design of human resources management policies and tools, and implementation of the SAP module, which has led to significant improvements in payroll administration and management.

Implementation and improvement of Risk Control and Management Systems

Another objective to which particular attention and resources were devoted in 2005 was the strengthening and improvement of risk control and management systems. The following steps were taken in pursuit of this key objective:

- Establishment of a plan for the preparation of a Risk and Control Map. The aim of the first stage of the plan was to compile a full inventory of the Entity's primary or basic controls. Based on the surveys sent to the departments and the analysis of process flowcharts, 5,034 controls were detected and assessed. In a second stage of the plan, ongoing improvement objectives will be set for these controls. At the same time, a database was created containing the secondary controls which will enable verification of compliance with the basic departmental controls.

- Organisational changes were implemented in both the General Secretariat and Audit and Control areas to safeguard functional segregation in the management of the various types of risk and their methodological analysis.

- A new system for market and counterparty risk control was brought into operation. The introduction of this system involved the implementation of a new control tool and the modification of the Asset-Liability Committee Manual to adapt it to the new risk measurement and allocation method for the financial activity and to International Financial Reporting Standards.

Adaptation to IASs (currently IFRSs)

The Confederación based its adaptation to international accounting standards on the documents and guidelines prepared as part of the Industry-wide Project for the Adaptation of Savings Banks to International Financial Reporting Standards (IFRSs). In accordance with the new standards, in the first half of the year the chart of accounts was restructured and the accounting flowcharts and the applications generating them were modified. Also, all the entries relating to the first-time application of IFRSs were prepared and the 2004 balances were measured and reclassified in accordance with IFRSs in order to ensure comparability.

During the second half of the year, and following modification of the databases containing the transaction-based balance breakdowns to adapt them to the data model requirements, an application was implemented which, shared by 21 savings banks, enables the preparation of the new IFRS financial statements. By the end of December, approximately 80% of the statements parameterized in the application were obtained automatically.

ONGOING SERVICE IMPROVEMENT

Quality improvement of CECA services

DAs part of the Confederación's drive to achieve ongoing improvement, in 2005 the so-called "Ceca Abierta" system was implemented. This system consists of a computer application, accessed through the Hidra network, which enables the creation of electronic files for consultations, requests, suggestions and incidents relating to the services provided by the Confederación to the savings banks. The information generated in these files expedites communication with the savings banks and provides systematic and organised statistics which guide and facilitate the implementation of actions aimed at improving CECA's products and services. More than 4,000 files were created during the system's first year of operation, and 60% of the matters raised were solved within 48 hours.

Improvement in the performance of industry-wide Risk Control tools

In 2005 CECA successfully completed the project for the implementation of a new version of the tool that monitors market risks and financial activity results, and, therefore, was able to implement new VaR methodologies.

Also, the Confederación participated, as a user of the solutions developed within the Industry-wide Global Risk Control Project, in the activities scheduled in the Action Plans, the aim of which was to establish operational risk management indicators. Also, at an internal level, the application was adapted in line with the general criteria set by the Industry-wide Project.

Fostering service optimisation

In its endeavour to improve the efficiency of the technological services provided by the Confederación to the savings banks, CECA made its technological infrastructure available to the savings banks in order to avoid attempts to defraud customers, especially on the Internet and via e-commerce. As far as e-distribution is concerned, the connection functions between the savings banks' customer call centres and CECA were reinforced and progress was made in the creation of on-line mobile portals and the use of SMS messages as a means of communication between the savings banks and their customers. Within the scope of the support services rendered to the savings banks using the SAP platform, which includes modules for managing purchases, suppliers, fixed assets, human resources and accounting records, CECA continued to implement both the standard versions and the internal adaptations which provide substantial added-value for savings banks.

The actions performed in 2005 to optimise operational services included most notably: the development and implementation of the link to the Bank of Spain's Settlement Service via the SWIFNET technology platform (for integration into the TARGET2 Project) for both the savings banks and the Confederación itself; and the implementation of an electronic system through which savings bank branches in the Madrid Autonomous Community can process their cash coverage requests. Furthermore, in order to facilitate access to the Confederación's operational, financial and technological services for savings banks, these services were compiled in a catalogue which can be accessed via the Hidra network. Lastly, CECA rationalised the fees charged for the securities custody service and for claims for tax refunds on transactions performed in countries with which double taxation agreements are in force.

Promoting outsourcing services.

The main actions performed for the savings banks in CECA's endeavour to continue to increase the added value of its technological outsourcing service were: the development of transactional applications in Z/OS environments for the savings banks belonging to Infocaja; the possibility of migrating private and personal banking systems to web versions; the option to use the anti-money laundering tool; and the provision of infrastructure services, such as the hosting of servers owned by the savings banks, websites, corporate Internet access and mail servers.

Improvement of savings banks' access to markets

2005 saw the restructuring of CECA's dealing room activity, in line with current market trends. The new organisational chart envisages the creation of two specialised market operator desks, one for short-term and one for long-term risk management, supported by a third desk dealing with product distribution and service to savings banks.

This restructuring made a decisive contribution to the improved results and the enhanced service provided to savings banks in 2005. This is clearly mirrored by the fact that the transactions performed by the savings banks with CECA's treasury department hit an all-time high in 2005, both in terms of the number of transactions, which increased by 14.3 % year-on-year to 182,609, and in terms of volume or equivalent euro value (EUR 603,782 million).

The most noteworthy development with regard to the new financial products offered by the Dealing Room, as already mentioned, was the commencement of the securities lending business, in which the Confederación ranks as a market benchmark, having achieved a very high transaction volume. Although these transactions did not commence until June, the securities loans arranged with CECA customers amounted to almost EUR 3,500 million in 2005. Other novelties were the underwriting and distribution of savings bank issues through securitisation funds, and new structured products which, supplementing those issued in previous years, have become firmly established in the market due to their high profitability, such as the Platinum Savings Deposits marketed very actively by the savings banks to their customers.

The Capital Markets department structured transactions which were completely new to the Spanish market, such as the Cajas AyT I and LICO/BEI bonds, which contributed largely to meeting the target initially set and provided the savings banks and their subsidiary LICO with new financing alternatives featuring very interesting conditions.

Launch of the Support Centre

To supplement the aforementioned risk management structuring and rationalisation process, the services providing coverage for the dealing room's activities, with regard to both its transactions and the monitoring and control of the risk arising therefrom, were unified into a single Centre. Accordingly, this Centre provides centralised maintenance services both to CECA and to the savings banks that use the related platform, which comprises a series of applications supporting Back-Office, Front-Office and Risk Control activities.

4.2 INCOME STATEMENT

	Thousands of Euros			
	2005	Budget	Variance	%
Net interest income (*)	66,443	57,356	9,087	15.84
Net fees and commissions	69,707	62,832	6,875	10.94
Gross income	136,150	120,188	15,962	13.28
Other operating income	65,541	60,686	4,855	8.00
Operating expenses	-146,565	-142,512	-4,053	2.84
Net operating income	55,126	38,362	16,764	43.70
Other gains (losses)	5,049	-263	5,312	-
Profit before tax	60,175	38,099	22,076	57.94
Corporation tax	-14,607	-12,000	-2,607	21.73
Profit for the year	45,568	26,099	19,469	74.60

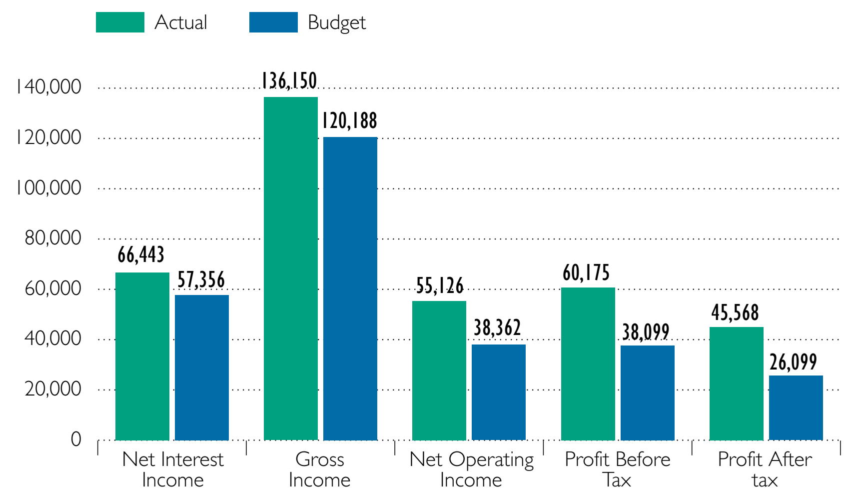
(*) Including net gains/losses on financial assets and liabilities.

NET INTEREST INCOME

In 2005 net interest income exceeded the budget by EUR 9,087 thousand, an increase of 15.84%. This positive variance was due to improved management of the cash flows received by the Dealing Room. These cash flows experienced substantial growth, partly as a result of the diversification strategies implemented for the products used by CECA in its operations with savings banks and other counterparties. This performance was achieved once the new risk management tools were in place.

Also noteworthy was the contribution to net interest income resulting from the investment of equity, which also exceeded the initial budget projections.

INCOME STATEMENT
Thousands of Euros



% Change:	15.84	13.28	43.70	57.94	74.60

The ratings assigned to the Confederación by the international rating agencies Fitch Ratings and Moody's in 2005 ratified the high level achieved in 2004.

FITCH RATINGS

Short Term	Long Term	Individual	Legal
F1+	AA-	B	2

MOODYS

Short Term	Long Term	Solvency
P1	Aa3	B-

FEES AND COMMISSIONS

The amount of fee and commission income exceeded the budget by EUR 6,875 thousand. The main reasons for this difference were the higher volume of securities settled and in custody, the increase in exchange and settlement transactions between entities, and the greater use of Internet, electronic banking, financial market and means-of-payment services.

OTHER OPERATING INCOME

The increase in other operating income, which was EUR 4,855 thousand over budget (8%), was due mainly to the growth in technological services, the passing-on of the costs of cooperation projects channelled through COAS, capital markets advisory and consulting services, and the higher-than-expected amount of IT project expenses recognised as income as a result of the application of international accounting standards.

OPERATING EXPENSES

Operating expenses were EUR 4,053 thousand over budget, due mainly to the EUR 4,790 thousand increase in the depreciation and amortisation charge which resulted from the decision, as permitted by Bank of Spain Circular 4/2004, to recognise IT projects conducted before 2004 as intangible assets and to revalue property. The resulting increase in the depreciation and amortisation charge had not been budgeted for, since, at the date the budget was approved, the Bank of Spain had not yet published its regulations for adaptation to IFRSs.

OTHER GAINS/LOSSES

The amount of net other gains or losses exceeded the budget by EUR 5,312 thousand, due mainly to the EUR 4,540 thousand gain obtained on the sale of a property.

PROPOSED DISTRIBUTION OF PROFIT

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

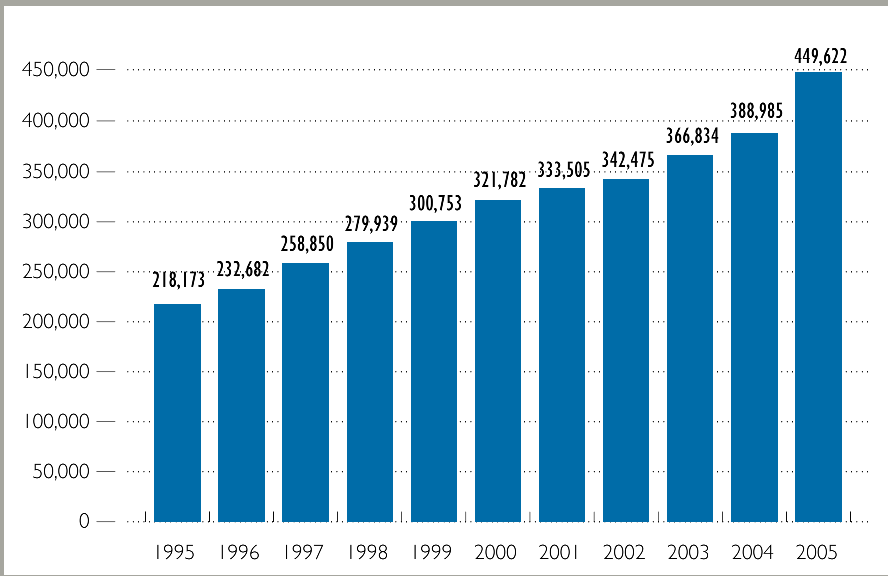
Thousand of Euros

Return on participation certificates	2,962
To the Welfare Fund-	4,190
Foundation of Federated Savings Banks for Economic and Social Research (FUNCAS)	4,178
Depreciation of assets assigned to welfare projects	12
To reserves	38,416
Profit for the year (Profit after tax)	**45,568**

EQUITY

Computable equity amounted to EUR 449,622 thousand at 31 December 2005, up 15.59% on 2004. The variations in the last ten years were as follows:

EQUITY
Thousand of Euros



4.3 RISK MANAGEMENT

CECA's risk management policies and objectives, including its credit, market, interest rate and liquidity risk exposures, are detailed in Note 22 to the consolidated financial statements for the year ended 31 December 2005.

4.4 BUSINESS OUTLOOK

The objectives set by the Confederación for 2006 are within the strategic lines of action approved by the 92nd General Assembly on 14 December 2005. To ensure compliance with these lines of action, CECA defined a series of action plans with the following general targets:

INSTITUTIONAL REPRESENTATION AND DEVELOPMENT

In this strategic line of action, CECA will focus mainly, though not exclusively, on safeguarding the interests of savings banks and their financial products in the light of the personal income and corporation tax reform, and on monitoring any risks that may arise in connection with the standards to be approved by the European Union and the Spanish central and autonomous community governments, in particular those concerning corporate governance. Other objectives within this strategic line of action include the promotion of the compliance function, the coordination of the pilot process in Spain for the GRI financial supplement, and the proposal of strategic criteria in connection with savings banks' welfare projects.

EFFICIENCY

With a view to achieving enhanced efficiency, CECA aims to optimise the maintenance processes relating to the financial and risk support applications used by both CECA and the savings banks.

Also, actions will be implemented in order to optimise the tools used in the management of fund movements and to increase productivity as regards the use of technological resources.

GROWTH

The targets set for this strategic line of action include most notably the promotion of financial, operational and technological services in order to provide the savings banks with new products and transactions for their customers.

In addition, the international business will be boosted through documentary credit transactions, which will be processed by CEA TSL, and the FEDECRÉDITO modernisation project in El Salvador will be completed.

EFFECTIVENESS

Within this strategic line of action, which focuses on increasing the quality of, and the saving banks' satisfaction with, the services provided by CECA, there are plans to rationalise, update and optimise the performance of IT applications with a view to improving the products and the technological and operational services used by the savings banks.

INNOVATION

There are plans to conduct, within the scope of COAS (CECA's Organisation, Automation and Service Committee), a series of undertakings geared towards obtaining an automation and electronic connection project for the control of loan and guarantee registration, improving and optimising transactions with government agencies through telematic channels, and launching the electronic invoice system.

For the purpose of improving risk policy, a project will be carried out in 2006 for the centralised management of collateral for both the savings banks and CECA. Also, work will be undertaken on extending the functionalities of various services, such as the Auxiliary Deposit System (SDA).

SKILLS DEVELOPMENT

This strategic line of action, which focuses on enhancing the response capacity of CECA's human, technological and control resources, includes the following objectives::

- To conduct, through COAS, an industry-wide strategic project on the essential variables involved in human resource management.
- To continue with the roll-out at CECA of the Integral Human Resources System, including the launch of the Intranet, implementation of the 2006 Executive Development Plan, analysis of the organisational and remuneration structure and improvement of the administrative and personnel management services.

As regards risk management, CECA's risk systems will be optimised through internal control improvements and ongoing adaptation to the new functionalities of the systems for the measurement and control of market and counterparty risk. With respect to the regulations risk, regulation analysis and alert procedures will be designed and implemented and a flowchart will be devised for the management of legal risk at CECA.

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, 2005, 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 aforementionet financial statements and also propose that they be approved by the General Assembly.

March 22, 2006

The Secretary,

Signed: Antonio María Claret García García

Approved
The Chairman

Signed: Rafael Jené Villagrasa

Domicilio Social: Alcalá, 27 - 28014 Madrid - Tel. 91 596 50 00 - Fax: 91 596 57 42

Consolidated Financial Statements and Directors' Report

Confederación Española de Cajas de Ahorros Group

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2005 AND 2004 (NOTES 1 to 7)

ASSETS
Thousands of Euros

		2005	2004 (*)
CASH AND BALANCES WITH CENTRAL BANKS	Note 8	**64,627**	**30,992**
FINANCIAL ASSETS HELD FOR TRADING:	Note 9	**3,660,625**	**2,316,702**
Debt instruments		2,654,574	1,932,731
Other equity instruments		3,145	72,189
Trading derivatives		1,002,906	311,782
AVAILABLE-FOR-SALE FINANCIAL ASSETS:	Note 10	**396,849**	**441,289**
Debt instruments		297,591	345,335
Other equity instruments		99,258	95,954
LOANS AND RECEIVABLES:	Note 11	**8,164,497**	**5,332,837**
Loans and advances to credit institutions		7,784,772	5,082,136
Loans and advances to customers		156,545	103,619
Debt instruments		15,431	25,716
Other financial assets		207,749	121,366
NON-CURRENT ASSETS HELD FOR SALE		**1,334**	**1,334**
INVESTMENTS		**61**	**139**
TANGIBLE ASSETS:	Note 12	**114,967**	**120,602**
For own use		114,665	120,291
Assigned to welfare projects		302	311
INTANGIBLE ASSETS:	Note 13	**14,684**	**16,161**
Other intangible assets		14,684	16,161
TAX ASSETS:	Note 20	**31,942**	**41,203**
Current		318	953
Deferred		31,624	40,250
PREPAYMENTS AND ACCRUED INCOME	Note 14	**6,940**	**4,109**
OTHER ASSETS:	Note 15	**17,996**	**29,914**
Other		17,996	29,914
TOTAL ASSETS		**12,474,522**	**8,335,282**
Memorandum items:			
Contingent liabilities	Note 24	167,218	89,858
Contingent commitments	Note 24	1,848,056	912,127

(*) Presented for comparison purposes only (Note 1).
The accompanying Notes 1 to 38 and Appendixes I to III are an integral part of the consolidated balance sheet at 31 December 2005.

LIABILITIES AND EQUITY
Thousands of Euros

		2005	2004 (*)
LIABILITIES			
FINANCIAL LIABILITIES HELD FOR TRADING:	Note 9	**1,994,717**	**965,422**
Trading derivatives		988,310	304,655
Short positions		1,006,407	660,767
FINANCIAL LIABILITIES AT AMORTISED COST:	Note 16	**9,749,706**	**6,695,153**
Deposits from central banks		85,230	-
Deposits from credit institutions		5,328,613	3,514,531
Money market operations through counterparties		10,258	191,487
Customer deposits		3,488,593	2,631,093
Other financial liabilities		837,012	358,042
PROVISIONS:	Note 17	**31,470**	**37,179**
Provisions for pensions and similar obligations		20,949	25,702
Provisions for contingent liabilities and commitments		7	11
Other provisions		10,514	11,466
TAX LIABILITIES:	Note 20	**60,087**	**64,630**
Current		4,874	-
Deferred		55,213	64,630
ACCRUED EXPENSES AND DEFERRED INCOME	Note 14	**26,271**	**27,740**
OTHER LIABILITIES:		**50,516**	**22,950**
Welfare Fund	Note 23	693	510
Other	Note 15	49,823	22,440
TOTAL LIABILITIES		**11,912,767**	**7,813,074**
EQUITY			
VALUATION ADJUSTMENTS:	Note 18	**52,196**	**50,053**
Available-for-sale financial assets		52,196	50,053
OWN FUNDS:	Note 19	**509,559**	**472,155**
Reserves:			
Accumulated reserves		433,507	399,711
Reserves of entities accounted for using the equity method		(39)	35
Endowment fund		30,051	30,051
Profit attributed to the Group		46,040	42,358
TOTAL EQUITY		**561,755**	**522,208**
TOTAL LIABILITIES AND EQUITY		**12,474,522**	**8,335,282**

(*) Presented for comparison purposes only (Note 1).
The accompanying Notes 1 to 38 and Appendixes I to III are an integral part of the consolidated balance sheet at 31 December 2005.

Confederación Española de Cajas de Ahorros Group

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004 (NOTES 1 to 7)

Thousands of Euros

		Income /(Expenses)	
		2005	2004 (*)
INTEREST AND SIMILAR INCOME	Note 25	213,241	195,226
INTEREST EXPENSE AND SIMILAR CHARGES:	Note 26	(180,655)	(164,105)
Other		(180,655)	(164,105)
INCOME FROM EQUITY INSTRUMENTS	Note 27	10,373	4,652
NET INTEREST INCOME		**42,959**	**35,773**
SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD	Note 28	(3)	-
FEE AND COMMISSION INCOME	Note 29	88,097	85,029
FEE AND COMMISSION EXPENSE	Note 30	(18,391)	(20,583)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net)	Note 31	2,435	19,837
Held for trading		(548)	8,417
Available-for-sale financial assets		2,984	11,427
Loans and receivables		(1)	(7)
EXCHANGE DIFFERENCES (net)		20,623	14,209
GROSS INCOME		**135,720**	**134,265**
OTHER OPERATING INCOME	Note 32	72,364	71,327
PERSONNEL EXPENSES	Note 33	(64,317)	(61,334)
OTHER GENERAL ADMINISTRATIVE EXPENSES	Note 34	(74,957)	(72,304)
DEPRECIATION AND AMORTISATION:		(12,129)	(9,047)
Tangible assets	Note 12	(7,208)	(7,814)
Intangible assets	Note 13	(4,921)	(1,233)
OTHER OPERATING EXPENSES	Note 35	(648)	(524)
NET OPERATING INCOME		**56,033**	**62,383**
IMPAIRMENT LOSSES (net):		(2,207)	(584)
Available-for-sale financial assets	Note 10	496	(288)
Loans and receivables	Note 11	(2,703)	(296)
PROVISIONS (net)	Note 17	1,132	(11)
OTHER GAINS:	Note 36	6,714	2,361
Gains on disposal of tangible assets		4,538	6
Other		2,176	2,355
OTHER LOSSES:	Note 36	(494)	(1,777)
Losses on disposal of tangible assets		-	(2)
Other		(494)	(1,775)
PROFIT BEFORE TAX		**61,178**	**62,372**
INCOME TAX	Note 20	(15,138)	(20,014)
PROFIT FROM ORDINARY ACTIVITIES		**46,040**	**42,358**
PROFIT/LOSS FROM DISCONTINUED OPERATIONS (net)		-	-
CONSOLIDATED PROFIT FOR THE YEAR		**46,040**	**42,358**
PROFIT/LOSS ATTRIBUTED TO MINORITY INTERESTS		-	-
PROFIT ATTRIBUTED TO THE GROUP		**46,040**	**42,358**

(*) Presented for comparison purposes only (Note 1).
The accompanying Notes 1 to 38 and Appendixes I to III are an integral part of the consolidated income statement for 2005.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004 (NOTES 1 TO 7)

Thousands of Euros

		2005	2004 (*)
INCOME RECOGNISED DIRECTLY IN EQUITY:	Note 18	**2,143**	**38,758**
Available-for-sale financial assets-		2,143	38,758
Revaluation gains/losses		6,281	71,055
Amounts transferred to income statement	Note 31	(2,984)	(11,427)
Income tax	Note 20	(1,154)	(20,870)
CONSOLIDATED PROFIT FOR THE YEAR:			
Published consolidated profit for the year		46,040	42,358
TOTAL INCOME AND EXPENSES FOR THE YEAR:			
Parent		48,183	81,116
Minority interests		-	-
		48,183	**81,116**

(*) Presented for comparison purposes only (Note 1).
The accompanying Notes 1 to 38 and Appendixes I to III are an integral part of the consolidated statement of changes in equity for 2005.

Confederación Española de Cajas de Ahorros Group

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004 (NOTES 1 to 7)

Thousands of Euros

	2005	2004 (*)
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated profit for the year	46,040	42,358
Adjustments to profit-	7,353	1,852
Depreciation of tangible assets	7,208	7,814
Amortisation of intangible assets	4,921	1,233
Impairment losses (net)	2,207	584
Provisions (net)	(1,132)	11
Gains/Losses on disposal of tangible assets	(4,538)	(4)
Share of results (losses) of entities accounted for using the equity method (net of dividends)	3	-
Taxes	15,138	20,014
Other non-monetary items	(16,454)	(27,800)
Adjusted profit	**53,393**	**44,210**
Net increase/decrease in operating assets:	3,427,888	(399,028)
Financial assets held for trading-	643,814	41,858
Debt instruments	712,858	(22,886)
Other equity instruments	(69,044)	64,744
Trading derivatives	-	-
Available-for-sale financial assets-	(47,080)	23,710
Debt instruments	(46,506)	1,374
Other equity instruments	(574)	22,336
Loans and receivables-	2,834,364	(479,876)
Loans and advances to credit institutions	2,703,921	(278,593)
Money market operations through counterparties	-	(103,998)
Loans and advances to customers	54,345	(59,131)
Debt instruments	(10,285)	(10,289)
Other financial assets	86,383	(27,865)
Other operating assets	(3,210)	15,280
Net increase/decrease in operating liabilities:	3,417,170	(426,325)
Financial liabilities held for trading-	345,640	(235,022)
Trading derivatives	-	-
Short positions	345,640	(235,022)
Financial liabilities at amortised cost-	3,054,553	(221,986)
Deposits from central banks	85,230	-
Deposits from credit institutions	1,814,022	(536,922)
Money market operations through counterparties	(181,229)	191,487
Customer deposits	857,560	176,076
Other financial liabilities	478,970	(52,627)
Other operating liabilities	16,977	30,683
Total net cash flows from operating activities (1)	**42,675**	**16,913**

	2005	2004 (*)
	(5,017)	(6,206)
	-	13
	1,573	3,063
	3,444	3,130
	4,613	6
	75	-
	4,538	6
	-	-
	(404)	**(6,200)**
	8,636	6,211
	(8,636)	**(6,211)**
	-	-
	33,635	**4,502**
		26,490
		30,992

01

INTRODUCTION, BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OTHER INFORMATION

1.1. INTRODUCTION

Confederación Española de Cajas de Ahorros ("the Confederación") is an entity subject to the rules and regulations applicable to banks 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 Confederation's official website (www.ceca.es) and at its registered office.

The Confederación is the national association to which all federated popular savings banks belong. It is a community welfare institution whose purpose is to promote, facilitate and increase the domestic and international operations of its member savings banks. Its philosophy is based on the significant socio-economic importance of savings and seeks to safeguard the general and reciprocal interests of its members.

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.

The Confederación de Cajas de Ahorros Group comprises the following companies:

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 securitisation funds and MBS funds.

Associate

- **Europay España, Sociedad Civil**, formed in 1999, which, as a licencee of Europay International, S.A., introduces, develops, organises and coordinates payment systems in Spain. It also grants sublicenses for these payment systems on request to Spanish credit and deposit-taking institutions which are members of any of the participating entities.

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

1. 2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

The Group's consolidated financial statements for 2005 were prepared by the Confederación's directors at the Board of Directors meeting held on 15 March 2006.

The consolidated financial statements are presented in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, and with Bank of Spain Circular 4/2004, of 22 December, which implements and adapts IFRSs for Spanish credit institutions.

The abbreviations "IAS" and "IFRS" used in these notes to the consolidated financial statements refer to the International Accounting Standards and the International Financial Reporting Standards, respectively, approved by the European Union, on the basis of which these consolidated financial statements for the year ended 31 December 2005 were prepared.

The consolidated financial statements were prepared taking into account all the mandatory accounting policies and rules and measurement bases with a material effect on the consolidated financial statements so that they present fairly the Group's equity and financial position at 31 December 2005, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in the year then ended.

The principal accounting policies and rules and measurement bases applied in preparing the Group's consolidated financial statements for 2005 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 2005 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 IFRSs used by the Confederación.

1. 3. RESPONSIBILITY FOR THE INFORMATION AND FOR THE ESTIMATES MADE

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

In the Group's consolidated financial statements for 2005 estimates were occasionally made by the Group's directors in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (Notes 2.6, 10, 11);
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and commitments and other long-term commitments to employees (Notes 2.8 and 17);
- The useful life of the tangible and intangible assets (Notes 12 and 13); and
- The fair value of certain unquoted assets (Note 10).

Although these estimates were made on the basis of the best information available at 31 December 2005 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. NEW STANDARDS

The Group's consolidated financial statements for the year ended 31 December 2005 are the first that the Group has published and, consequently audited. However, the Confederación's audited individual financial statements for 2004 represented 99.5% of the Group's assets and 98.88% of the profit attributed to the Group at 31 December 2004. The Confederación, availing itself voluntarily of the option provided for in Final Provision Eleven of Law 62/2003, of 30 December, prepared these consolidated financial statements in accordance with IFRSs. These new Standards entail, with respect to the previous standards (Bank of Spain Circular 4/1991, of 14 June):

- Significant changes in measurement bases and presentation of the financial statements making up the annual financial statements.
- The inclusion in the consolidated financial statements of two new financial statements, namely the consolidated statement of changes in equity and the consolidated cash flow statement; and
- A significant increase in the volume of disclosures in the notes to the consolidated financial statements.

Note 6 contains the following reconciliations as required by the applicable standards:

- A reconciliation of the Group's equity at the date of transition to IFRSs (1 January 2004), determined in accordance with Bank of Spain Circular 4/1991, of 14 June, to the corresponding consolidated equity calculated at that date in accordance with IFRSs.

- A reconciliation of the Group's equity at 31 December 2004, determined in accordance with Bank of Spain Circular 4/1991, of 14 June, to the corresponding consolidated equity calculated at that date in accordance with IFRSs.

- A reconciliation of the consolidated income statement for 2004 prepared in accordance with Bank of Spain Circular 4/1991 to the consolidated income statement for that year prepared in accordance with IFRSs.

1.5. INFORMATION RELATING TO 2004

As required by the applicable standards, the information relating to 2004 contained in these notes to the consolidated financial statements is presented, for comparison purposes only, with the information relating to 2005.

1. 6. AGENCY AGREEMENTS

The consolidated entities did not have any agency agreements as defined in Article 22 of Royal Decree 1245/1995, of 14 July, in force at 2005 year end or at any other time during the year.

1.7 INVESTMENTS IN THE SHARE CAPITAL OF CREDIT INSTITUTIONS

At 31 December 2005, none of the Group entities had an ownership interest of 5% or more in the share capital or voting power of other Spanish or foreign credit institutions.

1. 8. ENVIRONMENTAL IMPACT

In view of the main business activities carried on by the Group entities, they do not have a significant effect on the environment. Therefore, the Group's consolidated financial statements for 2005 do not contain any disclosures on environmental issues.

1. 9. MINIMUM RATIOS

1.9.1 Minimum capital ratio

Law 13/1992, of 1 June 1992, and Bank of Spain Circular 5/1993 and subsequent amendments thereto regulate the minimum capital for Spanish credit institutions –both as individual entities and as consolidated groups– and the criteria for calculating the capital ratio.

At 31 December 2005 and 2004, the Group's eligible capital exceeded the minimum required under the aforementioned regulations.

1.9.2 Minimum reserve ratio

At 31 December 2005 and 2004, and throughout 2005 and 2004, the consolidated entities exceeded the minimum reserve ratio required by the applicable Spanish legislation.

1.10. DEPOSIT GUARANTEE FUND

The Confederacíon participates in the Deposit Guarantee Fund. The contributions made to this scheme amounted to approximately EUR 52 thousand in 2005 (EUR 79 thousand in 2004), and the related expense was recorded under "Other Operating Expenses" in the accompanying consolidated income statement (Note 35).

1.11. SUBSEQUENT EVENTS

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 RULES AND MEASUREMENT BASES APPLIED

The accounting policies and rules and measurement bases applied in preparing the Group's consolidated financial statements for 2005 were as follows:

2.1 CONSOLIDATION

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 Parent 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 the applicable standard, control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

At 31 December 2005, the Confederación considered Caja Activa, S.A., in which it holds a 99.98% ownership interest, and CEA Trade Services Limited, all of whose share capital is owned by it, to be subsidiaries. Appendix I to these notes to the consolidated financial statements contains 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 fully 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 two or more 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. 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 2005, the Confederación considered Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., in which it owns a 50% holding, to be a jointly controlled entity. Appendix II contains information on this company.

2. 1. 3. . Associates:

Associates are entities over which the Confederación is in a position to exercise significant influence, but not control or joint control, usually because it holds -directly or indirectly- 20% or more of the voting power of the investee.

In the consolidated financial statements, investments in associates are accounted for using the equity method, as defined in the applicable regulations.

At 31 December 2005, the Confederación considered Europay España, Sociedad Civil, in which it holds a 33% ownership interest, to be an associate. Appendix III contains information on this company.

2. 2. FINANCIAL INSTRUMENTS

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 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.

Also, a financial liability is derecognised when the obligations it generates have expired or when it is repurchased by the Group, either to re-place 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 sufficiently used by the international 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 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 (as reflected in the consolidated 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.

The effective interest rate is the discount rate that exactly matches the net carrying amount of a financial instrument to all its estimated cash flows of all kinds through its residual life.

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:** this category includes financial instruments classified as held for trading and other financial assets and liabilities classified as at fair value through profit or loss:

  Financial assets held for trading ainclude 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.

  Financial liabilities held for trading ainclude 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 financial asset sales under non-optional repurchase agreements or borrowed securities; and derivatives not designated as hedging instruments.

Financial instruments at fair value through profit or loss are initially measured at fair value and subsequent changes in the fair value are recorded with a balancing entry under "Gains/Losses on Financial Assets and Liabilities" in the consolidated income statement, except for the changes in the fair value due to accrued returns on financial instruments other than trading derivatives, which are recorded under "Interest and Similar Income", "Interest Expense and Similar Charges" or "Income from Equity Instruments" in the aforementioned consolidated income statement, depending on their nature.

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:** this category includes unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the consolidated entities and receivables from purchasers of goods and users of services. This category also includes finance lease transactions in which the consolidated entities act as the lessor.

  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 of the financial asset. Subsequent to acquisition, the acquired assets 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 consolidated entities generally intend to hold the loans and credits granted by them until their final maturity and, therefore, they are presented in the consolidated balance sheet at their amortised cost.

  The interest accrued on these securities is recognised under "Interest and Similar Income" in the consolidated income statement. Exchange differences on securities included in this portfolio denominated in currencies other than the euro are recorded as set forth in Note 2.3. Any impairment losses on these securities are recognised as explained in Note 2.6.

- **Available-for-sale financial assets:** this category includes debt instruments not classified as held-to-maturity investments 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 measured at fair value adjusted by the transaction costs that are directly attributable to the acquisition of the financial asset, except for those of financial assets with no fixed maturity, which are recognised in the income statement when these assets become impaired or are derecognised. Subsequent to acquisition, financial assets included in this category are measured at fair value.

  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 2.6.

Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognised with a balancing entry 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 2.6. Exchange differences on financial assets denominated in currencies other than the euro are recognised as explained in Note 2.3.

Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognised with a balancing entry 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" in the consolidated income statement.

- **Financial liabilities at amortised cost:** this category includes the other financial liabilities held by the Group.

These financial liabilities are initially measured at fair value adjusted by the amount of the transaction costs that are directly attributable to the issue of the financial liability. Subsequently, these financial liabilities are measured at amortised cost.

The interest accrued on these securities is recognised under "Interest Expense and Similar Changes" in the consolidated income statement. Exchange differences on securities included in this portfolio denominated in currencies other than the euro are recorded as explained in Note 2.3.

2. 3. FOREIGN CURRENCY TRANSACTIONS

2.3.1. Functional currency

The functional and reporting currency of all the Group companies 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, of the equivalent euro value of the asset and liability balances in the consolidated balance sheet denominated in foreign currency is as follows (in thousands of euros):

EQUIVALENT
(In Thousands of Euros)

	2005		2004	
	Assets	Liabilities	Assets	Liabilities
Balances in US dollars-	991,671	1,372,765	757,076	749,380
Balances in Japanese yen-	69,344	93,283	172,768	105,170
Balances in pounds sterling-	234,118	246,346	134,233	235,797
Balances in Swiss francs-	175,428	108,141	103,913	49,155
Balances in Norwegian krone-	90,041	24,971	12,511	58,348
Balances in other currencies-	224,945	18,544	68,338	59,062
Total balances denominated in foreign currencies	**1,785,547**	**1,864,050**	**1,248,839**	**1,256,912**

2. 3. 2. *Translation of foreign currency balances*

Translation of foreign currency to the functional currency: foreign currency transactions performed by consolidated entities or entities accounted for using the equity method are initially recognised in their respective 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 on the date when the fair value was determined.

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

2.3.3. *Exchange rates applied*

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. 3. 4. Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances to the functional currency of the consolidated entities and their branches 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 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 are recognised in equity under "Valuation Adjustments - Exchange Differences" in the consolidated balance sheet until they are realised.

2. 4. RECOGNITION OF INCOME AND EXPENSES

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

2.4.1. Interest income, interest expenses, dividends and similar items:

As a general rule, interest income, interest expenses and similar items are recognised on the basis of their period of accrual using the effective interest method. Dividends received from other companies are recognised as income when the consolidated entities' right to receive them arises.

2.4.2. Commissions, fees and similar items:

Fee and commission income and expenses, which must not 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 at fair value through profit or loss, are recognised in the income statement using criteria that vary according to their nature. The most significant fee and commission items are as follows:

- Those relating to the acquisition of financial assets and liabilities measured at fair value through profit or loss, which are recognised in the income statement when paid.

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

- Those relating to a single act, which are recognised in the income statement when the single act is carried out.

2. 4. 3. Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

2. 5. 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. 6. IMPAIRMENT OF FINANCIAL ASSETSS

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 a negative impact on the future cash flows that were estimated at the transaction date.

- In the case of equity instruments, mean that it will not be possible to fully recover their carrying amount.

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 of previously recognised impairment losses, if any, is recognised in the consolidated income statement for the period in which the impairment is reversed or reduced.

When the recovery of any recognised impairment is considered unlikely, the amount of the impairment is removed from the consolidated balance sheet, without prejudice to any actions that the consolidated entities may initiate to seek collection of the amount receivable until their contractual rights are extinguished definitively by expiry of the statute-of-limitations period, forgiveness or 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 such impairment losses are as follows:

2.6.1. Debt instruments carried at amortised cost

The amount of an impairment loss incurred on these instruments is equal to the positive difference between their carrying amount and the present value of their 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 should be taken into account:

- All the amounts that are expected to be obtained over the residual 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 impairment loss takes into account the likelihood of collecting accrued past-due interest receivable.
- The various types of risk to which each instrument is subject, and
- The circumstances in which collections will foreseeably be made.

Possible 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, 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 minimum impairment losses ("identified losses") that must be recognised in the consolidated financial statements, applying the parameters established by the Bank of Spain.

  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. These parameters are modified when the circumstances so advise.

2.6.2. *Debt instruments classified as available for sale*

The impairment losses, if any, on debt instruments included in the available-for-sale financial asset portfolio relate to 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 2.6.1 above.

When there is objective evidence that the losses arising on measurement of these assets are due to impairment, they are no longer recognised in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" and are recognised, for the amount accumulated until then, in the consolidated income statement. If all or part of the impairment losses are subsequently recovered, the amount would be recognised in the consolidated income statement for the period in which the recovery occurred.

Similarly, the losses arising on measurement of debt instruments classified as "non-current assets held for sale" which are recorded 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".

2.6.3. Equity instruments classified as available for sale

The impairment losses, if any, on equity instruments included in the available-for-sale financial asset portfolio relate to 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 (as explained in Note 2.6.2), with the exception that any recovery of these losses is recognised in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet.

2.6.4. Equity instruments measured at cost

The amount of any impairment loss incurred on equity instruments carried at cost is the difference between the 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 in the case of sale of the related assets.

2. 7. FINANCIAL GUARANTEES AND PROVISIONS FOR FINANCIAL GUARANTEES

"Financial guarantees" are defined as contracts whereby an entity undertakes to make specific payments for a third party if the latter does not do so, irrespective of the various legal forms they may have, such as guarantees, irrevocable documentary credits issued or confirmed by the entity, etc.

Financial guarantees, irrespective 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 measured at amortised cost as described in Note section 2.6.1 above.

The provisions made for these transactions are recognised under "Provisions – Provisions for Contingent Liabilities and Commitments" on the liability side of the consolidated balance sheet (Note 17). These provisions are recognised and reversed with a charge or credit, respectively, to "Provisions (Net)" in the consolidated income statement.

If a provision is required for these financial guarantees, the unearned commissions on these transactions, which are recognised under "Accrued Expenses and Deferred Income" on the liability side of the consolidated balance sheet, will be reclassified to the appropriate provision.

2. 8. PERSONNEL EXPENSES

2.8.1 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, permanent disability, death of spouse or death of parent. The Confederación is the only Group entity that has pension commitments to its employees.

The Group'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 a "defined benefit plans".

The actuarial gains and losses on defined benefit plans are recognised 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 all 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 and for employees hired by the Confederación after 29 May 1986, respectively).

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

In 2005 the accrued expense for the contributions to be made to the external pension fund amounted to EUR 5,657 thousand (EUR 4,810 thousand in 2004), and this amount was recognised under "Personnel Expenses" in the consolidated income statement (Note 33).

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 accrued in 2005 on these policies and on other insurance policies covering pension obligations to employees totalled EUR 2,377 thousand (EUR 4,256 thousand in 2004), and this amount was recognised under "Personnel Expenses" in the income statement (Note 33).

At 31 December 2005, the total vested and unvested pension obligations calculated by the Confederación amounted to EUR 194,615 thousand (EUR 217,862 thousand at 31 December 2004). Of this amount, EUR 187,615 thousand were covered by the aforementioned external pension fund and insurance policies, and EUR 7,000 thousand by an internal provision recognised under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (Note 17) that had not yet been transferred to the external pension fund at 31 December 2005. The actuarial assumptions used in calculating these obligations were: PERM 2000-P mortality tables; a discount rate of 4% for the obligations covered by the external pension plan and the interest rate guaranteed in the insurance policies for the obligations covered by them; a salary increase rate of 2.68% (2% for early retirees); a social security pension increase rate of 2.5%; an expected rate of return on pension plan assets of 4%; and estimated increase rates of 2.82% and 2.78% for the obligations covered by insurance policies, based on the characteristics thereof.

2.8.2 Other long-term benefits:

2.8.2.1 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 will be excluded from further offers in subsequent years.

At 31 December 2005, the obligations for future salaries, future social security taxes and incentives to employees who have taken early retirement, as well as the obligations for future contributions to the Pension Plan were covered by an internal provision amounting to EUR 13,949 thousand (EUR 18,702 thousand at 31 December 2004), which was recognised under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (Note 17). Of this amount, EUR 13,947 thousand (EUR 18,683 thousand at 31 December 2004) relate to early retirement commitments incurred as a result of the aforementioned agreement dated 2 April 2001, and EUR 2 thousand (EUR 19 thousand at 31 December 2004) to early retirement commitments to early retirees prior to the agreement. At 31 December 2005, this provision covered the full amount of the Confederación's early retirement obligations. The obligations covered by this internal provision were calculated by an independent actuary, using a discount rate of 2.97%, PERM-2000-P mortality tables and a 2% increase in reviewable pre-retirement salaries.

2.8.2.2 Death and disability

The Group's commitments for death or disability of current employees are included in the benefits covered by the provision for pensions.

2.8.2.3 Long-service bonuses

The consolidated entities have undertaken to pay a bonus to employees who have reached 25 years of service.

The amounts paid in this connection at 2005 and 2004 year-end totalled approximately EUR 7 and EUR 17 thousand and were recognised under "Personnel Expenses" in the consolidated income statements for those years.

2.8.3. 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, certain consolidated entities have entered into agreements with some of their executives and/or directors to pay them certain benefits upon termination of their employment. The amount of the benefit, which in any case would not have a material effect on the Confederación, is charged to the consolidated income statement when the decision to terminate the employment of the executive or director concerned is taken.

2. 9 INCOME TAX

The expense for Spanish corporation tax and other similar taxes applicable to the foreign consolidated entities is recognised in the consolidated income statement, except when it results from a transaction recognised directly in 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 recognised as a result of temporary differences, tax credits and tax relief and tax loss carryforwards (Note 20).

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 taxation authorities. A deductible temporary difference is one that will generate a right for the Group to a refund or to make a lower payment to the related taxation authorities in the future.

Tax assets relating to tax credits, tax relief 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. 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 taxation authorities within 12 months from the date they are recognised. Deferred tax assets and liabilities are the taxes that are expected to be recoverable from or payable to the related taxation authorities in future years.

Deferred tax liabilities are recognised for all taxable temporary differences. However, a deferred tax liability is recognised for taxable temporary differences arising from investments in subsidiaries and associates and from interests in joint ventures, except when the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- Deferred tax assets are only recognised when it is probable that the consolidated entities 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 each year in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

2.10. TANGIBLE ASSETS

2.10.1. Tangible assets for own use:

Tangible assets for own use include the assets that are held by the Group for present or future administrative purposes (other than those assigned to welfare projects) or for the production or supply of goods and which are expected to be used for more than one year. Tangible assets for own use are recognised at acquisition cost or revalued cost in the consolidated balance sheet, less:

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

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 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 - Tangible Assets" 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% to 4%
Furniture and office equipment	6.25% to 10%
Computer hardware	10% to 25%
Fixtures	6.25% to 10%
Transport equipment	10%

The consolidated entities assess 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 has to be re-estimated). Where necessary, the carrying amount of tangible assets for own use is reduced with a charge to "Impairment Losses (Net) - Tangible Assets" in the consolidated income statement.

Similarly, if there is an indication of a recovery in the value of an impaired tangible asset, the consolidated entities recognise the reversal of the impairment loss recognised in prior periods with the related credit to "Impairment Losses (Net) – Tangible Assets" in the consolidated income statement and adjust 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 tangible assets 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 tangible assets for own use are recognised as an expense under "Other General Administrative Expenses" in the consolidated income statement in the year in which they are incurred. Finance costs incurred in the financing of tangible assets for own use are charged to the consolidated income statement on an accrual basis and are not capitalised.

2.10.2 Assigned to welfare projects

The item "Tangible Assets - 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 tangible assets for own use (Note 2.10.1), the only exception being that the depreciation charges and the recognition and reversal of any impairment losses on these assets are not recognised with a balancing entry in the consolidated income statement but rather with a balancing entry under "Other Liabilities - Welfare Fund" in the consolidated balance sheet (Note 23).

2. 11. 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 consolidated entities. Only assets whose cost can be estimated reasonably objectively and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

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

Intangible assets other than goodwill are recognised in the consolidated balance sheet at acquisition or production cost, less the related accumulated amortisation and any 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 consolidated companies- 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 consolidated entities review the remaining useful lives of the assets to ascertain whether they continue to be indefinite and, if this is not the case, to take the appropriate steps.

Intangible assets with finite useful lives are amortised over those useful lives (3 to 5 years) using methods similar to those used to depreciate tangible assets. The annual amortisation charge for intangible assets with finite useful lives is recognised under "Depreciation and Amortisation - Intangible Assets" in the consolidated income statement.

The consolidated companies recognise any impairment losses on the carrying amounts of intangible assets with finite or indefinite useful lives with a charge to "Impairment Losses (Net) - Other Intangible Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the recovery of impairment losses recognised in prior years are similar to those applied to tangible assets for own use (Note 2.10.1).

2.12. PROVISIONS AND CONTINGENT LIABILITIES

When preparing the financial statements of the consolidated entities, their respective 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 settlement date, 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 are recognised with a charge or credit to "Provisions (Net)" in the consolidated income statement.

At the end of 2005 certain litigation and claims were in process against the Group arising from the ordinary course of their operations. The Group's legal advisers and directors consider that the outcome of litigation and claims will not have a material effect on the financial statements for the years in which they are settled.

2.13 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.

- Investing activities: the acquisition and disposal of long-term assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of the equity and borrowings of the Company that are not operating activities

- Operating activities: other activities that are not classified as investing or financing 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 was considered to be "cash and cash equivalents".

2.14 NON-CURRENT ASSETS HELD FOR SALE

The item "Non-Current Assets Held for Sale" in the consolidated balance sheet includes the carrying amount of items whose sale is highly probable to be completed within one year from the date of the consolidated financial statements.

Specifically, this balance sheet item includes property received by the Confederación as settlement of its debtors' payment obligations to it.

In general, non-current assets held for sale are measured at the lower of their carrying amount calculated 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 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 "Impairment Losses (Net) - Non-Current Assets Held for Sale" 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 "Impairment Losses (Net) - Non-Current Assets Held for Sale" in the consolidated income statement.

2.15 WELFARE FUND

The welfare fund is recorded under "Other Liabilities - Welfare Fund" in the consolidated balance sheet.

Transfers to the welfare fund are recorded as an appropriation of the net profit of the Confederación.

Welfare project expenses are presented in the balance sheet as deductions from the welfare fund and in no circumstances may they be recognised in the consolidated income statement.

Tangible assets and liabilities assigned to welfare projects are included in separate asset and liability items in the consolidated balance sheet (Notes 12 and 23).

03

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS GROUP

Confederación Española de Cajas de Ahorros (CECA) is the Group's Parent. Its individual financial statements are prepared in accordance with the accounting principles and criteria contained in Bank of Spain Circular 4/2004.

The Confederación accounts for approximately 99.96% of the Group's assets and 98.97% of the profit attributed to the Group at 31 December 2005 (99.95% and 98.88%, respectively, at 31 December 2004) 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 2005 and 2004:

Confederación Española de Cajas de Ahorros

BALANCE SHEETS AT 31 DECEMBER 2005 AND 2004

ASSETS
Thousands of Euros

	2005	2004 (*)
CASH AND BALANCES WITH CENTRAL BANKS	**64,627**	**30,992**
FINANCIAL ASSETS HELD FOR TRADING:	**3,660,625**	**2,316,702**
Debt instruments	2,654,574	1,932,731
Other equity instruments	3,145	72,189
Trading derivatives	1,002,906	311,782
AVAILABLE-FOR-SALE FINANCIAL ASSETS	**396,849**	**441,289**
Debt instruments	297,591	345,335
Other equity instruments	99,258	95,954
LOANS AND RECEIVABLES:	**8,158,871**	**5,328,681**
Loans and advances to credit institutions	7,784,732	5,082,104
Loans and advances to customers	150,967	99,504
Debt instruments	15,431	25,716
Other financial assets	207,741	121,357
NON-CURRENT ASSETS HELD FOR SALE	**1,334**	**1,334**
INVESTMENTS	**619**	**614**
TANGIBLE ASSETS:	**114,878**	**120,504**
For own use	114,576	120,193
Assigned to welfare projects	302	311
INTANGIBLE ASSETS:	**14,655**	**16,121**
Other intangible assets	14,655	16,121
TAX ASSETS:	**31,929**	**40,954**
Current	305	704
Deferred	31,624	40,250
PREPAYMENTS AND ACCRUED INCOME	**6,940**	**4,109**
OTHER ASSETS:	**17,996**	**29,885**
Other	17,996	29,885
TOTAL ASSETS	**12,469,323**	**8,331,185**
Memorandum items:		
Contingent liabilities	167,218	89,858
Contingent commitments	1,848,056	912,127

(*) Presented for comparison purposes only.

LIABILITIES AND EQUITY
Thousands of Euros

	2005	2004 (*)
LIABILITIES		
FINANCIAL LIABILITIES HELD FOR TRADING:	**1,994,717**	**965,422**
Trading derivatives	988,310	304,655
Short positions	1,006,407	660,767
FINANCIAL LIABILITIES AT AMORTISED COST:	**9,748,395**	**6,694,197**
Deposits from central banks	85,230	-
Deposits from credit institutions	5,328,614	3,514,573
Money market operations through counterparties	10,258	191,487
Customer deposits	3,489,549	2,631,896
Other financial liabilities	834,744	356,241
PROVISIONS:	**31,470**	**37,179**
Provisions for pensions and similar obligations	20,949	25,702
Provisions for contingent liabilities and commitments	7	11
Other provisions	10,514	11,466
TAX LIABILITIES:	**60,087**	**64,630**
Current	4,874	-
Deferred	55,213	64,630
ACCRUED EXPENSES AND DEFERRED INCOME	**24,593**	**26,455**
OTHER LIABILITIES	**50,516**	**22,950**
Welfare Fund	693	510
Other	49,823	22,440
TOTAL LIABILITIES	**11,909,778**	**7,810,833**
EQUITY		
VALUATION ADJUSTMENTS:	**52,196**	**50,053**
Available-for-sale financial assets	52,196	50,053
OWN FUNDS:	**507,349**	**470,299**
Reserves:		
Accumulated reserves	431,730	398,365
Endowment fund	30,051	30,051
Profit for the year	45,568	41,883
TOTAL EQUITY	**559,545**	**520,352**
TOTAL LIABILITIES AND EQUITY	**12,469,323**	**8,331,185**

(*) Presented for comparison purposes only.

Confederación Española de Cajas de Ahorros

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

Thousands of Euros

	Income /(Expenses) 2005	2004 (*)
INTEREST AND SIMILAR INCOME	213,164	195,166
INTEREST EXPENSE AND SIMILAR CHARGES:	(180,671)	(164,118)
Other	(180,671)	(164,118)
INCOME FROM EQUITY INSTRUMENTS	10,893	5,002
NET INTEREST INCOME	**43,386**	**36,050**
FEE AND COMMISSION INCOME	88,097	85,029
FEE AND COMMISSION EXPENSE	(18,391)	(20,583)
GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES (net)	2,435	19,837
Held for trading	(548)	8,417
Available-for-sale financial assets	2,984	11,427
Loans and receivables	(1)	(7)
EXCHANGE DIFFERENCES (net)	20,623	14,209
GROSS INCOME	**136,150**	**134,542**
OTHER OPERATING INCOME	65,541	65,592
PERSONNEL EXPENSES	(63,623)	(60,830)
OTHER GENERAL ADMINISTRATIVE EXPENSES	(70,210)	(68,168)
DEPRECIATION AND AMORTISATION:	(12,084)	(9,004)
Tangible assets	(7,182)	(7,771)
Intangible assets	(4,902)	(1,233)
OTHER OPERATING EXPENSES	(648)	(524)
NET OPERATING INCOME	**55,126**	**61,608**
IMPAIRMENT LOSSES (net):	(2,207)	(584)
Available-for-sale financial assets	496	(288)
Loans and receivables	(2,703)	(296)
PROVISIONS (net)	1,132	(11)
OTHER GAINS:	6,613	2,232
Gains on disposal of tangible assets	4,538	6
Other	2,075	2,226
OTHER LOSSES:	(489)	(1,743)
Losses on disposal of tangible assets	-	(2)
Other	(489)	(1,741)
PROFIT BEFORE TAX	**60,175**	**61,502**
INCOME TAX	(14,607)	(19,619)
PROFIT FROM ORDINARY ACTIVITIES	**45,568**	**41,883**

(*) Presented for comparison purposes only.

Confederación Española de Cajas de Ahorros

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

Thousands of Euros

	2005	2004 (*)
INCOME RECOGNISED DIRECTLY IN EQUITY:	**2,143**	**38.758**
Available-for-sale financial assets-	2,143	38.758
Revaluation gains/losses	6,281	71.055
Amounts transferred to income statement	(2,984)	(11.427)
Income tax	(1,154)	(20.870)
PROFIT FOR THE YEAR:		
Published profit for the year	45,568	41.883
TOTAL INCOME AND EXPENSES FOR THE YEAR:	47,711	80.641
TOTAL	**47,711**	**80.641**

(*) Presented for comparison purposes only.

Confederación Española de Cajas de Ahorros

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2005 AND 2004

Thousands of Euros

	2005	2004 (*)
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	45,568	41,883
Adjustments to profit-	6,774	(18,205)
Depreciation of tangible assets	7,182	7,771
Amortisation of intangible assets	4,902	1,233
Impairment losses (net)	2,207	584
Provisions (net)	(1,132)	11
Gains/Losses on disposal of tangible assets	(4,538)	(4)
Share of results of entities accounted for using the equity method (net of dividends)	-	-
Taxes	14,607	-
Other non-monetary items	(16,454)	(27,800)
Adjusted profit	**52,342**	**23,678**
Net increase/decrease in operating assets:	3,426,152	(419,804)
Financial assets held for trading-	643,814	41,858
Debt instruments	712,858	(22,886)
Other equity instruments	(69,044)	64,744
Trading derivatives	-	-
Available-for-sale financial assets-	(47,080)	23,710
Debt instruments	(46,506)	1,374
Other equity instruments	(574)	22,336
Loans and receivables-	2,832,894	(480,471)
Loans and advances to credit institutions	2,703,913	(278,600)
Money market operations through counterparties	-	(103,998)
Loans and advances to customers	52,882	(59,719)
Debt instruments	(10,285)	(10,289)
Other financial assets	86,384	(27,865)
Other operating assets	(3,476)	(4,901)
Net increase/decrease in operating liabilities:	3,416,422	(426,594)
Financial liabilities held for trading-	345,640	(235,022)
Trading derivatives	-	-
Short positions	345,640	(235,022)
Financial liabilities at amortised cost-	3,054,198	(221,836)
Deposits from central banks	85,230	-
Deposits from credit institutions	1,814,040	(536,946)
Money market operations through counterparties	(181,229)	191,487
Customer deposits	857,654	176,879
Debt certificates (including bonds)	-	-
Other financial liabilities	478,503	(53,256)
Other operating liabilities	16,584	30,264
Total net cash flows from operating activities (1)	**42,612**	**16,888**

(*) Presented for comparison purposes only.

Thousands of Euros

	2005	2004 (*)
2- CASH FLOWS FROM INVESTING ACTIVITIES		
Investments (-)	(4,997)	(6,152)
Subsidiaries, jointly controlled entities and associates	5	-
Tangible assets	1,556	3,015
Intangible assets	3,436	3,137
Divestments (+)	4,538	6
Subsidiaries, jointly controlled entities and associates	-	-
Tangible assets	4,538	6
Intangible assets	-	-
Total net cash flows from investing activities (2)	**(459)**	**(6,146)**
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends/Interest paid (-)	8,518	6,240
Total net cash flows from financing activities (3)	**(8,518)**	**(6,240)**
4. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (4)	-	-
5. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (1+2+3+4)	**33,635**	**4,502**
Cash and cash equivalents at beginning of year	**30,992**	**26,490**
Cash and cash equivalents at end of year	**64,627**	**30,992**

(*) Presented for comparison purposes only.

04 DISTRIBUTION OF PROFIT

The distribution of the Confederación's net profit for 2005 that the Board of Directors will propose for approval by the General Assembly is as follows:

Thousands of Euros

Reserves	38,416
Transfer to the Welfare Fund	4,190
Return on participation certificates (Note 19)	2,962
Net profit for the year	**45,568**

05 BUSINESS SEGMENT REPORTING

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

As indicated in Note 1.4, following is a reconciliation of the balances in the consolidated balance sheet and consolidated income statement. The information shown in each of the columns is as follows:

- The "Data per BOSC 4/1991" column presents the balances of the various consolidated asset, liability, equity, income and expense items, measured in accordance with the standards previously applied by the Group (Bank of Spain Circular 4/1991) and classified in the consolidated balance sheet and income statement in accordance with the IFRS criteria used in the preparation of the consolidated financial statements for 2005.

- The "Data per IFRSs" column presents the balances of the various consolidated asset, liability, equity, income and expense items, measured in accordance with the IFRSs used in the preparation of the consolidated financial statements for 2005 and classified in the consolidated balance sheet and income statement in accordance with the IFRS criteria used in the preparation of the consolidated financial statements for 2005.

- The "Difference" column shows the adjustments that had to be made to the consolidated asset, liability, equity, income and expense balances measured in accordance with the standards previously applied by the Group (Bank of Spain Circular 4/1991) in order to arrive at the balances recognised in accordance with the IFRSs applied by the Group in the preparation of its consolidated financial statements for 2005.

6.1. CONSOLIDATED BALANCE SHEET: RECONCILIATION AT 1 JANUARY 2004 - ASSETS -

CONSOLIDATED BALANCE SHEET
Reconciliation at 1 January 2004
Assets

	Data per BOSC 4/1991	Differences	Data per IFRSs	Ref.
Assets				
Cash and Balances with Central Banks	26,490	-	26,490	
Financial Assets Held For Trading	2,040,630	391,342	2,431,972	(a)
Available-for-sale Financial Assets	340,131	38,978	379,109	(b)
Loans and Receivables	5,817,489	(4,480)	5,813,009	(h)
Non-current Assets Held For Sale	1,334	-	1,334	
Investments	813	(687)	126	(d)
Tangible Assets	55,908	69,445	125,353	(c)
Intangible Assets	27	14,237	14,264	(e)
Tax Assets	26,601	18,972	45,573	(f)
Prepayments And Accrued Income	263,988	(256,176)	7,812	(i)
Other Assets	34,923	(8,348)	26,575	
Total Assets	**8,608,334**	**263,283**	**8,871,617**	

6.2. CONSOLIDATED BALANCE SHEET: RECONCILIATION AT 1 JANUARY 2004 - LIABILITIES AND EQUITY -

CONSOLIDATED BALANCE SHEET
Reconciliation at 1 January 2004
LIABILITIES AND EQUITY

	Data per BOSC 4/1991	Differences	Data per IFRSs	Ref.
Liabilities				
Financial Liabilities Held for Trading	969,609	415,763	1,385,372	(a)
Financial Liabilities at Amortised Cost	6,900,629	16,510	6,917,139	
Provisions	50,878	(7,722)	43,156	(g)
Tax Liabilities	-	39,510	39,510	(f)
Accrued Expenses and Deferred Income	281,308	(252,737)	28,571	(i)
Other Liabilities	10,654	(86)	10,568	
Total Liabilities	**8,213,078**	**211,238**	**8,424,316**	
Equity				
Valuation Adjustments	-	11,295	11,295	(b)
Own Funds	395,256	40,750	436,006	
Reserves	365,205	40,750	405,955	
Participation Certificates and Associated Funds	30,051	-	30,051	
Profit attributed to the group	-	-	-	
Total Equity	**395,256**	**52,045**	**447,301**	
Total Liabilities and Equity	**8,608,334**	**263,283**	**8,871,617**	

6.3. CONSOLIDATED BALANCE SHEET: RECONCILIATION AT 31 DECEMBER 2004 - ASSETS -

	Data per BOSC 4/1991	Differences	Data per IFRSs	Ref.
Assets				
Cash and Balances with Central Banks	30,992	-	30,992	
Financial Assets Held for Trading	2,140,478	176,224	2,316,702	(a)
Available-for-Sale Financial Assets	344,621	96,668	441,289	(b)
Loans and Receivables	5,335,687	(2,850)	5,332,837	(h)
Non-Current Assets Held for Sale	1,334	-	1,334	
Investments	936	(797)	139	(d)
Tangible Assets	52,580	68,022	120,602	(c)
Intangible Assets	24	16,137	16,161	(e)
Tax Assets	25,098	16,105	41,203	(f)
Prepayments and Accrued Income	352,429	(348,320)	4,109	(i)
Other Assets	42,491	(12,577)	29,914	
Total Assets	**8,326,670**	**8,612**	**8,335,282**	

6.4. CONSOLIDATED BALANCE SHEET: RECONCILIATION AT 31 DECEMBER 2004 - LIABILITIES AND EQUITY -

CONSOLIDATED BALANCE SHEET
Reconciliation at 31 December 2004
LIABILITIES AND EQUITY

	Data per BOSC 4/1991	Differences	Data per IFRSs	Ref.
Liabilities				
Financial Liabilities Held For Trading	780,158	185,264	965,422	(a)
Financial Liabilities at Amortised Cost	6,685,237	9,916	6,695,153	
Provisions	41,486	(4,307)	37,179	(g)
Tax Liabilities	-	64,630	64,630	(f)
Accrued Expenses and Deferred Income	378,238	(350,498)	27,740	(i)
Other Liabilities	22,950	-	22,950	
Total Liabilities	**7,908,069**	**(94,995)**	**7,813,074**	
Equity				
Valuation Adjustments	-	50,053	50,053	(b)
Own Funds	418,601	53,554	472,155	
Reserves	358,647	41,099	399,746	
Participation Certificates and Associated Funds	30,051	-	30,051	
Profit Attributed to the Group	29,903	12,455	42,358	
Total Equity	**418,601**	**103,607**	**522,208**	
Total Liabilities and Equity	**8,326,670**	**8,612**	**8,335,282**	

6. 5. CONSOLIDATED INCOME STATEMENT: RECONCILIATION OF THE 2004 INCOME STATEMENT

CONSOLIDATED INCOME STATEMENT

	Data per BOSC 4/1991	Differences	Data per IFRSs	Ref.
Interest and Similar Income	194,433	793	195,226	
Interest Expense and Similar Charges	(165,548)	1,443	(164,105)	
Income from Equity Instruments	5,002	(350)	4,652	
Net Interest Income	**33,887**	**1,886**	**35,773**	
Share of Results of Entities Accounted for Using the Equity Method	93	(93)	-	(d)
Fee and Commission Income	85,029	-	85,029	
Fee and Commission Expense	(20,583)	-	(20,583)	
Gains/losses on Financial Assets and Liabilities (Net)	8,872	10,965	19,837	(a)
Exchange Differences (Net)	14,394	(185)	14,209	
Gross Income	**121,692**	**12,573**	**134,265**	
Other Operating Income	67,718	3,609	71,327	(d) (e)
Personnel Expenses	(61,334)	-	(61,334)	
Other General Administrative Expenses	(71,845)	(459)	(72,304)	(d)
Depreciation And Amortisation	(6,578)	(2,469)	(9,047)	(c) (e)
Other Operating Expenses	(524)	-	(524)	
Net Operating Income	**49,129**	**13,254**	**62,383**	
Impairment Losses (Net)	2,452	(3,036)	(584)	(h)
Provisions (Net)	(228)	217	(11)	
Other Gains	2,276	85	2,361	
Other Losses	(10,722)	8,945	(1,777)	
Profit Before Tax	**42,907**	**19,465**	**62,372**	
Income Tax	(13,004)	(7,010)	(20,014)	(f)
Mandatory Transfer To Welfare Funds	-	-	-	
Profit From Ordinary Activities	**29,903**	**12,455**	**42,358**	
Profit/loss from Discontinued Operations (Net)	-	-	-	
Consolidated Profit for the Year	**29,903**	**12,455**	**42,358**	
Profit Attributed to Minority Interests	-	-	-	
Profit Attributed To The Group	**29,903**	**12,455**	**42,358**	

a) *Derivative transactions*

Following the entry into force of IFRSs, all derivatives must be measured and recognised in the balance sheet at fair value determined, wherever possible, by reference to their market value. As a general rule, any changes in this fair value should be recognised in the income statement.

b) *Available-for-sale financial assets*

The portfolio included under this item is substantially similar to the available-for-sale portfolio under Spanish GAAP. The basic difference in its treatment, in relation to the previous standards, is that any increases or decreases in the fair value of the assets classified in this portfolio must be recognised, net of the related tax effect, in the Group's equity under "Valuation Adjustments". When these changes in value materialise, they are recognised in income.

c) *Tangible assets*

With the entry into force of IFRSs, certain tangible asset items were recognised at fair value and, accordingly, this value was used as their attributed cost at 1 January 2004.

d) *Basis of consolidation*

To date, only the financial institutions and the companies representing an extension of the reporting entity's business activity were fully consolidated in the consolidated financial statements of groups of credit institutions. In addition, other subsidiaries engaging in non-financial activities, such as industrial or commercial companies, were accounted for using the equity method.

Under the new accounting standards, all Group subsidiaries are fully consolidated, regardless of their business activity.

e) *Intangible assets*

With the entry into force of IFRSs, certain intangible assets whose recognition was not permitted under the previous standards are initially recognised at acquisition or production cost, provided they meet certain conditions and are subsequently measured at cost less accumulated amortisation.

f) *Tax assets and liabilities*

The differences in these balance sheet items are due to the tax effect arising on the recognition of the adjustments for first-time application of IFRSs.

g) *) Pensions*

With respect to the measurement of defined benefit pension obligations, IFRSs require that the assumptions used be unbiased and mutually compatible and that the market interest rate for high quality assets be used. Also, the actuarial assumptions to be used must comply comply with Spanish legislation published by the Directorate-General of Insurance and Pension Funds (DGSFP). Furthermore, all cumulative actuarial losses at 1 January 2004 were recognised in reserves.

h) *Provisions to credit loss allowances*

The Group has adapted the credit loss allowance to the new standards based on the methodology described in Note 2.6.

i) *Prepayments and accrued income/accrued expenses and deferred income*

The reduction in the balances of these items relates to the inclusion in each balance sheet item of the related accrued interest. .

07 REMUNERATION OF DIRECTORS AND SENIOR EXECUTIVES

7.1. REMUNERATION OF DIRECTORS

The detail of the attendance fees paid to directors in 2005 and 2004, solely in their capacity as Board members of the Confederación is as follows:

Thousands of Euros

	2005	2004
Achirica Martín, José María	4	6
Arvelo Hernández, Álvaro	11	11
Batle Mayol, Pedro	10	11
Beltrán Aparicio, Fernando	9	9
Blesa de la Parra, Miguel	19	14
Egea Krauel, Carlos	22	22
Etxepare Zugasti, Carlos	18	12
Fermoso García, Julio	6	-
Fernández Gayoso, Julio	4	6
Fornesa Ribó, Ricardo	18	16
Franco Lahoz, Amado	10	10
García Falcón, Juan Manuel	10	-
Gimbernat Martí, Aleix	5	-
Herrero Autet, Didac	6	-
Loza Xuriach, José María	9	10
Martín Jiménez, Antonio	7	-
Mata Tarragó, Enric	4	10
Medel Cámara, Braulio	22	20
Medina Ocaña, Jesús	11	10
Méndez López, José Luis	6	4
Navarrete Mora, Luis Pascual	11	2
Olivas Martínez, José Luis	11	9
Ortega Molina, Jesús	-	3
Pagés Font, Ricardo	3	9
Pérez Cano, Alfredo	-	4
Quintás Seoane, Juan Ramón	22	22
Rifa Pujol, Pere	7	-
Ruíz Díez, Santiago	4	8
Sala Bello, Vicente	11	10
Sánchez Rojas, José Manuel	11	-
Sanz Sesma, Miguel	10	7
Spagnolo de la Torre, Fernando	-	8
Todó Rovíra, Adolfo	3	11
Total	**304**	**264**

7.2. REMUNERATION OF SENIOR EXECUTIVES AND OF MEMBERS OF THE BOARD OF DIRECTORS IN THEIR CAPACITY AS CONFEDERACIÓN DIRECTORS

For the purposes of the preparation of these consolidated financial statements, the 17 members of the Management Committee were considered to be senior executives.

The detail of the remuneration earned in 2005 and 2004 at all the consolidated entities by senior executives and by Board members in their capacity as Confederación directors was as follows (in thousands of euros):

Thousands of Euros	Short-Term Remuneration		Post-Employment Benefits		Total	
	2005	2004	2005	2004	2005	2004
	3,845	3,467	325	1,584	4,170	5,051

At 31 December 2005, the vested defined benefit pension rights of the senior executives and Board members in their capacity as Confederación directors amounted to EUR 8,838 thousand.

Also, the post-employment benefits accrued in 2005 for employees who were members of the Confederación's Board of Directors and the vested rights in this connection amounted to EUR 37 thousand and EUR 1,850 thousand, respectively.

08 CASH AND BALANCES WITH CENTRAL BANKS

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Cash	35,808	21,018
Deposits with the Bank of Spain	3,376	9,974
Deposits with other central banks	25,430	-
Valuation adjustments	13	-
	64,627	**30,992**

09 FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

9.1. BREAKDOWN

Following is a detail of the financial assets and liabilities included in this category at 31 December 2005 and 2004:

Thousands of Euros

	Asset Balances		Liability Balances	
	2005	2004	2005	2004
Debt instruments	2,654,574	1,932,731	-	-
Equity instruments	3,145	72,189	-	-
Derivatives traded in organised markets	22	-	96	-
OTC derivatives	1,002,884	311,782	988,214	304,655
Short positions	-	-	1,006,407	660,767
	3,660,625	**2,316,702**	**1,994,717**	**965,422**

9.2 DEBT INSTRUMENTS (ASSETS)

The detail of the balance of this item in the consolidated balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Spanish government debt securities	1,840,957	1,408,702
Foreign government debt securities	304,445	36,673
Issued by official credit institutions	102	28
Issued by other resident credit institutions	56,956	6,036
Issued by other non-resident credit institutions	16,973	21,348
Other resident fixed-income securities	58,740	70,244
Other non-resident fixed-income securities	376,401	389,700
	2,654,574	**1,932,731**

The debt instruments included in "Financial Assets Held for Trading" earned average annual interest of 2.76% in 2005 (3.64% in 2004).

9.3 OTHER EQUITY INSTRUMENTS (ASSETS)

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Shares of listed Spanish credit institutions	89	172
Shares of listed foreign credit institutions	178	1
Shares of listed Spanish companies	2,673	71,035
Shares of listed foreign companies	205	981
	3,145	**72,189**

9.4 TRADING DERIVATIVES (ASSETS AND LIABILITIES)

Following is a breakdown by type of inherent 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 relating to these derivatives are calculated) at 31 December 2005 and 2004:

Thousands of Euros

	2005			2004		
	Fair Value			Fair Value		
	Balance Receivable	Balance Payable	Notional Amount	Balance Receivable	Balance Payable	Notional Amount
Interest rate risk	876,528	885,044	102,660,825	304,236	294,376	64,688,099
Exchange risk	110,814	87,792	4,502,116	1,439	3,921	3,275,578
Share price risk	15,564	15,474	385,609	6,107	6,358	539,056
	1,002,906	**988,310**	**107,548,550**	**311,782**	**304,655**	**68,502,733**

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

9.5 SHORT POSITIONS

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Classification:		
Borrowed securities-		
Equity instruments	425	70,215
Short sales-		
Debt instruments	1,005,982	590,552
	1,006,407	**660,767**

10 AVAILABLE-FOR-SALE FINANCIAL ASSETS

10.1 BREAKDOWN

The detail of the financial assets included in this item at 31 December 2005 and 2004 is as follows:

10.2 DEBT INSTRUMENTS

The detail, by type, of the balances of this item on the asset side of the balance sheet is as follows:

The debt instruments included in "Available-for-Sale Financial Assets" earned average annual interest of 4.57% in 2005 (4.76% in 2004).

At 31 December 2005 and 2004, the Group did not have any individually determined impairment losses on these debt instruments. The changes in the collectively determined impairment losses recognised to cover credit risk in 2004 and 2005 and the cumulative amount of these losses at the beginning and at the end of the year were as follows:

Thousands of Euros

	2005	2004
Balance at beginning of year	1,265	977
Net impairment losses/(reversals) for the year charged (credited) to income	(496)	288
Balance at end of year	**769**	**1,265**

10.3 EQUITY INSTRUMENTS

The breakdown, by type, of the balances of this item on the asset side of the balance sheet is as follows:

Thousands of Euros

	2005	2004
Shares of listed Spanish credit institutions	3,529	2,530
Shares of listed foreign credit institutions	430	-
Shares of listed Spanish companies	5,785	14,880
Shares of unlisted Spanish companies	85,681	78,305
Shares of listed foreign companies	3,527	-
Shares of unlisted foreign companies	306	239
	99,258	**95,954**

LOANS AND RECEIVABLES

11.1 BREAKDOWN

The breakdown of the financial assets included in "Loans and Receivables" at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Loans and advances to credit institutions	7,766,861	5,072,075
Loans and advances to customers	158,675	104,436
Debt instruments	15,429	25,714
Other financial assets	207,749	121,366
	8,148,714	**5,323,591**
Valuation adjustments	**15,783**	**9,246**
Of which:		
Impairment losses	(3,976)	(1,265)
Other valuation adjustments	19,759	10,511
	8,164,497	**5,332,837**

The effective interest rate of the debt instruments classified under "Loans and Receivables" at 31 December 2005 and 2004 was 5%.

11.2 LOANS AND ADVANCES TO CREDIT INSTITUTIONS

The breakdown, by geographical location of risk and type of instrument, of the balances of this item in the consolidated balance sheets at 31 December 2005 and 2004, is as follows:

Thousands of Euros

	2005	2004
By geographical location-		
Spain	4,184,431	3,207,251
Other EMU countries	1,983,995	834,657
Rest of the world	1,598,435	1,030,167
	7,766,861	**5,072,075**
By type of instrument-		
Time deposits at credit institutions	3,712,510	3,343,990
Other accounts at credit institutions	738,929	362,213
Reverse repurchase agreements	3,315,422	1,365,872
	7,766,861	**5,072,075**
Valuation adjustments	**17,911**	**10,061**
Of which:		
Impairment losses	(1,313)	(26)
Other valuation adjustments	19,224	10,087
	7,784,772	**5,082,136**

11.3 LOANS AND ADVANCES TO CUSTOMERS

The breakdown, by geographical location of risk, counterparty and type of instrument, of the financial assets included in "Loans and Advances to Customers" at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
By geographical location-		
Spain	97,958	103,579
Other EMU countries	349	505
Rest of the world	60,368	352
	158,675	**104,436**
By counterparty-		
Resident public sector	83	82
Non-resident public sector	2	6
Other resident sectors	97,874	103,497
Other non-resident sectors	60,716	851
	158,675	**104,436**
By type of instrument-		
Reverse repurchase agreements	65,530	38,970
Secured loans	29,822	25,129
Term loans	45,286	36,580
Commercial credit	221	275
Other demand accounts and other	17,816	3,482
	158,675	**104,436**
Valuation adjustments	**(2,130)**	**(817)**
Of which:		
Impairment losses	(2,663)	(1,239)
Other valuation adjustments	533	422
	156,545	**103,619**

Under the most recent collective labour agreement and the additional agreements entered into in 2002 with the Confederación's employees, the loans to employees are documented in contracts or mortgages and are granted for a maximum period of 25 years at interest rates of between 70% and 110% of Euribor (with upper and lower limits for 2005 of 4.5% and 2.25%, respectively).

11.4 OTHER FINANCIAL ASSETS

The breakdown, by type of asset, of the balances of this item in the consolidated balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Cheques drawn on credit institutions	570	14,306
Cash guarantees	111,158	87,893
Unsettled financial transactions	51,464	14,011
Other	44,557	5,156
	207,749	**121,366**

11.5 IMPAIRED ASSETS

Following is a detail of the financial assets classified as loans and receivables and considered to be impaired due to credit risk at 31 December 2005 and 2004, classified by geographical location of risk, counterparty and type of instrument, and by age of the oldest past-due amount:

IMPAIRED ASSETS
at 31 December 2005-
Thousands of Euros

	More than 24 Months	TOTAL
By geographical area-		
Spain	161	161
Rest of the world	15	15
	176	**176**
By counterparty-		
Other resident sectors	161	161
Other non-resident sectors	15	15
	176	**176**
By type of instrument-		
Term loans	28	28
Other demand accounts and other	148	148
	176	**176**

IMPAIRED ASSETS
at 31 December 2004-
Thousands of Euros

	More than 24 Months	TOTAL
By geographical area-		
Spain	167	167
Rest of the world	16	16
	183	**183**
By counterparty-		
Other resident sectors	167	167
Other non-resident sectors	16	16
	183	**183**
By type of instrument-		
Term loans	35	35
Other demand accounts and other	148	148
	183	**183**

The changes in 2005 and 2004 in "Written-Off Assets" –impaired Group financial assets that are not recognised in the consolidated balance sheet because the possibility of their recovery is deemed to be remote, even though the Group has not discontinued its efforts to recover the amounts owed– were as follows:

Thousands of Euros

	2005	2004
Balance at beginning of year	647	647
Recoveries	(2)	-
Balance at end of year	**645**	**647**

11.6 CREDIT RISK COVERAGE

The changes in 2005 in the impairment losses recognised to cover credit risk and the cumulative amount thereof at the beginning and end of the year, broken down by geographical location of risk, counterparty and type of debt instrument classified under "Loans and Receivables", were as follows:

IMPAIRMENT LOSSES DETERMINED INDIVIDUALLY
Thousands of Euros

	Balance at 1 January 2005	Net Impairment Losses (Reversals) Charged (Credited) to Income	Other Changes	Balance at 31 December 2005
By geographical area-				
Spain	167	(12)	6	161
Rest of the world	16	(3)	2	15
	183	**(15)**	**8**	**176**
By counterparty-				
Other resident sectors	167	(12)	6	161
Other non-resident sectors	16	(3)	2	15
	183	**(15)**	**8**	**176**
By type of instrument-				
Term loans	35	(7)	-	28
Other demand accounts and other	148	(8)	8	148
	183	**(15)**	**8**	**176**

IMPAIRMENT LOSSES DETERMINED COLLECTIVELY
Thousands of Euros

	Balance at 1 January 2005	Net Impairment Losses (Reversals) Charged (Credited) to Income	Balance at 31 December 2005
By geographical area-			
Spain	1,055	82	1,137
Rest of the world	27	2,636	2,663
	1,082	**2,718**	**3,800**
By counterparty-			
Credit institutions	26	1,287	1,313
Other resident sectors	1,055	82	1,137
Other non-resident sectors	1	1,349	1,350
	1.082	**2,718**	**3,800**
By type of instrument-			
Term loans	648	(127)	521
Other demand accounts and other	220	172	392
Time deposits at credit institutions	26	1,287	1,313
Reverse repurchase agreements	-	1,350	1,350
Secured loans	188	36	224
	1,082	**2,718**	**3,800**

12

TANGIBLE ASSETS

The changes in "Tangible Assets" in the consolidated balance sheet in 2005 were as follows:

TANGIBLE ASSETS
Thousands of Euros

	For Own Use				
	Land and Buildings	Furniture, Fixtures and Vehicles	Computer Hardware and Related Fixtures	Assigned to Welfare Projects (Note 23)	Total
Revalued cost-					
Balance at 1 January 2005	**127,481**	**38,464**	**43,906**	**976**	**210,827**
Additions	-	1,340	1,515	-	2,855
Disposals	(1,838)	(1,178)	(83)	-	(3,099)
Exchange differences and other	24	4	2	-	30
Balance at 31 December 2005	**125,667**	**38,630**	**45,340**	**976**	**210,613**
Accumulated depreciation-					
Balance at 1 January 2005	**(19,876)**	**(31,268)**	**(38,416)**	**(665)**	**(90,225)**
Additions	(2,727)	(1,661)	(2,820)	(9)	(7,217)
Disposals	543	1,178	83	-	1,804
Exchange differences and other	(5)	(1)	(2)	-	(8)
Balance at 31 December 2005	**(22,065)**	**(31,752)**	**(41,155)**	**(674)**	**(95,646)**
Net balance at 1 January 2005	**107,605**	**7,196**	**5,490**	**311**	**120,602**
Net balance at 31 December 2005	**103,602**	**6,878**	**4,185**	**302**	**114,967**

At 31 December 2005, tangible assets for own use totalling (gross) approximately EUR 63,156 thousand (EUR 59,043 thousand at 31 December 2004) had been fully depreciated.

13 INTANGIBLE ASSETS

13.1 OTHER INTANGIBLE ASSETS

The balance of this item relates in full to computer software, developed mainly by the Confederación, which is amortised on the basis of its estimated useful life over a period of three to five years.

The breakdown of the balances of "Other Intangible Assets" in the consolidated balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Intangible assets with finite useful life	21,198	17,754
Less:		
Accumulated amortisation	(6,514)	(1,593)
Impairment losses	-	-
Total, net	**14,684**	**16,161**

The changes in the balances of this item in the consolidated balance sheet in 2005 were as follows:

Thousands of Euros

Cost-	
Balance at 1 January 2005	17.754
Other additions	3.444
Balance at 31 December 2005	**21.198**
Accumulated amortisation-	
Balance at 1 January 2005	(1.593)
Charge for the year recognised in income	(4.921)
Balance at 31 December 2005	**(6.514)**

14

PREPAYMENTS AND ACCRUED INCOME AND ACCRUED EXPENSES AND DEFERRED INCOME

The breakdown of the balances of these items in the balance sheets is as follows:

Thousands of Euros

	2005	2004
Assets-		
Fees and commissions receivable	5,849	3,179
Prepayments	149	125
Other prepayments and accrued income	942	805
	6,940	**4,109**
Liabilities-		
Accrued expenses	24,774	20,623
Other accrued expenses and deferred income	1,497	7,117
	26,271	**27,740**

15 OTHER ASSETS AND OTHER LIABILITIES

The breakdown of the balances of these items in the balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Assets-		
Transactions in transit	6,284	16,933
Other	11,712	12,981
	17,996	**29,914**
Liabilities-		
Transactions in transit	49,590	22,285
Other	233	155
	49,823	**22,440**

The balance of "Other Liabilities – Transactions in Transit" includes EUR 41,583 thousand (EUR 504 thousand at 31 December 2004) relating to remittances of cheques received and not yet charged. The related balances are transitory and are settled on the first business day following the date on which they arise.

16

FINANCIAL LIABILITIES AT AMORTISED COST

16.1 BREAKDOWN

The detail of the items composing the balances of "Financial Liabilities at Amortised Cost" in the accompanying consolidated balance sheets is as follows:

Thousands of Euros

	2005	2004
Deposits from central banks	85,082	-
Deposits from credit institutions	5,320,285	3,510,285
Money market operations	10,251	191,487
Customer deposits	3,480,971	2,624,839
Other financial liabilities	837,012	358,042
	9,733,601	**6,684,653**
Valuation adjustments	16,105	10,500
	9,749,706	**6,695,153**

16.2 DEPOSITS FROM CREDIT INSTITUTIONS

The breakdown, by geographical area and type of instrument, of the balances of this item in the consolidated balance sheets at 31 December 2005 and 2004 is as follows::

Thousands of Euros

	2005	2004
By geographical area-		
Spain	4,347,213	2,776,325
Other EMU countries	499,499	367,997
Rest of the world	473,573	365,963
	5,320,285	**3,510,285**
By type of instrument-		
Demand deposits:		
Other accounts	1,030,847	700,422
Time deposits:		
Time deposits	2,332,957	1,442,516
Repurchase agreements	1,956,481	1,367,347
	5,320,285	**3,510,285**
Valuation adjustments	8,328	4,246
	5,328.613	**3,514,531**

16.3 CUSTOMER DEPOSITS

The breakdown, by geographical area, type of instrument and counterparty, of the balances of this item in the consolidated balance sheets at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
By geographical area-		
Spain	3,118,328	2,359,752
Other EMU countries	51,944	22,812
Rest of the world	310,699	242,275
	3,480,971	**2,624,839**
By counterparty-		
Resident public sector	749,759	230,680
Non-resident public sector	2,952	3,192
Other resident sectors	2,368,568	2,129,050
Other non-resident sectors	359,692	261,917
	3,480,971	**2,624,839**
By type of instrument-		
Current accounts	1,407,304	895,155
Other demand deposits	14,462	10,671
Fixed-term deposits	852,157	1,004,605
Repurchase agreements	1,207,048	714,408
	3,480,971	**2,624,839**
Valuation adjustments	7,622	6,254
	3,488,593	**2,631,093**

16.4 OTHER FINANCIAL LIABILITIES

The breakdown of the balances of "Other Financial Liabilities" in the balance sheets at 31 December 2005 and 2004 is as follows:

(Miles de euros)

	2005	2004
Obligations payable	8,344	5,115
Collateral received	275	275
Tax collection accounts	12,027	7,431
Special accounts	38,528	479
Other items	777,838	344,742
	837,012	**358,042**

The balance of "Other Items" includes EUR 531,971 thousand (EUR 306,262 thousand at 31 December 2004) relating to items arising from the operating procedures for interbank transfers settled through the Spanish National Electronic Clearing System, which certain federated member savings banks centralise through the Confederación. These items are transitory and are settled on the first business day following the date on which they arise.

17 PROVISIONS

The changes in 2005 and the purpose of the provisions recognised under this item in the consolidated balance sheets at 31 December 2005 and 2004 were as follows:

17.1 PROVISIONS FOR PENSIONS AND SIMILAR OBLIGATIONS

The changes in 2005 in "Provisions for Pensions and Similar Obligations" were as follows:

Thousands of Euros

Balance at 1 January 2005	25,702
Finance expense allocable to the provision (Note 26)	663
Payments to early retirees and contributions to the pension plan	(5,416)
Balance at 31 December 2005	**20,949**

Of the amount at 31 December 2005, EUR 7,000 thousand relate to a retirement fund that had not yet been transferred to the external pension fund at that date, as indicated in Note 2.8.1.

17.2 PROVISIONS FOR CONTINGENT LIABILITIES AND COMMITMENTS AND OTHER PROVISIONS

The changes in 2005 and the purpose of the provisions recognised under these items in the consolidated balance sheets at 31 December 2005 and 2004 were as follows:

Thousands of Euros

	Provisions for Contingent Liabilities and Commitments (Note 2.7)	Other Provisions	TOTAL
Balances at 1 January 2005	11	11,466	11,477
Net additions (reversals) charged (credited) to income	(4)	(1,128)	(1,132)
Other changes	-	176	176
Balances at 31 December 2005	**7**	**10,514**	**10,521**

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

18 VALUATION ADJUSTMENTS

18.1 AVAILABLE-FOR-SALE FINANCIAL ASSETS-

This item in the consolidated balance sheets includes the net amount of changes in the fair value of assets classified as available-for-sale assets 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 investments become impaired. The consolidated statement of changes of equity shows the changes in 2005 and 2004 in this item in the consolidated balance sheets.

19 OWN FUNDS

The changes in 2005 and 2004 in the items composing "Own Funds" were as follows:

Thousands of Euros

	Endowment Fund	Accumulated Reserves	Profit for the Year	Reserves (Losses) of Entities Accounted for using the Equity Method	Total
Balances at 1 January 2004	30,051	377,215	28,717	23	436,006
Appropriation of profit for 2003:					
Transfer to welfare fund			(3,924)	-	(3,924)
Return on participation certificates	-		(2,315)	-	(2,315)
Distribution to reserves		22,478	(22,478)		
Other changes	-	18	-	12	30
Profit for 2004	-	-	42,358	-	42,358
Balances at 31 December 2004	**30,051**	**399,711**	**42,358**	**35**	**472,155**
Appropriation of profit for 2004:					
Transfer to welfare fund		-	(6,264)	-	(6,264)
Return on participation certificates		-	(2,254)	-	(2,254)
Distribution to reserves	-	33,840	(33,840)		-
Other changes	-	(44)	-	(74)	(118)
Profit for 2005			46,040		46,040
Balances at 31 December 2005	**30,051**	**433,507**	**46,040**	**(39)**	**509,559**
Parent	30,051	431,730	45,048	-	506,829
Subsidiaries	-	709	130	-	839
Jointly controlled entities	-	1,068	865	-	1,933
Associates	-	-	(3)	(39)	(42)

Under Article 39 of its bylaws, the Confederación is required to set aside at least 50% of its surplus for reserves or allowances not allocable to specific assets, and to use the remainder to initiate and continue community welfare projects, either on its own or in cooperation with other parties, and to remunerate participation certificate holders.

19.1 ENDOWMENT FUND

At 31 December 2005, the endowment fund consisted of 5,000 participation certificates of EUR 6,010.12 face value each, fully subscribed and paid by the federated member savings banks. These certificates, which are deemed to be equity, can only be transferred between savings banks.

The return on the participation certificates is proposed by the Board of Directors and approved by the General Assembly of the Confederación (Note 4).

19.2 ACCUMULATED RESERVES

The breakdown of the balance of "Accumulated Reserves" in the accompanying consolidated balance sheets is as follows:

Thousands of Euros

	2005	2004
Reserves attributed to the Confederación:		
Voluntary reserves	377,099	342,942
Revaluation reserves	54,631	55,423
	431,730	398,365
Reserves at subsidiaries and jointly controlled entities	1,777	1,346
	433,507	**399,711**

Revaluation reserves

In 1996 the Confederación revalued its tangible assets pursuant to Royal Decree-Law 7/1996, of 7 June. The revaluation surplus amounted to EUR 11,798 thousand, of which EUR 11,444 thousand was credited, after deducting the single 3% tax of EUR 354 thousand, to "Revaluation Reserves" in the balance sheet. In 1998 the portion of the revaluation reserve relating to tangible assets assigned to welfare projects (EUR 222 thousand) was transferred to the welfare fund.

Since the three-year period for review by the tax authorities has expired, the balance of this reserve can be used, free of tax, to offset accounting losses which might arise in the future. From 1 January 2007, the balance of this account can be taken to unrestricted reserves, provided that the monetary surplus has been realised. The surplus will be deemed to have been realised in respect of the portion on which depreciation has been taken for accounting purposes or when the revalued assets have been transferred or derecognised. If this balance were used in a manner other than that provided for in Royal Decree-Law 7/1996, of 7 June, it would be subject to tax.

Additionally, the balance of "Revaluation Reserves" in the foregoing table includes the net reserves that arose on the revaluation of certain tangible assets on the date of entry into force of IFRSs (1 January 2004), which amounted to EUR 43,409 thousand at 31 December 2005 (EUR 44,201 thousand at 31 December 2004).

20 TAX MATTERS

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

20.1 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. The Group entities generally have all the years since 2001 open for review for all the taxes to which their business activities are subject.

Because of the possible different interpretations which can be made of the tax regulations, the outcome of future reviews of the open years by the taxation authorities might give rise to tax liabilities which cannot be objectively quantified at present. However, the Group's tax advisers and directors consider that the possibility of material liabilities arising in this connection additional to those already recognised is remote.

20.2 RECONCILIATION OF ACCOUNTING PROFIT TO TAXABLE PROFIT

The reconciliation of the income tax expense calculated on the basis of accounting profit to the income tax expense recognised in the income statement and to the amount payable for this tax is as follows:

(Miles de euros)

	2004
Profit for the year before tax	61,178
Net decreases due to permanent differences	(6,563)
Adjusted accounting profit	**54,615**
Income tax at 35%	19,115
Tax credits and tax relief	(3,187)
Prior years' adjustments	(790)
Corporation tax expense	**15,138**
Net effect of temporary differences	2,205
Tax withholdings and prepayments	(12,469)
Income tax payable	**4,874**

The permanent net decreases in the income tax base in the foregoing table include, among other items, the deduction of EUR 4,190 thousand for the amounts the Confederación assigns to welfare projects.

In 2005 the Confederación availed itself of the tax credit for reinvestment of extraordinary income stipulated in Article 42 of the Consolidated Corporation Tax Law. This tax credit was taken with respect to the gain on the transfer of non-current assets. The gain qualifying for the tax credit amounted to EUR 4,196 thousand and the tax credit amounted to EUR 839 thousand. The proceeds obtained on the transfer of the assets, which totalled EUR 5,834 thousand, was reinvested by the Confederación in 2005 in various eligible assets. The Confederación has undertaken to retain these assets for the legally established period.

20.3 TAX RECOGNISED IN EQUITY

In addition to the income tax recognised in the consolidated income statements, in 2005 and 2004 the Group recognised the following amounts in consolidated equity:

Thousands of Euros

	2005	2004
Income (expenses) recognised directly in equity relating to the available-for-sale debt securities portfolio	934	(165)
Expenses recognised directly in equity relating to the available-for-sale equity instruments portfolio	(2,088)	(20,705)
	(1,154)	**(20,870)**

20.4 DEFERRED TAXES

Pursuant to the tax legislation in force, in 2005 and 2004 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 2005 and 2004 were as follows:

Thousands of Euros

	2005	2004
Deferred Tax Assets:		
Deferred tax assets arising from timing differences in the recognition of income and expenses for accounting and tax purposes:		
Additions and contributions to pension provisions and funds	25.922	29,333
Period provisions	2,876	3,395
Impairment losses on loans and receivables	996	996
Available-for-sale equity instruments portfolio	32	72
Available-for-sale debt instruments portfolio	-	81
Other items	1,798	6,373
	31,624	**40,250**

Thousands of Euros

	2005	2004
Deferred Tax Liabilities:		
Deferred tax liabilities arising from timing differences in the recognition of income and expenses for accounting and tax purposes:		
Revaluation of property	23,374	23,800
Capitalisation of intangible assets	3,701	4,300
Available-for-sale equity instruments portfolio	22,745	20,843
Available-for-sale debt instruments portfolio	5,393	6,408
Other items	-	9,279
	55,213	**64,630**

As part of the process of adapting the 2004 financial statements to IFRSs, for comparison purposes the Group revalued six properties, resulting in a surplus of EUR 69,222 thousand, the detail of which was submitted to the Bank of Spain. This revaluation gave rise to a credit to reserves of EUR 44,994 thousand and an increase in deferred tax liabilities of EUR 24,228 thousand, which will be included in taxable profit as the properties are depreciated or, in the case of land, on the date of the sale thereof. In 2005 and 2004, as a result of the depreciation of these properties, EUR 792 thousand and EUR 793 thousand, respectively, were reclassified from "Revaluation Reserves" to "Other Reserves", with the related decreases in deferred taxes of EUR 426 thousand and EUR 427 thousand.

21 FAIR VALUE

21.1 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT RECOGNISED AT FAIR VALUE

Since these financial assets and liabilities bear interest at fixed or floating rates maturing in less than one year, the fair value of the financial assets and liabilities is basically the same as their carrying amount.

21.2 FAIR VALUE OF TANGIBLE ASSETS

Since the tangible assets were revalued on first-time application of IFRSs at 1 January 2004, the carrying amount is an adequate estimate of their fair value.

22 RISK MANAGEMENT

Pursuant to current legislation, the Confederación's Board of Directors designated the Asset-Liability Committee (ALCO) as the body responsible for reporting, managing, monitoring and controlling the Entity's risk exposure.

Accordingly, the ALCO's general objectives and policies include, inter alia, the following:

- To monitor and analyse the Entity's balance sheet and to assess the risk implicit in its structure, based on monetary, economic and exchange variables, in accordance with the policies issued by the Board of Directors.

- To inform the Board of Directors on the monitoring of the risk assumption policies adopted by the Entity, based on current market trends and conditions.

- To measure the risks arising from the projected performance of the balance sheet figures and, consequently, to evaluate the influence thereof on the Entity's net interest income.

- To establish the Entity's credit, market (interest rate, currency and price) and liquidity risk management, monitoring and control procedures approved by its Board of Directors.

- To issue general policies as part of the Entity's risk assumption policy relating to all its credit, market (interest rate, currency and price) and balance-sheet liquidity risks.

The ALCO is responsible for executing the policies established by the Board of Directors regarding both products and activities, for directing the reporting, management, monitoring and control of the Entity's risk exposure, and for specifying its responsibilities within the scope of the aforementioned objectives.

In order to achieve the above-mentioned objectives, the ALCO created the following committees as support units:

Credit Risk Committee

The purpose of the Credit Risk Committee is the prior analysis of the credit risk requirements of each of the Entity's units, and it supplies the ALCO with the core information required for final decision making.

Functions:

- Analysis of and agreement on the credit risk reports presented at the request of the competent departments.

- Establishment of the maximum credit risk exposure and the related credit lines, even for entities whose weighting coefficients are zero.

- Review of the counterparties with authorised credit lines.

- Ratification of any overrun previously authorised by management.

- Ratification of any decision taken in the period between Committee meetings concerning the reduction or suspension of previously authorised lines.

- Ratification of any action within its scope of powers.

- Approval of risks arising from transactions involving currency, interest rate or price risk proposed by non-financial entities, excluding transactions involving principal risk, for which the express authorisation of the Board of Directors is required.

- Also, any member of the Credit Risk Committee is obliged to communicate any development which, in view of the importance thereof, must be circulated to the members of the Committee and the ALCO.

Finance Committee

The Finance Committee performs ordinary market risk management tasks in accordance with the policy approved by the Board of Directors and the guidelines issued by the ALCO, and furnishes the ALCO and, where appropriate, the Entity's Loan Committee, with the information required to make decisions affecting said policy and guidelines. In this connection, the Finance Committee is responsible for managing and monitoring investments of own funds, customer funds and the balances of various items in the Entity's balance sheet, and for providing the ALCO with the relevant information.

Reporting to the Loan Committee

Every four months, or more frequently if market conditions or the Entity's situation so require, the ALCO reports to the Loan Committee, which analyses the investment and risk assumption policy and submits it to the Board of Directors for approval.

Set forth below are the various risks assumed as a result of the financial activity carried on by the Confederación:

22.1 CREDIT RISK

Credit risk is the risk of loss as a result of non-compliance by the counterparty with its contractual obligations. The main types of credit risk are as follows:

Principal risk: the risk of non-payment of the principal delivered.

Replacement cost or counterparty risk: this relates to the counterparty's capacity and intention to meet its contractual obligations on maturity. Credit risk exists throughout the life of the transaction, but it can vary from one day to the next due to the settlement mechanisms involved and to changes in the market value of transactions. Total credit risk exposure to a counterparty must include the cost of replacing unmatured transactions at current market prices and can be managed by compensation agreements (netting or novation).

Replacement cost or counterparty risk is asymmetric and limited, the latter attribute being understood in the sense that 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's perception of the issuer's economic and financial strength.

Liquidation or delivery risk: the risk that one of the parties to the transaction is liquidated and the agreed-upon consideration is not received.

Entity Policies:

The Entity's credit risk policies are based on a single limit per counterparty and a weighted utilisation of the limit for each product arranged. These criteria enable the optimisation of the usage of the authorised credit lines and should lead to a reduction in the initially authorised exposure levels.

Risk is measured in euros at market prices, plus certain add-ons which measure potential risk. The Confederación uses the add-ons defined by the Bank of Spain.

22.2 MARKET RISK OF TRADING ACTIVITIES

This is understood to be the sensitivity of the value of the financial instruments or portfolios to changes in market conditions and the volatility thereof. This concept includes exchange, interest rate, security price and commodity price risk.

Entity policies

In 2005 the Confederación replaced its existing market risk measurement system (developed internally by the Entity) with a VaR-based system which, incorporating risk diversification and correlation criteria, will necessarily lead to a reduction in the risk limits authorised by the Board of Directors (as compared with those under the previous system). Accordingly, in July 2005 the Board of Directors approved a new exposure limit of EUR 4,000,000.

Value at Risk (VaR), the standard used by the market, summarises in aggregate form the exposure to market risk arising from trading activities. It measures the maximum potential loss in market value which, in normal conditions, might arise from a certain position or portfolio for a predetermined degree of statistical certainty (a confidence level of 99%) and a defined time horizon (one day).

CECA uses parametric VaR methodology based on statistical assumptions of normality in the probability distribution of changes in risk factors. Asset volatilities and correlations are calculated on the basis of historical series of market prices and, combined with the assumption of the probability distribution of changes, make it possible to estimate the potential change in a position. For this purpose, the market risk factors are identified, the sensitivity of the positions or portfolios to each factor is calculated, and the related volatilities and correlations are applied to the probability distributions arising from historical observations of each risk factor.

VaR SITUATION
at 31 December 2005 (1)
Thousands of Euros

Total	**1,039**
Interest rate	1,044
Exchange rate	127
Share price	6
Exchange rate volatility	2
Interest rate volatility	10

(1) 2004 figures are not shown, since they are not comparable due to the aforementioned system change.

22.3 STRUCTURAL RISK

Structural risk reflects the potential loss or sensitivity of net interest income and the market value of own funds to interest rate changes. Structural risk management (ALM) can be defined as an ongoing adjustment of the asset and liability sides of the balance sheet with a view to maintaining reasonable returns, minimising interest rate risk, and attaining adequate liquidity.

The ALCO is responsible for analysing the interest rate risk data relating to the Confederación's balance sheet, identifying the weaknesses or problems which might have a negative impact on the Entity's financial situation and, where appropriate, adopting the appropriate corrective measures.

In order to perform this analysis, the Confederación uses the ProfitMaster tool to obtain the following information:

- Classification of balance-sheet items to identify interest-rate-sensitive balances.
- Gain or loss resulting from comparing the market value of interest-rate-sensitive balances and their carrying amounts.
- Changes in this gain or loss, by simulating interest rate fluctuations based on existing volatility.
- GAP analysis of balances sensitive to interest rate changes.

GAP ANALYSIS OF BALANCES SENSITIVE TO INTEREST RATE CHANGES
(31 december 2005)
Thousands of Euros

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	More than 10 Years
Assets	2,955,876	1,547,104	806,614	1,112,691	1,171,985	410,715	605,031	137,163
Liabilities	6,414,903	454,414	178,431	294,865	437,699	254,322	804,727	101,848
Total Balance-sheet GAP	**-3,459,027**	**1,092,690**	**628,183**	**817,826**	**734,286**	**156,393**	**-199,696**	**35,315**
Off-Balance-sheet GAP	1,757,409	107,990	-1,014,710	-850,539	-882,217	199,663	387,978	228,041
TOTAL GAP	**-1,701,618**	**1,200,680**	**-386,527**	**-32,713**	**-147,931**	**356,056**	**188,282**	**263,356**

GAP ANALYSIS OF BALANCES SENSITIVE TO INTEREST RATE CHANGES
(31 december 2004)
Thousands of Euros

	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	More than 10 Years
Assets	3,352,974	706,560	376,572	535,551	1,292.157	347,863	519,988	75,736
Liabilities	4,579,138	384,835	274.083	114,104	359,648	158,940	724,434	95,924
Total Balance-sheet GAP	**-1,226,164**	**321,725**	**102,489**	**421,447**	**932,509**	**188,923**	**-204,446**	**-20,188**
Off-Balance-sheet GAP	917,275	1,673,490	-1,510,721	-556,845	-798,211	-43,030	211,951	54,909
TOTAL GAP	**-308,889**	**1,995,215**	**-1,408,232**	**-135.398**	**134,298**	**145,893**	**7,505**	**34,721**

22.4 LIQUIDITY RISK

Financing liquidity risk is the risk that can arise from timing mismatches between cash flows and unforeseen requirements.

The action plan to prevent any liquidity problems that might arise in the markets is that approved by the Board of Directors on 18 October 1995 (Liquidity Contingency Plan).

The ALCO's functions include the establishment, for preventative purposes, of the maximum positions to be held by the Entity, both generally and with respect to specific portfolios (trading, investment, currency, etc.), and the development of all manner of contingency scenarios and the related alternative actions.

CECA monitors liquidity risk using the maturity gap technique. The maturity gap shows the positive or negative differences between the assets and liabilities maturing at various specified terms, both individually for each term and on a cumulative basis for all the terms.

Additionally, in order to facilitate the actions that may be required in the event of liquidity problems, the Entity:

- Adopts a policy of arranging standby facilities that are especially designed for use, or which can only be used, at times of market illiquidity. Given the cost of these facilities, they are only arranged when the market trends so advise.

  Although, logically, these standby facilities are arranged mainly with savings banks, CECA does not rule out the possibility of arranging them with other entities in order to diversify its sources of financing.

  In general, it is deemed sufficient to cover 25% of financing requirements with standby facilities, taking as a reference the cash flow statistics provided by the model at the development stage.

  Wherever possible, the standby facilities will be established reciprocally with a view to avoiding the commissions charged thereon.

- Establishes in the event that illiquidity affects only one segment of the market or one currency, the mechanisms required to enable it to use arbitrage techniques to immediately switch from one market to another or from one currency to another through various instruments, such as currency swaps or the more traditional FX swaps.

23

WELFARE FUND

Confederación Española de Cajas de Ahorros, within the framework of its welfare fund, 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
- 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

The detail of the items in the consolidated balance sheet that include the assets and liabilities assigned to the Confederación's welfare projects and of the related balances at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Transfers not invested and earmarked for non-current assets	391	199
Transfers invested in property (Note 12)	302	311
	693	**510**

The detail of the changes in 2005 and 2004 in "Other Liabilities - Welfare Fund" in the foregoing table is as follows:

Thousands of Euros

	2005	2004
Beginning balance before distribution of profit	510	606
Transfer charged to prior period profit	6,264	3,924
Maintenance expenses for the year:		
Depreciation/amortisation of assets assigned to welfare projects	(9)	(9)
Budgeted current expenses for the year	(6,072)	(4,011)
Ending balance before distribution of profit	**693**	**510**

These financial statements were prepared prior to the FUNCAS Board of Trustees meeting called for 22 March 2006, at which the budget outturn for 2005 will be presented for approval.

24 OTHER SIGNIFICANT DISCLOSURES

24.1 FINANCIAL GUARANTEES (CONTINGENT LIABILITIES)

Financial guarantees are taken to be the amounts that would be payable by the consolidated entities on behalf of third parties as a result of the commitments assumed by those entities in the course of their ordinary business, if the parties who are originally liable to pay fail to do so.

The breakdown at 31 December 2005 and 2004, based on the maximum risk assumed by the Group in this connection, is as follows:

Thousands of Euros

	2005	2004
Financial bank guarantees	72,296	37,340
Other bank guarantees and indemnities	88,717	44,584
Irrevocable documentary credits	6,205	7,934
	167,218	**89,858**

A significant portion of these amounts will mature without any payment obligation materialising for the consolidated entities, and therefore the aggregate balance of these commitments cannot be considered to be an actual, future need for financing or liquidity to be provided by the Group to third parties.

Income from guarantee instruments is recognised under "Fee and Commission Income - Contingent Liabilities" in the consolidated income statement (Note 29).

The provisions intended to cover 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 (Note 17).

24.2 ASSETS DELIVERED AS SECURITY

At 31 December 2005 and 2004, assets owned by the consolidated entities had been provided as security for transactions performed by them or by third parties, as well as for various liabilities and contingent liabilities assumed by the Group. The carrying amount at 31 December 2005 and 2004 of the Group's financial assets delivered as security for these liabilities, contingent liabilities and similar items was as follows:

Thousands of Euros

	2005	2004
Spanish government debt securities classified as financial assets held for trading	13,000	13,000
Spanish government debt securities classified as available-for-sale financial assets	1,000	1,000
Other securities classified as available-for-sale financial assets	28,803	27,086
Other securities classified as loans and receivables	16,104	27,482
	58,907	**68,568**

At 31 December 2005, the Confederación had securities with a face value of EUR 42,803 thousand (EUR 41,086 thousand at 31 December 2004) tied up at Iberclear, S.A. as security for the performance of the Confederación's obligations relating to operations with the clearing and settlement services; it had also pledged other securities as security for other obligations acquired by various entities.

24.3 CONTINGENT COMMITMENTS

The breakdown of the balances of "Contingent Commitments" at 31 December 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Drawable by third parties:		
Credit institutions	127,166	66,886
Public sector	112,326	112,326
Other resident sectors	486,065	337,890
Non-resident sector	300	-
Regular way financial asset purchase contracts	520,847	395,025
Other contingent commitments	601,352	-
	1.,848,056	**912,127**

24.4 TRANSACTIONS FOR THE ACCOUNT OF THIRD PARTIES

The breakdown of the main items under this heading is as follows:

Thousands of Euros

	2005	2004
Financial instruments entrusted by third parties	111,873,362	88,433,750
Conditional bills and other securities received for collection	461,241	565,879
Borrowed securities	1,602,318	-
	113,936,921	**88,999,629**

24.5 RECLASSIFICATION OF FINANCIAL INSTRUMENTS

In 2005 and 2004 the Group did not reclassify any items in its financial instrument portfolios.

25 INTEREST AND SIMILAR INCOME

The breakdown of the main interest and similar income items earned by the Group in 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Balances with central banks	621	403
Loans and advances to credit institutions	129,958	114,268
Loans and advances to customers-		
Other resident sectors	2.667	4,667
Other non-resident sectors	489	1,626
Debt instruments	79,506	74,262
	213,241	**195,226**

Additionally, the breakdown of the amounts recognised under "Interest and Similar Income" in the consolidated income statements for 2005 and 2004, by type of financial instrument giving rise to them, is as follows:

Thousands of Euros

	2005	2004
Balances with central banks	621	403
Financial assets held for trading	64,507	64,608
Available-for-sale financial assets	13,911	8,109
Loans and receivables	134,202	122,106
	213,241	**195,226**

26 INTEREST EXPENSE AND SIMILAR CHARGES

The breakdown of the balance of "Interest Expense and Similar Charges" in the consolidated income statements for 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Bank of Spain	81	-
Other central banks	1,424	-
Deposits from credit institutions	87,405	82,499
Customer deposits	88,678	80,709
Money market operations	2,381	-
Cost attributable to pension funds (Note 17)	663	876
Other interest	23	21
	180,655	**164,105**

Additionally, the breakdown of the amounts recognised under "Interest Expense and Similar Charges" in the consolidated income statements for 2005 and 2004, by type of financial instrument giving rise to them, is as follows:

Thousands of Euros

	2005	2004
Financial liabilities at amortised cost	179,969	163,208
Other liabilities	686	897
	180,655	**164,105**

27 INCOME FROM EQUITY INSTRUMENTS

The amount recognised under "Income from Equity Instruments" relates in full to dividends on other shares and equity instruments, which totalled EUR 10,373 thousand at 31 December 2005 (EUR 4,652 thousand at 31 December 2004).

28 SHARE OF RESULTS OF ENTITIES ACCOUNTED FOR USING THE EQUITY METHOD

The breakdown, by entity, of the balance of this item in the consolidated income statements for 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Associate-		
Europay España, Sociedad Civil	(3)	-

29

FEE AND COMMISSION INCOME

The breakdown of the fee and commission income earned in 2005 and 2004, by the main items giving rise to it, is as follows:

Thousands of Euros

	2005	2004
Fees and commissions arising from contingent liabilities (Note 24)	536	491
Fees and commissions arising from contingent commitments	44	39
Fees and commissions arising from collection and payment services	53,542	37,396
Fees and commissions arising from securities services	26,645	22,939
Fees and commissions arising from foreign currency and foreign bank note exchange	167	117
Other fees and commissions	7,163	24,047
	88,097	**85,029**

30

FEE AND COMMISSION EXPENSE

The breakdown of the fee and commission expense incurred in 2005 and 2004, by the main items giving rise to it, is as follows:

Thousands of Euros

	2005	2004
Fees and commissions assigned to other entities and correspondents	10,090	11,948
Fee and commission expenses on securities transactions	8,301	7,544
Other fees and commissions	-	1,091
	18,391	**20,583**

31 GAINS/LOSSES ON FINANCIAL ASSETS AND LIABILITIES

The breakdown of the balance of "Gains/Losses on Financial Assets and Liabilities" in the consolidated income statements for 2005 and 2004, by type of financial instrument giving rise to them, is as follows:

Thousands of Euros

	2005	2004
Held for trading	(548)	8,417
Available-for-sale financial assets	2,984	11,427
Loans and receivables	(1)	(7)
	2,435	**19,837**

32 OTHER OPERATING INCOME

The breakdown of the balance of "Other Operating Income" in the consolidated income statements for 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Rental income	814	730
Costs recovered through their inclusion in the cost of intangible assets	2,249	3,137
Income from Confederación membership dues	18,129	18,023
Other income	51,172	49,437
	72,364	**71,327**

The balance of "Income from Confederación Membership Dues" includes the dues collected from federated savings banks under the agreements between the latter and the Confederación (Note 1). The balance of "Other Income" includes various items, most notably the income from the Infocaja project and other projects of the Confederación. The auditor invoiced EUR 640 thousand for professional services provided in these projects for the savings banks through the Confederación.

33 PERSONNEL EXPENSES

The detail of "Personnel Expenses" in the consolidated income statements for 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Wages and salaries	46,971	43,725
Social security costs	8,525	7,803
Contributions to external pension funds (*)	8,034	9,066
Termination benefits	17	-
Training expenses	398	322
Other personnel expenses	372	418
	64,317	**61,334**

(*) Including EUR 5,657 thousand of contributions to the CECA Employee Pension Plan accrued in 2005 (EUR 4,810 thousand in 2004) and EUR 2,377 thousand relating to the total premiums accrued in 2005 for the pension commitments to employees instrumented in insurance policies (EUR 4,256 thousand in 2004).

The average number of employees at the Group in 2005 and 2004, by professional category, including the personnel at the London branch, was as follows:

Number of Employees

	2005	2004
Senior and middle management	216	213
Clerical staff	561	541
Assistants and sundry personnel	26	26
	803	**780**

34 OTHER GENERAL ADMINISTRATIVE EXPENSES

The breakdown of the balance of "Other General Administrative Expenses" in the consolidated income statements for 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Property, fixtures and supplies	4,603	4,419
Information technology	30,865	28,431
Communications	4,797	4,967
Advertising and publicity	875	674
Technical reports	608	325
Surveillance and cash courier services	818	746
Insurance and self-insurance premiums	229	175
Governing and control bodies	931	857
Subcontracted administrative services	5,073	5,363
Levies and taxes	1,141	902
Entertainment and travel expenses	1,704	1,864
Association fees	1,419	1,345
External personnel and operating services	17,030	15,322
Other administrative expenses	4,864	6,914
	74,957	**72,304**

The balance of "External Personnel and Operating Services" includes EUR 118 thousand relating to the fees paid for the audit of the financial statements of the various Group entities; EUR 6 thousand of this amount were billed by auditors other than the Confederación's auditors. Additionally, EUR 115 thousand were paid to the Confederación's auditors mainly for professional audit-related services in connection, inter alia, with the review of the 2005 financial statements prepared in accordance with IFRSs.

35 OTHER OPERATING EXPENSES

The breakdown of the balance of "Other Operating Expenses" in the consolidated income statements for 2005 and 2004 is as follows:

Thousands of Euros

	2005	2004
Contribution to the Deposit Guarantee Fund (Note 1.10)	52	79
Other	596	445
	648	**524**

36 OTHER GAINS AND OTHER LOSSES

The breakdown of the balances of these items in the consolidated income statements for 2005 and 2004 is as follows:

Thousands of Euros

	2005		2004	
	Gains	Losses	Gains	Losses
On disposal of tangible assets	4,538	-	6	2
Other	2,176	494	2,355	1,775
	6,714	**494**	**2,361**	**1,777**

At 31 December 2005, the demand deposits held by the Confederación's senior executives, the members of its Board of Directors and related entities and individuals totalled EUR 624 thousand, and the loans granted to them amounted to EUR 868 thousand. These amounts bore interest of EUR 22 thousand and EUR 12 thousand, which are recognised under "Interest and Similar Income" and "Interest Expense and Similar Charges", respectively, in the consolidated income statement for the year ended 31 December 2005. At this date the Confederación had not provided any guarantees for related parties.

The breakdown of the balances arising from transactions with associates and jointly controlled entities and recognised in the consolidated balance sheets at 31 December 2005 and 2004 and in the consolidated income statements for 2005 and 2004 is as follows:

Appendix I - Subsidiaries included in the Group - 31 December 2005

Entity	Location	Line of Business	Percentage of Ownership			Thousands of Euros Entity Data at 31 December 2005			
			Direct	Indirect	Total	Assets	Liabilities	Equity	Profit/Loss (*)
Caja Activa, S.A	Madrid	IT	99.98	-	99.98	972	900	72	130
CEA Trade Services Limited	Hong Kong	Foreign trade	100	-	100	4	-	4	-

(*) The companies' results for 2005 have not yet been approved by their shareholders at the respective Annual General Meetings.

Appendix II - Jointly controlled entity included in the Group - 31 December 2005

Entity	Location	Line of Business	Percentage of Ownership			Thousands of Euros Entity Data at 31 December 2005			
			Direct	Indirect	Total	Assets	Liabilities	Equity	Profit/Loss (*)
Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A.,	Madrid	Finance	50	-	50	11,476	7,749	3,726	1,730

(*) The company's results for 2005 have not yet been approved by its shareholders at the Annual General Meeting.

Appendix III - Associate included in the Group - 31 December 2005

Entity	Location	Line of Business	Percentage of Ownership			Thousands of Euros Entity Data at 31 December 2005			
			Direct	Indirect	Total	Assets	Liabilities	Equity	Profit/Loss (*)
Europay Sociedad Civil	Madrid	Means of payment	33	-	33	224	32	192	(10)

(*) The company's results for 2005 have not yet been approved by its shareholders at the Annual General Meeting.

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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 38). 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 companies composing, together with the Confederación, the Confederación Española de Cajas de Ahorros Group ("the Group" - Note 1), which consist of the consolidated balance sheet at 31 December 2005, and the related consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity 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 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 documentation supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

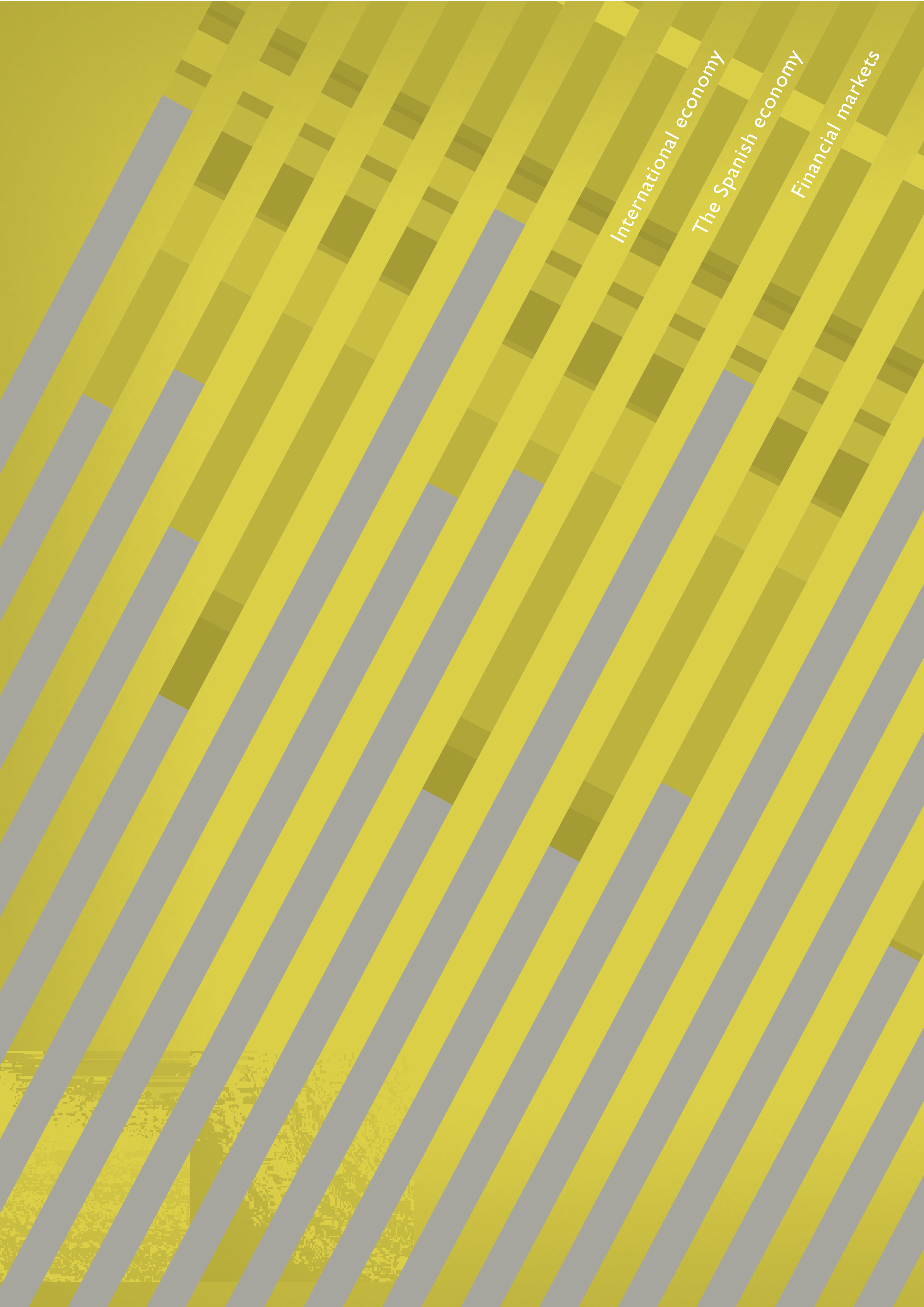
2. As indicated in Note 1 to the accompanying consolidated financial statements, the consolidated financial statements for 2005 are the first that the Group has published. The Confederación, availing itself voluntarily of the provisions of corporate and commercial law, prepared these consolidated financial statements in accordance with International Financial Reporting Standards, as adopted by the European Union (EU-IFRSs), which require, in general, that consolidated financial statements present comparative information. In this regard, as required by corporate and commercial law, for comparison purposes the Confederación's directors present, in addition to the figures for 2005 for each item in the consolidated balance sheet, consolidated income statement, consolidated cash flow statement, consolidated statement of changes in equity and notes to the consolidated financial statements, the figures for 2004, which were prepared by applying the EU-IFRSs in force at 31 December 2005. Our opinion refers only to the consolidated financial statements for 2005.

3. In our opinion, the accompanying consolidated financial statements for 2005 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 2005, 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, which were applied on a basis consistent with that used in the preparation of the financial statements and other information for 2004 which, as indicated in the preceding paragraph, are presented in the accompanying consolidated financial statements for 2005 for comparison purposes only.

4. The accompanying consolidated directors' report for 2005 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 2005. 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 accounting records of the Group entities and associates.

DELOITTE
Registered in ROAC under no. S0692

Miguel Ángel Bailón
16 March 2006


International economy
The Spanish economy
Financial markets

6.1 INTERNATIONAL ECONOMY

The global economy grew strongly in 2005, despite higher oil prices.

The global economy grew strongly in 2005, above its average growth level for the last four decades, although slightly slower than in 2004, demonstrating its enhanced ability to absorb high energy prices. Global expansion was again led by the US and China and boosted by the reinvestment of earnings by oil exporting economies, in addition to the contribution by the sustained recovery in Japan and, in the second half of the year, incipient recovery in the eurozone.

After an exceptional performance in 2004, global trade slowed in 2005 (7%), although trade flows remained intense, particularly in Asia's emerging markets, which confirmed their increasing contribution to trade and the global economy.

GDP GROWTH AND GLOBAL INFLATION

	GDP		Inflation	
	2004	2005	2004	2005
United States	4.2	3.5	2.7	3.4
Japan	2.3	2.8	0.0	-0.3
Eurozone	1.8	1.4	2.1	2.2
Germany	1.1	1.1	1.7	2.0
France	2.1	1.4	2.2	1.7
United Kingdom	3.2	1.8	1.3	2.1
Latin America	5.6	4.5	6.5	5.6
Argentina	9.0	9.1	4.4	9.5
Brazil	4.9	3.5	6.6	6.9
South East Asia	8.2	7.8	4.0	3.9
China	9.5	9.9	3.9	3.0

Source: IMF and national statistics offices

The US economy continued to lead global growth…

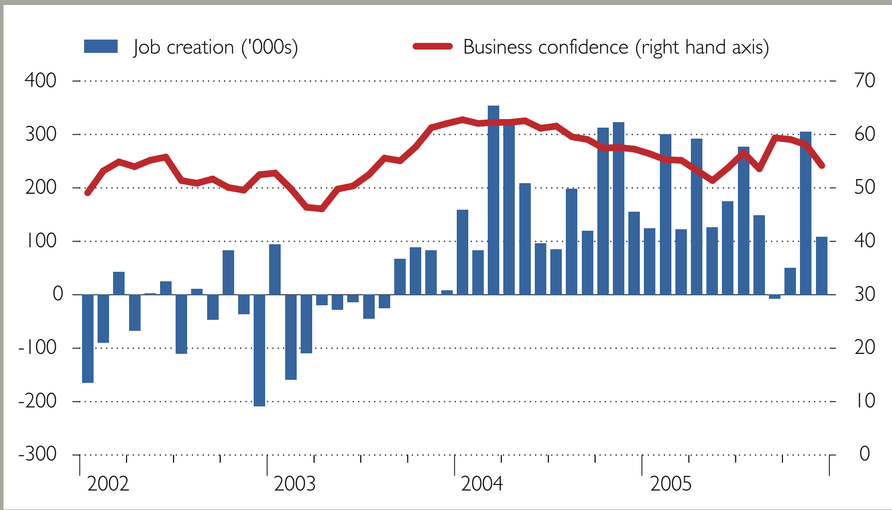
The US economy grew by 3.5% in 2005, despite a significant slowdown in the last quarter as a result of the effects of the hurricanes which devastated the East coast at the end of the summer. Growth was again predicated on dynamic private consumption and on increasing, albeit at a slower rate, capital goods investment and househ old consumption, while the negative contribution by the foreign sector narrowed compared to 2004.

Over two million jobs were created in 2005, an average of 160,000 jobs per month, 10,000 less than in 2004. By sector, job creation remained strong in construction, slowed somewhat in the services sector and was virtually flat in the manufacturing sector. Work productivity also slowed to under 3% for the first time since 2001, contributing to a rate of growth in unit labour costs which was twice that of 2004 (2.4%).

… though it shows a smaller advance in productivity and a new increase in the current account deficit.

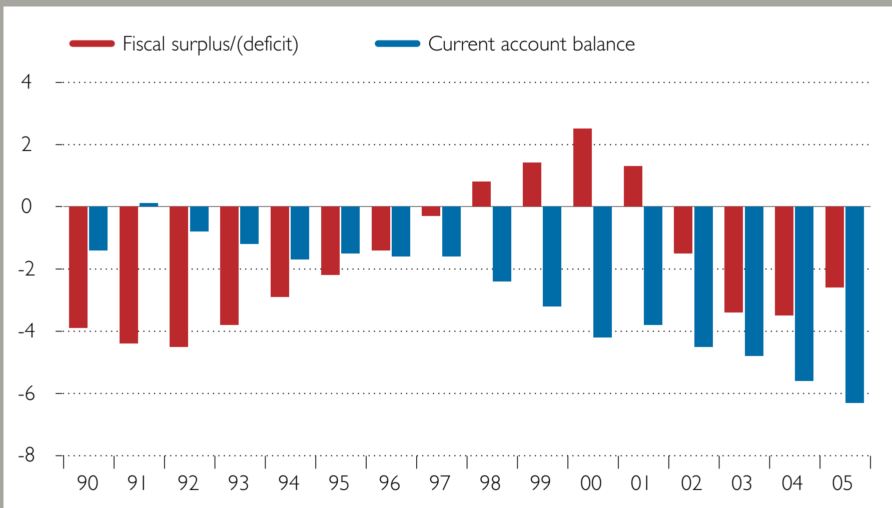
The public deficit was reined in by almost 1 percentage point (p.p.) in 2005 (2.6% of GDP). However, the improvement in the level of public savings as a percentage of GDP and the increase in corporate earnings were more than offset by the decline in domestic savings which at year-end were negative in terms of disposable income. The economy's financing needs continued to grow as a result of the shortfall in domestic savings in terms of financing growing investment, as evidenced by the current account deficit which stood at over 6% of GDP.

US: EMPLOYMENT AND ISM



Source: ISM and Bureau of Labor Statistics office

US: TWIN DEFICITS



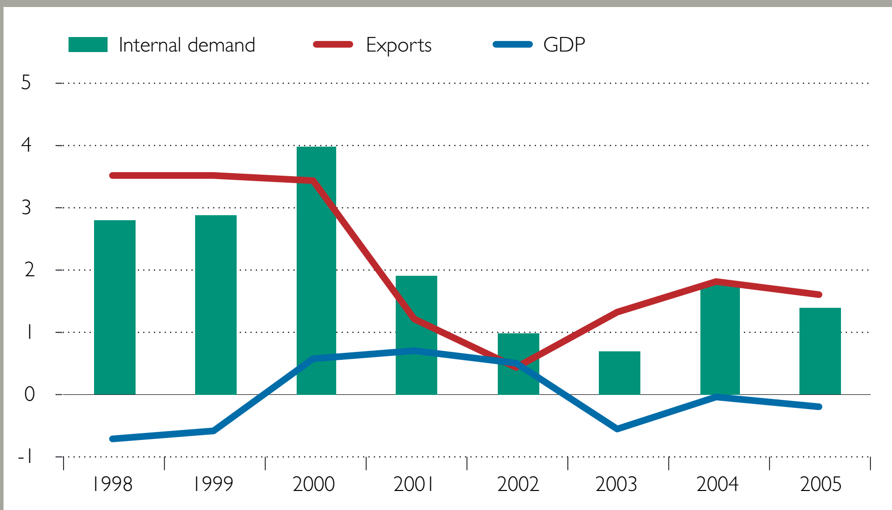
Source: Congressional Budget

Economic recovery in the eurozone again fell short of expectations...

In the wake of the incipient recovery staged in 2004, growth in the eurozone slowed in the first half of the year, only to stage a further tentative recovery in the second half of 2005, ending the year with slower than hoped-for growth (1.4%). By country, growth stabilized in Germany vis-à-vis 2004 at around 1% - although displaying a clear improvement in the second half of the year, while it slowed in France, and most notably, in Italy.

Economic recovery in the eurozone in the second half of the year was in large part due to the pick-up in corporate investment and exports, triggered by the depreciation of the euro and the favourable global environment. Meanwhile, private consumption continued to suffer, especially in Germany, due to the ongoing growth in unemployment (where the unemployment rate as a percentage of the active population grew by just over 1p.p. year-over-year to 11.6%).

EUROZONE: GDP AND CONTRIBUTION BY INTERNAL DEMAND AND EXPORTS

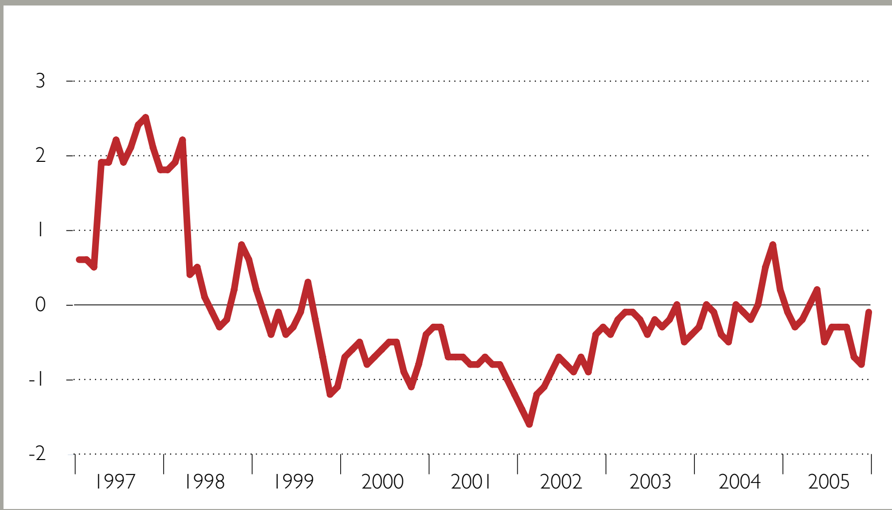


Source: Eurostat

...whereas Japanese economic recovery consolidated in 2005, despite continued deflation

Economic recovery consolidated in Japan in 2005, where the economy grew at its fastest rate since 2000 (2.8%), despite continued deflation. Domestic demand was the main economic growth driver, boosted by higher corporate earnings and a more dynamic labour market, allowing unemployment to fall to an 8-year low (4.4%).

JAPAN: INFLATION

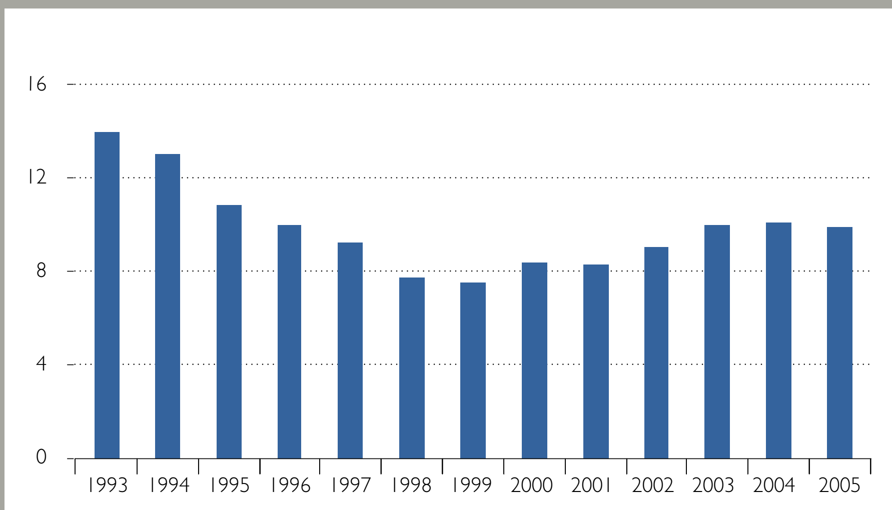


Source: Japanese Statistics Bureau

China grew at above 9% to become the world's fourth largest economy

Using revised growth figures based on the first national census, the Chinese economy grew by 9.9% in 2005, boosted by strong rates of growth in investment (26%), exports (28%) and imports (18%) and against a backdrop of moderate inflation (1.8%). The Asian giant has been growing at above 9% for four consecutive years, and is now the fourth most important global economy, behind only the US, Japan and Germany.

CHINA: GDP GROWTH

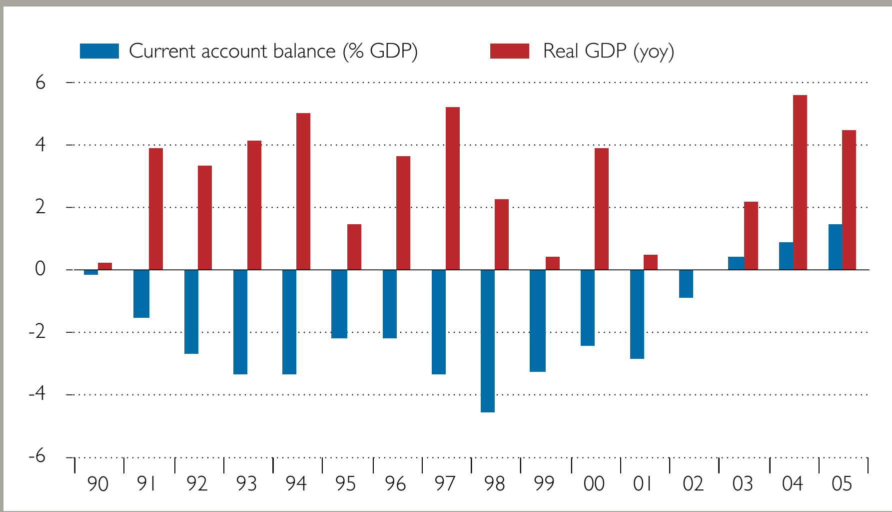


Source: National Bureau of Statistics of China

Latin America recorded its third year of growth, with all key macroeconomic variables improving

Latin America recorded a third year of growth in 2005 (at a rate of almost 4.5%), underpinned by the growing global economy, high liquidity and the sharp increases in raw material prices. All the key macroeconomic variables in the region continued to improve in 2005: unemployment was reined in to below 10%, inflation narrowed slightly, the local currencies appreciated strongly and the current account surplus widened. By country, Venezuela and Argentina expanded rapidly, closely followed by Chile, while Mexico and Brazil grew at a more modest pace.

LATIN AMERICA: GDP GROWTH AND CURRENT ACCOUNT BALANCE



Source: FMI

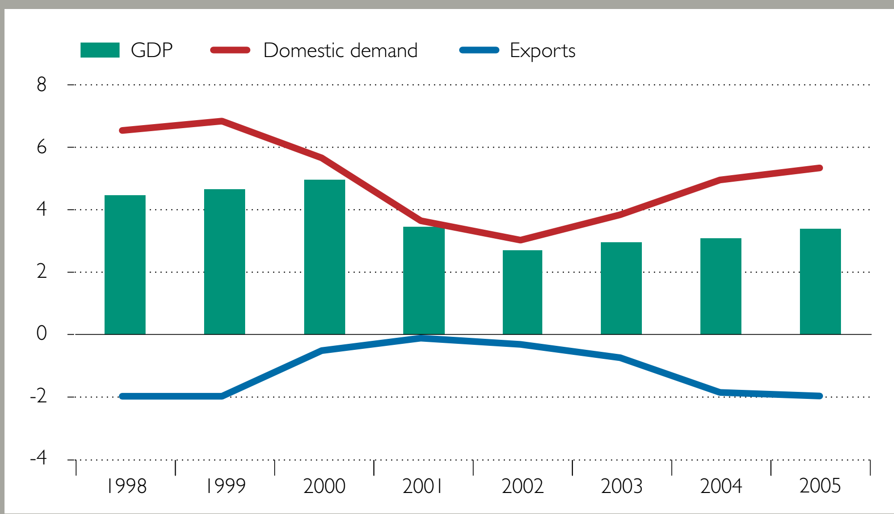
6.2 THE SPANISH ECONOMY

In 2005, Spanish GDP growth was 3.4%, marked by continued strong dependence on domestic demand

In 2005, the Spanish Statistics Institute (INE) made substantial modifications to the methodologies used in the active population survey and in national accounting. The result was a 3.2% increase in nominal 2004 GDP over the previous estimate, while the number of employed recorded in national accounting increased by 6%, due mainly to the increase in immigration.

Spanish economic growth picked up for the third consecutive year in 2005 to 3.4% yoy, ahead of the estimates made at the beginning of the year. The pattern of growth based on the strong contribution by domestic demand to the detriment of export-led growth continued to intensify, although analysis on a quarterly basis suggests a potential breakdown of the pattern with consumption and investment in capital goods slowing in the second half of the year.

CONTRIBUTION TO GDP GROWTH



Source: INE (Spanish Statistics Institute)

Private consumption held steady, despite slowing on a quarterly basis...

Against the backdrop of a slowdown in the eurozone, the Spanish GDP differential with Europe widened to 2p.p., compared to 1p.p. in 2004, boosting convergence. Specifically, Spanish GDP per capita advanced to 91.3% of the EU-15 average, thanks to the spike in employment (95% of the average), which offset the decline in labour productivity (92.1% of the average).

Private consumption began to show signs of flagging as the year advanced, although on average growth was in line with 2004 (4.4%), due to strong employment, low interest rates and the wealth effect resulting from the revaluation of residential financial and real estate investments. By component, we highlight the slowdown in expenditure on certain durable goods, particularly cars, where sales grew by just 1% (compared to 10% in 2004), as well as non-durable goods. Spending on services remained buoyant.

In nominal terms, the increase in household spending outpaced the growth in gross disposable income (GDI), prompting a further decline in savings (10.1% of GDI), in a context of high fixed investment, notably housing. As a result, household financing requirements rose for the third year running, with household debt standing at 100% of GDI.

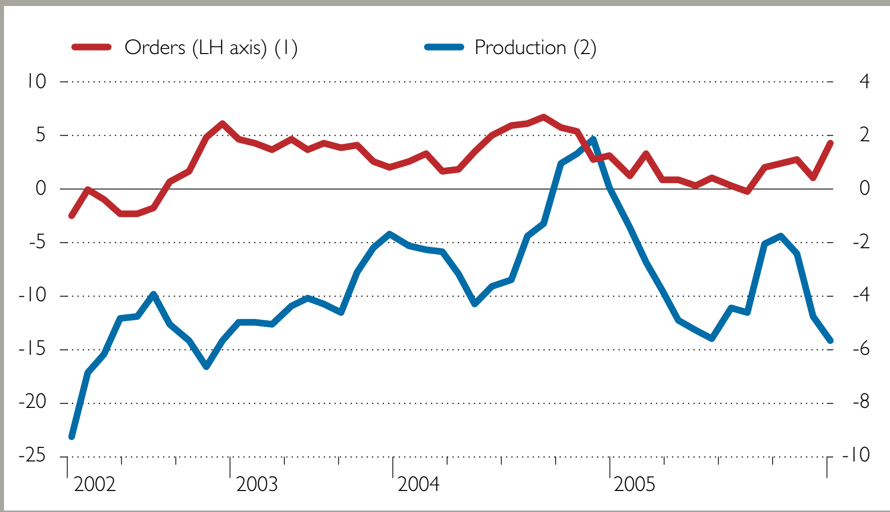
...while investment in equipment moderated, against a backdrop of lower corporate earnings in the second half

Investment in equipment picked up notably in 2005, although slowing somewhat in the second half due in part to cost increase – both energy and labour costs - which slowed the rate of corporate ordinary net income growth (10% until the third quarter, compared to 16% in 2004).

Manufacturing production remained weak, especially in the auto sector...

Investment was mainly oriented at replacing equipment rather than increasing capacity, with manufacturing output up just 0.6% (adjusted for calendar effects) in 2005, its lowest since 2002. The recovery in employment hampered productivity growth and sent unit labour costs through the roof. The fall in automobile production (-9%) was noteworthy, consistent with weak demand and the loss of market share relative to Eastern Europe and Asia.

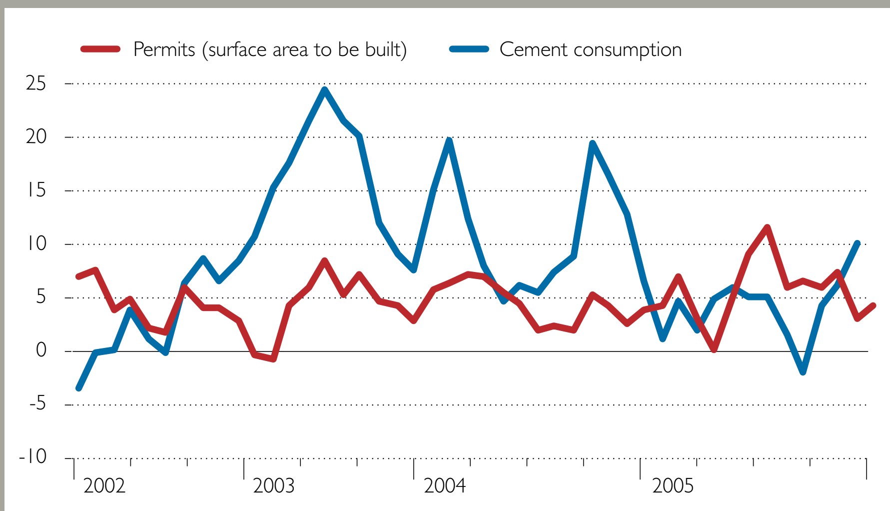
CAPITAL GOODS INDICATOR
(3-month moving average)



Source: INI and Industry Ministry

(1) Levels (2) Year over year rate of change (filtered index and ECV)

Construction
(3-month moving average)



Source: OFICEMEN and Housing Ministry

Note: Averages calculated based on yoy rates of change

... while construction, both building and civil engineering, picked up steam yet again

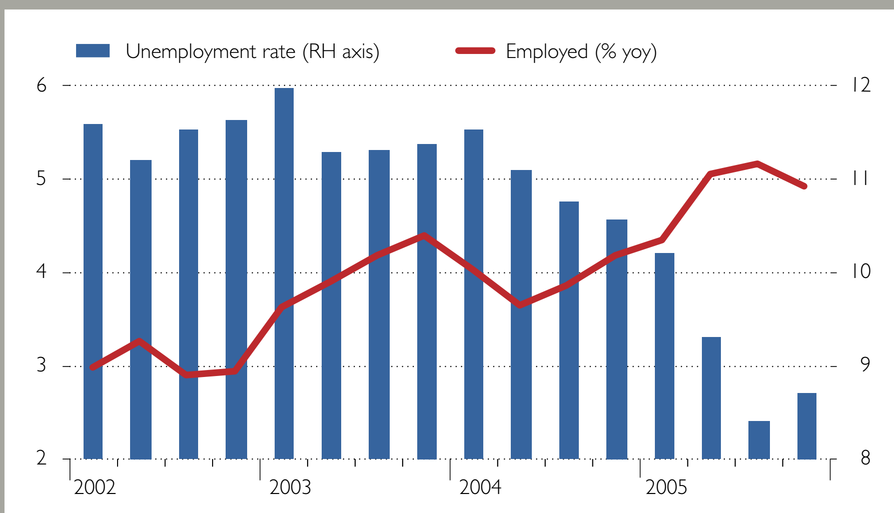
Construction growth accelerated once again in 2005 (5.5%). Both building and civil engineering were driven by the pick-up in activity in public infrastructure. The increase in volume was accompanied by higher rates of employment, accentuating the sector's declining labour productivity. Cement consumption doubled compared to 2004, although there are signs of a slowdown in the real estate market, as evidenced by the new construction permit figures. This resulted in a slowdown in housing prices in 2005 which grew at 14% compared to 17.4% in 2004).

Services also picked up in 2005 (3.9%), thanks in part to the buoyant tourism segment, with over 55 million foreigners visiting the country, up 6% on 2004, although average real expenditure per tourist fell.

Employment growth was strong and the jobless rate fell to 9%

In 2005, the Spanish labour market performed strongly, although it weakened somewhat in the second half. The findings of the labour market survey were that the active population increased by 3.2% in 2005, and the rate of activity increase by 1 point to 57.4%. Employment advanced 4.8%, and the number of unemployed fell by 10%, prompting the unemployment rate to fall by almost 2 points to 9.2%. However, temporary contracts ticked up to account for over 33% of the total.

LABOUR MARKET



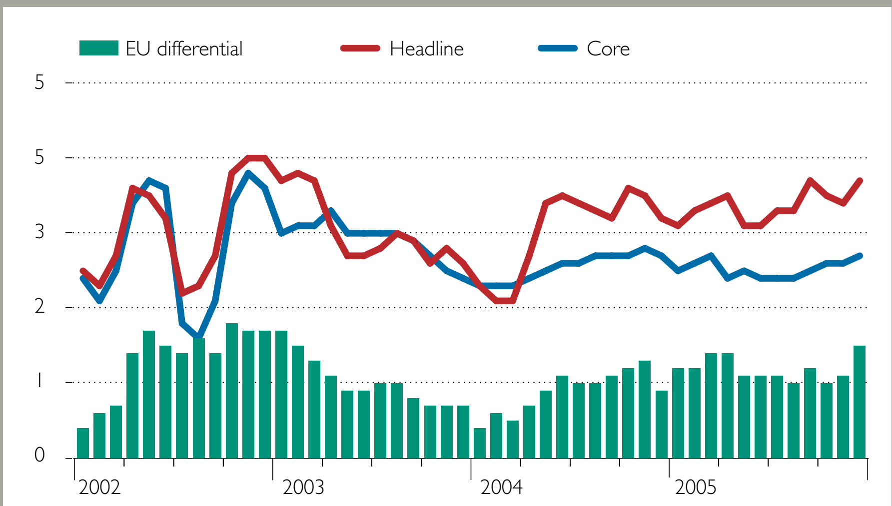
Source: INE (2005 EAPS).

Inflation picked up after the summer as a result of the sharp rise in oil prices...

Compensation per worker fell on average by 2.5% during the year, offsetting the slowdown in productivity growth (0.3%), and enabling moderation in unit labour costs (2.2%, half of the GDP deflator).

The trend in consumer inflation in 2005 responded to the whims of the oil market, where the price increases, most notably after the summer, accounted for the uptick in inflation in the second half. On average, yoy core inflation stood at 3.4% (3% in 2004), with the acceleration due to energy prices (10%), and core inflation remained in line with 2004 levels (2.7%). The differential vis-à-vis the eurozone widened by two-tenths of a point (1.2p.p.), the high since 2002, representing a decline in Spanish competitiveness relative to the region.

INFLATION

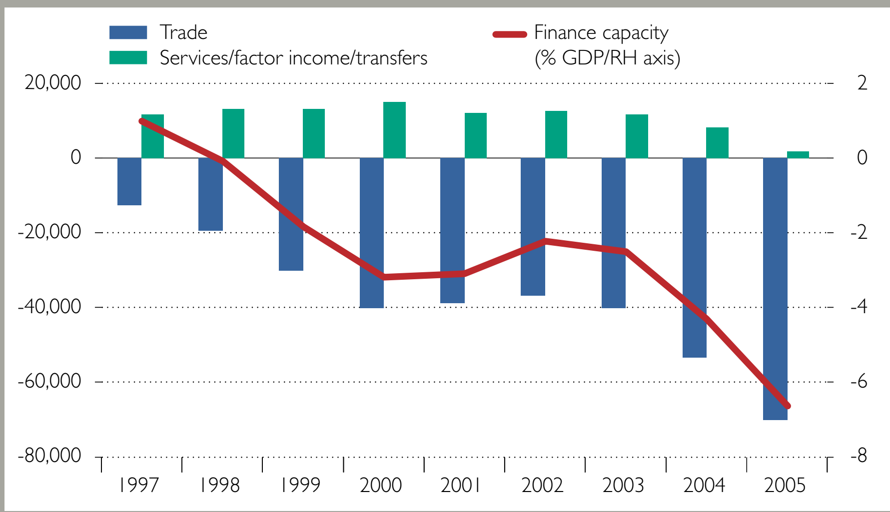


Source: INE

. . .and contributing to the decline in competitiveness in the Spanish economy

The Spanish economy's weaker competitive position is reflected in the loss of market share abroad and in a growing trade deficit, which together with the increase in the deficit for factor income and current transfers and the reduction in the services surplus, resulted in an increase in the current account deficit to over 7.5% of GDP, compared to 5.3% in 2004. The economy's financing gap was covered from net inflows into portfolio investments, offsetting net direct investment outflows.

BALANCE OF PAYMENTS
(EUR mn)



Source: Bank of Spain

The public sector recorded a surplus for the first time in 30 years, representing 1.1% of GDP, thanks to the sharp increase in tax receipts and the slowdown in spending growth. The surpluses in the Central Government (0.4% of GDP) and Social Security (1.1% of GDP) accounts offset the deficits in the regional and local government accounts (-0.4% of GDP).

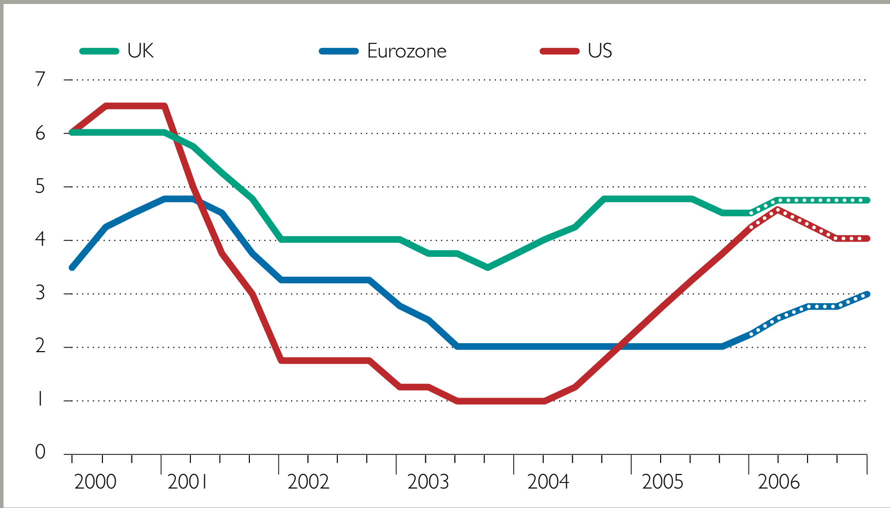
6.3 FINANCIAL MARKETS

The Fed continued to increase rates gradually, raising them 2 p.p. in all, while the ECB left rates unchanged until December

In 2005 the financial markets were characterized by short-term interest rate hikes, as a result of monetary tightening by the Fed and, to a lesser extent, to a similar policy followed by the ECB. Yields on European sovereign debt fell, while they increased slightly in the US. European equity markets posted a better performance in 2005 than in 2004, despite the increase in energy prices and the slight correction in US equities.

Monetary policies applied on each of the Atlantic remained out of sync in 2005. The Federal Reserve pressed ahead with gradual rate hikes, 2% in all throughout the year, to put the benchmark rate at 4.25% by year-end. Also in December, Ben Bernanke was appointed the new governor, and his rhetoric of continuity was welcomed by the markets. The ECB held its benchmark rate at 2% until December, when it implemented a quarter-point hike, the first in five years and which had been fully discounted by the markets. Meanwhile, the Bank of England, after completing its cycle of tightening in 2004 and in the face of a potential slowdown in growth, cut rates by 25bp in August to 4.5%.

OFFICIAL INTEREST RATES



Source: Bank of Spain and JP Morgan

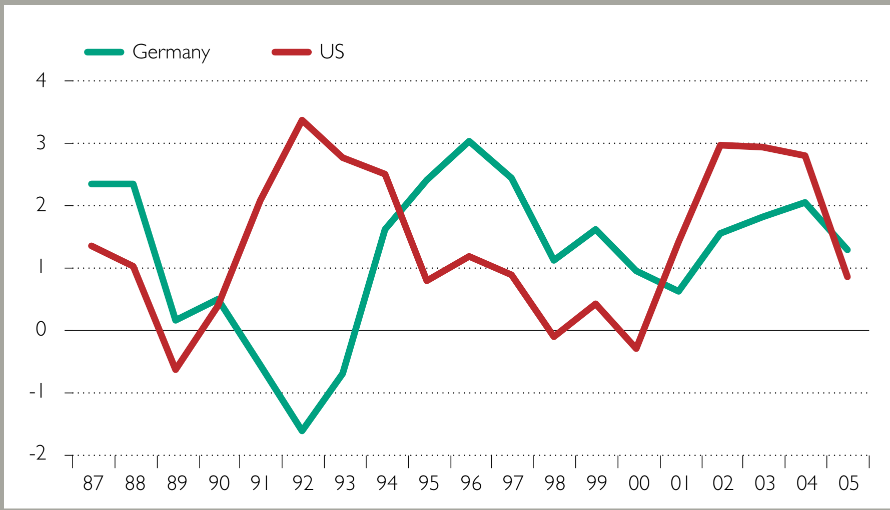
Short-term market rates increased on both sides of the Atlantic...

The trend in market rates reflected expectations regarding monetary policy. In the US, the 3-month interbank rate trended higher throughout the year, gaining 2p.p between December 2004 and December 2005 to 4.4%. However, the 3-month Euribor fell on several occasions in the first half, although it headed higher in the second half to end the year at 2.5%, a year-over-year increase of three-tenths of a point.

... while long term rates were flatter, moving slightly higher only in the US

In 2005, long-term rates increased in the US and fell in the eurozone, albeit gradually. US Treasury yields ended the year at 4.5%, two-tenths of a point higher than at year-end 2004, and below the levels that might be expected given monetary tightening and slight inflationary pressure. Among the arguments given to explain this phenomenon, which Greenspan labelled a 'conundrum', we highlight current excess liquidity, the Fed's enhanced credibility and the higher demand for fixed income assets from Asian central banks and oil-exporting countries. On the other hand, the yield on 10-year German bonds - the European benchmark - fell 0.3% yoy to 3.4% at year-end 2005, dragged down by the increase in demand for fixed income by pension funds as a result of regulatory reform and the forecasts for population ageing in the eurozone.

10Y-3M RATE SPREAD



Source: Bank of Spain and ECB

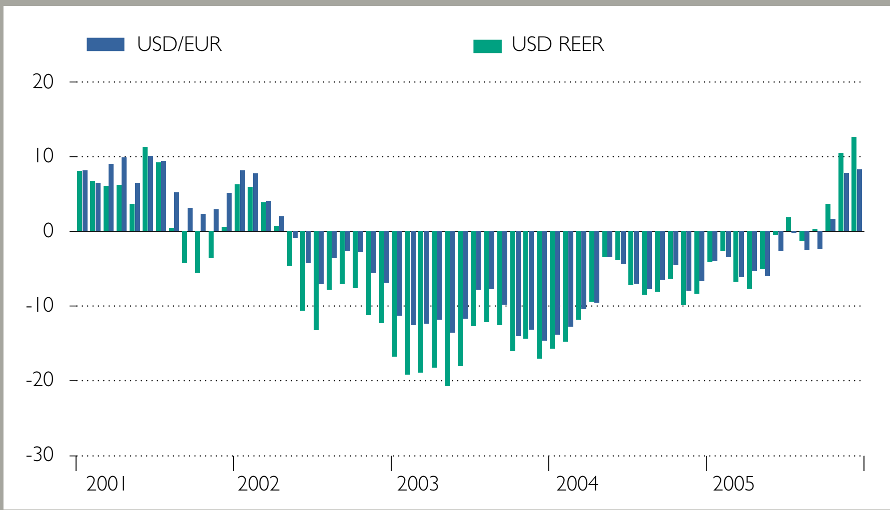
In the US, the sharper increase in short term rates led to curve flattening, particularly at the end of the year, which suggests expectations of further rate tightening. In fact, the spread of 10-year bonds over 3-month paper narrowed for the third year in a row in 2005 to below its average level for the last 20 years.

Equity markets were also out of sync across the globe. The Japanese and European markets rallied for the third year running, up by 40% and 21%, respectively (and by 18% in Spain), driven by surplus liquidity, depreciation of the yen and the euro relative to the dollar and the financial health of their companies, with M&A activity intensifying. US equities, in contrast, corrected, with the Dow Jones Index down 0.6% for the year, mainly due to interest rate hikes and rising oil prices.

... triggering a turnaround in the dollar's trend of depreciation in the second half of the year

In the forex markets, the dollar appreciated by 8% in 2005 in effective terms, after three years of depreciation, due largely to relatively higher interest rates and GDP growth in the US. The dollar appreciated furthest against the yen (14%), followed by the euro (13%), where the cross stood at EUR/USD1.19 at year-end, and the pound sterling (11%). But perhaps the most noteworthy event was the 2% revaluation of the yuan relative to the dollar at the end of July in a first attempt to float the exchange rate, albeit with very limited effects on the foreign exchange markets.

DOLLAR EXCHANGE RATE
(yoy change)

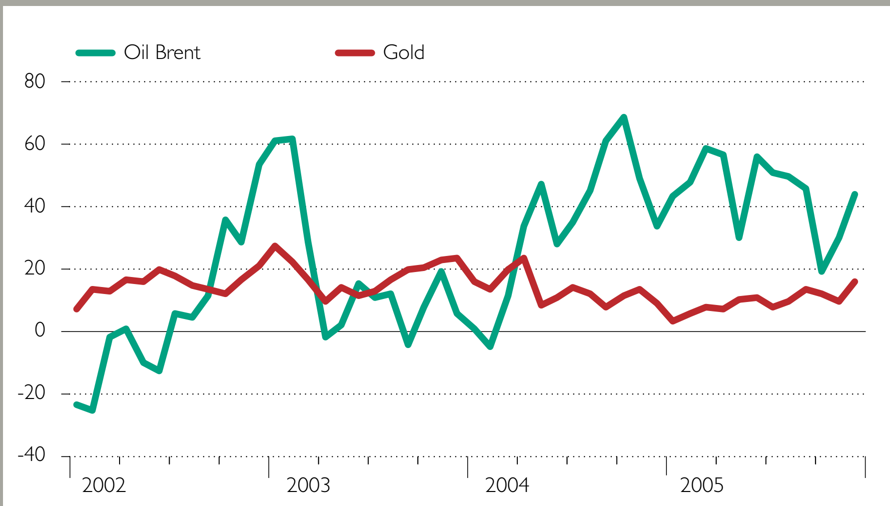


Source: Bank of Spain

Raw material prices rose in 2005, especially oil prices

Raw materials also trended higher in 2005 on the whole, with noteworthy increases in oil prices (up 43% yoy on an average basis), copper (32%) and gold (9%), which surpassed USD510 per ounce. Oil prices soared in the summer, hitting record highs (Brent: USD67/bbl), in the wake of the devastation wreaked by Hurricane Katrina on US oil production and refining. Supply side issues were accompanied by growing demand (1.3% higher than in 2004, according to the International Energy Agency), due mainly to economic growth in the US and China, whose economies now account for over 8% of total oil demand.

OIL AND GOLD PRICES
(yoy)



Source: Financial Times

Annual % Change
24.6
30.8
-
-
-
44.6
45.1
15.8
-
22.4
-
-
-
23.0
-
-
7.9
0.1
32.0
-
23.6
5.1
-56.6
26.0
9.8
64.8
-
18.8
-
-0.2
14.3
3.8
-
-
-
-
3.8
-
9.1
2.0
-3.3
10.8
-1.1
4.2
4.3
4.9
-20.1
3.6
-
13.7
-
17.6
2.2
-12.1
4.2

LIABILITIES
Millions of euros

		% Structure	Annual % Change
1. Trading portfolio	**8,888**	**1.1**	**-80.5**
1.1 Bank deposits	-	-	-
1.2 Money market operations through counterparties	-	-	-
1.3 Customer deposits	5	-	-
1.4 Debt securities	-	-	-
1.5 Trading derivatives	6,582	0.8	-90.9
1.6 Short securities positions	2,301	0.3	-22.4
2. Other financial liabilities at fair value through profit and loss	**4,690**	**0.6**	**-28.8**
2.1 Bank deposits	-	-	-
2.2 Customer deposits	4,690	0.6	-28.8
2.3 Debt securities	-	-	-
3. Financial liabilities at fair value charged to equity	-	-	-
3.1 Bank deposits	-	-	-
3.2 Customer deposits	-	-	-
3.3 Debt securities	-	-	-
4. Financial liabilities at amortised cost	**721,821**	**89.3**	**22.5**
4.1 Central bank deposits	5,904	0.7	70.6
4.2 Bank deposits	67,383	8.3	15.3
4.3 Money market operations through counterparties	25	0.0	-98.2
4.4 Customer deposits	533,413	66.0	18.0
4.5 Debt securities	83,307	10.3	77.5
4.6 Subordinated debt	25,023	3.1	15.7
4.7 Other financial liabilities	6,766	0.8	23.5
10. Adjustments to financial liabilities from macro hedging	**1,033**	**0.1**	**-1.4**
11. Hedging derivatives	**6,886**	**0.9**	**8.7**
12. Liabilities associated with non-current assets held for sale	-	-	-
12.1 Customer deposits	-	-	-
12.2 Other liabilities	-	-	-
14. Provisions	**6,667**	**0.8**	**6.7**
14.1 Pension funds and similar liabilities	4,522	0.6	-1.2
14.2 Tax provisions	287	0.0	17.9
14.3 Provisions for contingent liabilities and commitments	682	0.1	20.1
14.4 Other provisions	1,176	0.1	36.2
14. Tax liabilities	**4,978**	**0.6**	**11.8**
15.1 Current	420	0.1	-11.9
12.2 Deferred	4,557	0.6	14.6
16. Accrued expenses and deferred income	**2,016**	**0.2**	**17.0**
17. Other liabilities	**2,827**	**0.3**	**11.8**
17.1 Welfare Fund	2,142	0.3	10.1
17.2 Other	685	0.1	17.2
18. Equity substantially equivalent to a financial liability	-	-	-
TOTAL LIABILITIES	**759,806**	**94.0**	**21.6**

Equity

(as of December 31, 2005)

Millions of euros

		% Structure	Annual % Change
2. Valuation adjustments	**5,030**	**0.6**	**43.6**
2.1 Available-for-sale financial assets	5,016	0.6	45.2
2.2 Financial liabilities at fair value charged to equity	-	-	-
2.3 Cash flow hedges	12	0.0	-75.5
2.4 Hedges of net investment in foreign operations	-	-	-
2.5 Exchange differences	2	0.0	-
2.6 Non-current assets held for sale	-	-	-
3. Own funds	**43,700**	**5.4**	**9.8**
3.1 Capital or endowment fund	192	0.0	-
3.1.1 Issued capital	192	0.0	-
3.1.2 Unpaid uncalled (-)	-	-	-
3.2 Share premium	-	-	-
3.3 Reserves	38,378	4.7	8.5
3.3.1 Profit (loss) brought forward	38,378	4.7	8.5
3.3.2 Other reserves	-	-	-
3.4 Other equity instruments	24	0.0	-
3.4.1 Hybrid financial instruments	-	-	-
3.4.2 Others	24	0.0	-
3.5 Less: treasury stock	-	-	-
3.6 Participation certificates and associated funds	30	0.0	-
3.6.1 Participation certificates	30	0.0	-
3.6.2 Reserves related to participation certificates	-	-	-
3.6.3 Stabilisation fund	-	-	-
3.7 Profit for the year (*)	5,076	0.6	21.2
3.8 Less: Dividends and remuneration	-	-	-
TOTAL EQUITY	**48,730**	**6.0**	**12.5**
	-	-	-
TOTAL EQUITY AND LIABILITIES	**808,536**	**100.0**	-

Memorandun items

(as of December 31, 2005)

Millions of euros

1. Contingent liabilities	**66,600**
1.1 Financial guarantees	63,665
1.2 Assets pledged against third party commitments	48
1.3 Other contingent liabilities	2,887
2. Contingent commitments	**161,632**
2.1 Amounts drawable by third parties	149,489
2.2 Other commitments	12,142

Savings Bank Sector Income Statement

(as of December 31, 2005)

	Millions of euros	Annual % change	% average balance sheet
1. Interest and similar income	**23,500**	**16.2**	**3.18**
2. Interest expense and similar charges	**11,364**	**26.1**	**1.54**
2.1. Remuneration of equity substantially equivalent to a financial liability	-	-	-
2.2. Other	11,364	26.1	1.54
3. Income from equity instruments	**2,075**	**25.5**	**0.28**
3.1. Entities accounted for using the equity method	32	-45.1	0.00
3.2. Jointly controlled entities	102	109.0	0.01
3.3. Subsidiaries	1,377	16.1	0.19
3.4. Other equity instruments	564	56.5	0.08
A) NET INTEREST INCOME	**14,211**	**10.5**	**1.92**
5. Fee and commission income	**4,805**	**14.3**	**0.65**
6. Fee and commission expenses	**760**	**9.2**	**0.10**
8. Gain/loss on financial assets and liabilities (net)	**734**	**42.3**	**0.10**
8.1. Held for trading	165	18.0	0.02
8.2. Other financial instruments at fair value by profit and loss	-39	-64.7	-0.01
8.3. Available-for-sale financial assets	800	107.7	0.11
8.4. Loans and receivables	17	-20.4	0.00
8.5. Other	-210	-	-0.03
9. Exchange differences (net)	**92**	**-2.8**	**0.01**
B) GROSS INCOME	**19,082**	**12.4**	**2.58**
12. Other operating income	**615**	**19.8**	**0.08**
13. Personnel expenses	**6,913**	**7.3**	**0.94**
14. Other general and administrative expenses	**3,070**	**7.0**	**0.42**
15. Depreciation and amortisation	**1,095**	**-3.1**	**0.15**
15.1. Tangible assets	939	0.4	0.13
15.1. Intangible assets	157	-19.7	0.02
16. Other operating expenses	**222**	**12.4**	**0.03**
C) NET OPERATING INCOME	**8,396**	**22.4**	**1.14**
17. Impairment losses (net)	**2,346**	**40.4**	**0.32**
17.1. Available-for-sale financial assets	2	-96.1	0.00
17.2. Loans and receivables	2,278	46.5	0.31
17.3. Held to maturity investments	-12	-	0.00
17.4. Non-current assets held for sale	1	-94.6	0.00
17.5. Equity investments	44	-	0.01
17.6. Tangible assets	34	-	0.00
17.7. Goodwill	-	-	-
17.8. Other intangible assets	-	-	-
17.9. Other assets	-	-100.3	0.00
18. Provisions (net)	**812**	**34.0**	**0.11**
21. Other gains	**870**	**58.8**	**0.12**
21.1. Gains on disposal of tangible assets	253	15.6	0.03
21.2. Gains on disposal of equity investments	438	-	0.06
21.3. Other	179	-7.4	0.02
22. Other losses	**208**	**-28.6**	**0.03**
22.1. Losses on disposal of tangible assets	13	-31.0	0.00
22.2. Losses on disposal of equity investments	2	-74.7	0.00
22.3. Other	193	-27.1	0.03
D) PROFIT BEFORE TAX	**5,900**	**22.0**	**0.80**
23. Income tax	**825**	**27.4**	**0.11**
E) PROFIT FROM ORDINARY ACTIVITIES	**5,076**	**21.1**	**0.69**
25. Profit/loss from discontinued operations (net)	-	-	-
F) PROFIT FOR THE YEAR (*)	**5,076**	**21.1**	**0.69**
AVERAGE BALANCE SHEET	**739,284**	**22.1**	

Profit/loss of consolidated savings bank groups

Year ending December 31, 2005

	Millions of euros	% average balance sheet
Interest income	25,233	3.14
Interest expense	-11,380	-1.42
NET INTEREST INCOME	**13,853**	**1.73**
Net fees and commissions	4,561	0.57
Insurance	-17	0.00
BASIC INCOME	**18,397**	**2.29**
Profit/loss from entities accounted for by the equity method	988	0.12
Profit/loss from financial activities	1,799	0.22
Exchange differences	161	0.02
ORDINARY INCOME	**21,345**	**2.66**
Operating expenses	-12,602	-1.57
Personnel expenses	-7,576	-0.94
General and administration expenses	-3,653	-0.46
Depreciation and amortisation	-1,373	-0.17
Other operating expenses	1,785	0.22
For non-financial sales and services	1,232	0.15
Other	552	0.07
NET OPERATING INCOME	**10,528**	**1.31**
Net loss from impairment of assets	-2,528	-0.32
Net provisions	-564	-0.07
Financial gain/loss on non-financial activities	-140	-0.02
Other gains/losses	934	0.12
PROFIT BEFORE TAX	**8,230**	**1.03**
Income tax	-1,493	-0.19
CONSOLIDATED NET PROFIT	**6,737**	**0.84**
of which: attributable to the group	6,369	0.79
AVERAGE BALANCE SHEET	**802,396**	

Statement of Changes in Equity in the Savings Bank Sector

Year ending December 31, 2005

	Millions of euros
1. INCOME RECOGNISED DIRECTLY IN EQUITY	**1,601**
1.1. Available for sale financial assets	1,635
1.1.1. Valuation Gains/losses	2,604
1.1.2. Amounts transferred to income statement.	6
1.1.3. Income tax	-905
1.1.4. Reclassifications	-70
1.2. Liabilities at fair value charged to equity	-
1.2.1. Valuation gains/losses	-
1.2.2. Amounts transferred to income statement.	-
1.2.3. Income tax	-
1.2.4. Reclassifications	-
1.3. Cash flow hedges	-38
1.3.1. Valuation gains/losses	-26
1.3.2. Amounts transferred to income statement.	-45
1.3.3. Amounts transferred at initial carrying amount of hedged item	-
1.3.4. Income tax	33
1.3.5. Reclassifications	-
1.4. Hedges of net investment in foreign operations	-
1.4.1. Valuation gains/losses	-
1.4.2. Amounts transferred to income statement.	-
1.4.3. Income tax	-
1.4.4. Reclassifications	-
1.5. Exchange differences	4
1.5.1. Gains/losses on conversion	4
1.5.2. Amounts transferred to income statement.	2
1.5.3. Income tax	-2
1.5.4. Reclassifications	-
1.6. Non-current assets held for sale	-
1.6.1. Valuation gain	-
1.6.2. Amounts transferred to income statement.	-
1.6.3. Income tax	-
1.6.4. Reclassifications	-
2. PROFIT FOR THE YEAR (*)	**5,076**
2.1. Published profit for the year	5,076
2.2. Adjustments for changes in accounting policies	-
2.3. Adjustments for errors	-
3. TOTAL INCOME AND EXPENSES FOR THE YEAR	**6,677**
MEMORANDUM ITEMS:	
Adjustments to equity attributable to prior periods	-3
Due to changes in accounting policies	-2
- Equity	-2
- Valuation adjustments	-
Due to errors	-1
- Equity	-1
- Valuation adjustments	-

Public Cash Flow Statement of the Savings Bank Sector

Year ending December 31, 2005

	Thousands of euros
1. CASH FLOWS FROM OPERATING ACTIVITIES	
Profit for the year	**4,982**
Adjustments to profit:	3,931
Depreciation of tangible assets (+)	931
Amortisation of intangible assets (+)	157
Impairment losses (net) (+/-)	2,318
Provisions (net) (+/-)	799
Gains/Losses on disposal of tangible assets (+/-)	-238
Gains/Losses on disposal of equity investments (+/-)	-421
Tax (+/-)	667
Other non-monetary items (+/-)	-282
Adjusted profit	**8,913**
Net increase/decrease in operating assets	**129,967**
Financial assets held for trading	3,612
Bank deposits	-102
Money market operations through counterparties	-
Loans and advances to customers	-
Debt securities	3,337
Other equity instruments	130
Trading derivatives	247
Other financial assets at fair value through profit and loss	86
Bank deposits	-
Money market operations through counterparties	-
Loans and advances to customers	-
Debt securities	86
Other equity instruments	
Available-for-sale financial assets	2,735
Debt securities	-334
Other equity instruments	3,069
Loans and receivables	121,819
Bank deposits	2,960
Money market operations through counterparties	-282
Loans and advances to customers	116,901
Debt securities	575
Other financial assets	1,665
Other operating assets	1,715
Net increase/decrease in operating liabilities	**116,213**
Held for trading	1,020
Bank deposits	-222
Money market operations through counterparties	-
Customer deposits	4
Debts represented by securities	-
Trading derivatives	-161
Short security positions	1,400
Other financial liabilities at fair value by profit and loss	1,828
Bank deposits	-
Customer deposits	1,828
Debts represented by securities	-

	Thousands of euros
Financial liabilities at fair value charged to equity	-
Bank deposits	-
Customer deposits	-
Debts represented by securities	-
Financial liabilities at amortised cost	114,233
Central bank deposits	2,558
Bank deposits	8,480
Money market operations through counterparties	-1,361
Customer deposits	73,940
Debts represented by securities	29,421
Other financial liabilities	1,195
Other operating liabilities	-349
Total net cash flows from operating activities (1)	**-4,921**
2. CASH FLOWS FROM INVESTING ACTIVITIES	
Investments (-)	**-6,702**
Subsidiaries, jointly controlled entities and associates	1,515
Tangible assets	1,421
Intangible assets	274
Financial assets held to maturity	3,065
Other financial assets	46
Other assets	454
Divestments (+)	**1,456**
Subsidiaries, jointly controlled entities and associates	553
Tangible assets	212
Intangible assets	2
Financial assets held to maturity	618
Other financial assets	2
Other assets	69
Total net cash flows from investing activities (2)	**-5,363**
3. CASH FLOWS FROM FINANCING ACTIVITIES	
Issue/redemption of capital or endowment fund (+/-)	-
Acquisition of treasury stock (-)	-
Disposal of treasury stock (+)	-
Issue/redemption of participation certificates (+/-)	-
Issue/redemption of other equity instruments (+/-)	-
Issue redemption of equity substantially equivalent to a financial liability (+/-)	-
Issue/redemption of subordinated debt (+/-)	3,324
Issue/redemption of other long-term liabilities (+/-)	8,890
Dividends/Interest paid (-)	152
Other items related to financing activities (+/-)	355
Total net cash flows from financing activities (3)	**12,417**
4. EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS (4)	**22**
5. NET INCREASE/DECREASE IN CASH AND CASH EQUIVALENTS (1+2+3+4)	**2,754**
Cash and cash equivalents at start of year	**9,444**
Cash and cash equivalents at end of year	**12,198**

6.4

THE SAVINGS BANKS IN 2005

In June 2005, Bank of Spain Circular 4/2004 adapting the accounting criteria applicable to credit entities to the International Financial Reporting Standards (IFRS) was enacted, implying significant changes in both the presentation of financial information and the measurement of assets and liabilities.

To assess financial performance in 2005, the financial statements for the year ended 31 December 2004 were restated under IFRS, to provide uniform, comparative information in all instances.

The total volume of assets under management at the 46 savings banks and the Confederation at year-end 2005 stood at EUR 808,513 million, an increase of just over EUR 140,000 million or 21%.

In terms of balance sheet structure, we highlight yet again on the asset side the contribution by lending activity, which represents almost 80% of total assets, and within total lending, loans to customers at just above 70%.

We also note significant concentration on the liability side, with financial liabilities at amortized cost accounting for almost 90% of the total: deposits from customers accounted for the bulk at 66%, and, lagging considerably behind, issues by the savings banks, representing a little over 13% of the total balance.

As for equity, for the most part retained earnings, the figures attest to the high solvency of the savings banks, accounting for more than 6% of the balance sheet.

INVESTMENTS
(LOANS AND SECURITIES PORTFOLIO)

Significant increase in lending in response to growing customer demand

Savings' banks investments at year-end 2005 totalled EUR 695,670 million, 23.4% higher than the year-earlier figure.

As usual, investment growth was driven by significant advances in lending in response to increasing demand by customers. Specifically, households' increased need for financing, especially for mortgage loans, boosted lending growth by 25.9% in 2005, with the outstanding balance standing at EUR 580,495 million at year-end.

INVESTMENTS
Millions of euros

	Total 2005	Structure	% change	Total 2004
Public authorities	13.485	1,9	6,9	12.610
Other resident sectors	554.346	79,7	26,2	439.189
Non-residents	12.664	1,8	36,1	9.306
LOANS AND ADVANCES	**580.495**	**83,4**	**25,9**	**461.106**
Valuation adjustments	-10.763		22,3	-8.804
ADJUSTED LOANS AND ADVANCES	**569.732**		**26,0**	**452.302**
Debt securities	76.838	11,0	8,7	70.662
Other equity instruments	19.665	2,8	32,8	14.812
Equity investments	18.672	2,7	9,3	17.088
SECURITIES	**115.175**	**16,6**	**12,3**	**102.561**
Valuation adjustments	-245		-9,1	-270
ADJUSTED SECURITIES	**114.930**		**12,4**	**102.291**
TOTAL INVESTMENTS	**695.670**	**100,0**	**23,4**	**563.667**
Valuation adjustments	-10.869		19,8	-9.073
TOTAL ADJUSTED INVESTMENTS	**684.801**		**23,5**	**554.594**

The bulk of loans granted by the savings banks went to the private resident sector (95% of total lending)

Although the bulk of loans provided by the savings banks went to the private resident sector, representing almost 80% of total investment and over 95% of total lending, the growth in lending to the non-resident sector, at over 36%, is noteworthy despite its relatively small overall contribution (less than 2%).

The NPL rate fell to 0.684%

Again in 2005, the sharp increase in lending was accompanied by extremely low levels of non-performing debt. Despite the slight increase in the rate as a result of the application of IFRS, the NPL ratio fell to 0.684%, down 0.127% over 2004 on a like-for-like basis.

NPL RATES

	NPL rates	Year-on-year change
Bank deposits	0.000	0.000
Customer loans and advances	0.684	-0.127
Spanish public authorities	0.319	0.109
Other resident sectors	0.687	-0.135
Non-residents	0.916	-0.139
Debt securities	0.029	-0.020
TOTAL ON BALANCE SHEET	**0.555**	**-0.084**
Contingent liabilities and commitments	0.112	0.000

These low NPL rates, the result of successful risk management policies, do not prevent the savings banks from paying special attention to NPL provisioning. The NPL coverage ratio reached 263% at year-end, up 36 points from 2004.

Investments by the savings banks in securities performed well, although with some components sharply outperforming. The fixed-income portfolio and equity shareholdings were up by around 9% in 2005, while investments in other equity instruments, boosted largely by the stock market rally, grew at a faster rate (above 32%).

Funds placed with the savings banks rose by 23%, with a significant increase in time deposits

DEPOSITS AND FUNDS CAPTURED

The total volume of funds managed by the savings banks and recognized on the balance sheet exceeded EUR 639,000 million, up approximately 23% for the year.

Deposits placed at the savings banks rose by both the public and private resident sectors rose sharply, 35.7 and 19.2%, respectively.

In contrast, deposits from the non-resident sector, which account for roughly the same percentage as the public sector, fell 22%.

CUSTOMER FUNDS
Millions of euros

	Total 2005	Structure	% change	Total 2004
CUSTOMER DEPOSITS	**533,107**	**83.4**	**17.3**	**454,545**
Spanish public authorities	**24,557**	**3.8**	**35.7**	**18,094**
Other resident sectors	**486,317**	**76.1**	**19.2**	**407,867**
Demand deposits	**206,346**	**32.3**	**16.6**	**177,042**
Current accounts	101,036	15.8	22.4	82,563
Savings accounts	102,647	16.1	10.1	93,205
Other demand deposits	2,663	0.4	108.9	1,275
Time deposits	**279,972**	**43.8**	**21.3**	**230,824**
Fixed-term deposits	246,668	38.6	28.4	192,111
Repurchase agreements	33,304	5.2	-14.0	38,714
Non-residents	**22,232**	**3.5**	**-22.2**	**28,584**
ISSUES	**106,024**	**16.6**	**59.4**	**66,525**
Debts represented by securities	81,352	12.7	79.9	45,219
Subordinated debt	24,672	3.9	15.8	21,306
CUSTOMER FUNDS	**639,131**	**100.0**	**22.7**	**521,070**
Valuation adjustments	7,306		34.9	5,417
ADJUSTED CUSTOMER FUNDS	**646,437**		**22.8**	**526,488**

Analysing the performance of private sector resident deposits, which account for over 90% of the total, deposits held to maturity, specifically time deposits, spearheaded growth, rising over 28%, in line with the previous year.

Off-balance sheet funds captured by the savings banks, primarily flows into mutual funds, grew significantly, by nearly 15%. Once again, flows into the higher risk mutual funds grew the fastest, while those in money-market funds were broadly flat.

SECURITIES INVESTMENT FUNDS (*)
millions of euros

	Assets 31/12/05	% Structure	% Change	Assets 31/12/04
F.I.M.	51,670	74.3	21.1	42,670
F.I.A.M.M.	17,830	25.7	0.1	17,810
TOTAL	**69,500**	**100.0**	**14.9**	**60,480**

(*) Source ACF. Estimated figures

INCOME STATEMENT

Profit after tax obtained by the savings banks individually in 2005 was EUR 5,076 million, an increase of 21.1% and representing 0.69% of their average balance sheet totals, exactly the same figure as in 2004.

Net interest income increased 10.5%, thanks to higher interest and similar revenue, up 16.2%, and a 25.5% increase in dividends received, which more than offset the significant increase (26.1%) in interest paid on financial liabilities managed.

The increased fee and commission income and net trading income boosted operating income by 12.4%, although the weighting of gross income in the average balance sheets slipped by 22bp in 2005 to 2.58 %.

Throughout 2005 the savings banks pressed ahead with their cost savings programs, so that staff costs and administrative expenses as a percentage of the average balance sheet fell by 12bp and 5bp, respectively. Thus operating profit grew 22.4%, but represented the same percentage of average total assets.

In terms of the line items in the lower half of the income statement, impairment losses on loans and advances and provisions amounted to EUR 2,346 million and EUR 812 million, respectively, leaving profit before tax at EUR 5,900 million.

Of the EUR 5,076 million of net profit generated by the savings banks, EUR 1,375 million were earmarked for community welfare spending

Since they do not have shareholders to remunerate in the form of dividends, the savings banks appropriate the profits they generate, net of taxes, to reserves, thereby consolidating their solvency, and to financing their community work, the activities of which benefit both the savings banks' customers and society as a whole.

Specifically, of the profits generated last year, EUR 3,701 million were allocated to reserves, and EUR 1,375 million, 27% of the total, to the savings banks' community welfare fund, used to fund both existing projects and new initiatives.

DISTRIBUTION OF SURPLUS

	Millions of euros	Distribution
Reserves	3,701	73.0
Transfer to Welfare Fund	1,375	27.0
TOTAL	**5,076**	**100.0**

In terms of the savings banks consolidated income statement, net profit for the savings banks amounted to EUR 6,371 million, a 35% increase over the previous year.

916 new branches were opened in 2005 and headcount increased by 4,472

BRANCHES, EMPLOYEES AND PAYMENT METHODS

At year-end 2005 the savings banks had a total of 22,445 operating branches, of which 916 were newly opened in 2005. Headcount rose by 4,483 to 117,880 employees.

Last year the number of cards issued exceeded 35 million, an increase of over one million, while 1,348 new ATM machines were installed, bringing the total number of available ATMs at year end to 31,703.

	2005	Difference Absolute	Difference %	2004
Operating branches	22,445	906	4.2	21,529
Spain	22,411	899	4.2	21,503
Abroad	34	8	30.8	26
Employees	**117,880**	**4,483**	**4.0**	**113,408**
In Spain	117,613	4,407	3.9	113,217
Men	71,998	1,160	1.6	71,019
Women	45,615	3,247	7.7	42,198
Abroad	267	76	39.8	191
ATMs	**31,703**	**1,348**	**4.4**	**30,355**
Cards (thousands)	**35,039**	**1,008**	**3.0**	**34,031**

6.5 REGULATORY ENVIRONMENT

Legislative activity in 2005 was conditioned by the FSAP

Once again legislative activity was intense in 2005. At all three levels of political decision - making - community, state and autonomous region - new legal standards were introduced with a significant impact on financial entities in general and the saving banks in particular. In all instances, CECA continued to safeguard the interests of the Spanish savings banks, serving as a conduit for expressing their opinion in the various ongoing debates.

In the **Spanish context**, legislative activity in 2005 in the financial arena was marked by the development of the specific measures provided for in the **Financial Services Action Plan (FSAP)**, designed by the European Commission with the ambitious goal of working towards a single market in financial services in Europe.

The new CII Regulation makes progress on sector liberalisation

Under the umbrella of the FSAP, we highlight the ratification in November of the long-awaited **Collective Investment Institutions Regulation**, El nuevo Reglamento supone un considerable avance en el proceso de liberalización iniciado por la Ley de 2003. comprising measures clearly aimed at increasing flexibility, designed to increase market efficiency and competitiveness, such as the introduction of the category of free investment collective investment institutions (commonly known as hedge funds), listed funds or the provision for differentiating investors. All these measures better-equip financial intermediaries to respond to increasingly demanding and sophisticated customers. The new Regulation combines these flexibility measures with others designed to reinforce customer protection. These include the regime for subscription and refunds, the strict rules of conduct system and regulations governing commissions.

In March 2005, the Council of Ministers approved the national plan for boosting productivity and making the economy more dynamic, including the introduction of the new regime governing **securities issuances and prospectuses.** This new set of standards, which develops and implements the so-called "Prospectus Directive", contains significant novelties, such as the right to choose the competent authority for fixed income issues. It is plain to see that this new regime will result in a drastic intensification of competition between EU markets in terms of winning new business in fixed income

The "Prospectus Directive" will promote competence in fixed income markets.

public offerings and listings. Hence the need to introduce flexible measures to permit reducing issuance costs so that the Spanish fixed income market could remain competitive. This is the aim of the new regime and of specific measures such as the suppression of the requirement to publicly register issues and the broadening of the principle of freedom to issue. This is complemented by other measures such as the regulation of prospectus contents (bringing it in line with EU requirements), prospectus validity cross-border and rules governing liability for prospectus content.

The new **Financial Guarantee Contracts Law**, introduced in response to an EC directive, also falls under the auspices of the national plan for the economy. Its aim is to safeguard the legal validity these kinds of agreements by providing for exemption from bankruptcy law.

The **Royal Decree on Market Abuses** is clearly designed to protect market integrity and implements EC standards on these matters. The Royal Decree completes the regime provided for in the Securities Markets Law in relation to insider information, material information and trading abuses, defining the basic concepts and granting powers to the Spanish securities regulator, the CNMV to evaluate the adequacy of market practices in this regard.

To complete the list of measures adopted under the auspices of the implementation of the FSAP, we refer to two additional laws passed in 2005. Firstly, the **reorganization and winding-up of credit institutions law** which guarantees the application of a wind-up procedure - standard across the EU - for all creditors and investors in the event of bankruptcy of a credit entity with branches in another EU member state. Secondly, the **financial conglomerates law** (complemented by a Royal Decree ratified in November) which governs these kinds of multisector groups in terms of solvency control, risk concentration, intra-group transactions and internal risk management and control policies. This law slightly modifies the **Organic Law Governing Savings Banks** in relation to savings banks funded by the Catholic Church.

The other thrust of legislative activity in 2005 related to corporate governance. In April, the CNMV approved the Circular governing the Annual Corporate Governance Report that must be prepared by savings banks that have issued securities admitted for trading on secondary markets, in compliance with the provisions of the Transparency

In 2005, 42 savings banks issued corporate governance reports for the first time

Act of 2003. As a result, in the second half of 2005, the forty-two savings banks that issued securities presented their corporate governance annual reports, thereby informing the market of the salient aspects of the savings banks' corporate governance model. The disclosure provided is exhaustive and refers to matters related to the roles and rules of operation of their governing bodies, related party and intra-group transactions (with particular focus on lending transactions and guarantees extended and lending activity with public institutions that participate in the bank's voting bodies), the business structure of the group headed up by the entity, risk control systems in place, the annual report issued by the Investment Committee, compensation received by Directors and senior management, etc.

Regarding the **prevention of money laundering**, the regulations developing the Prevention Act, which dated back to 1995, were thoroughly updated. The new regulations are more onerous on the money laundering prevention units at the savings banks. For example, there are new rules for customer identification and knowledge and every transaction that is complex, out of the ordinary, or lacks obvious lucrative purpose must be examined. The reformed regulation also has implications at the banks' management level, as it requires entities to design and implement an explicit policy for accepting customers, and even provides for rules governing the organizational structure of departments charged with money laundering prevention. The requirement to undertake external audits in this area is another sign of this matter's growing relevance at savings banks.

New money laundering prevention regulations are more onerous on prevention units

Other noteworthy financial regulations passed in 2005 include the **Order Governing Loan Securitization**, which sets the kinds of future credit rights that can be incorporated into an asset-backed securitization fund. The order specifies the conditions for transferring credit and expressly empowers the CNMV to develop specific regulations in relation to accounting and disclosure requirements. We also highlight the CNMV Circular regarding **periodic public** information, which thoroughly updates existing regulation to bring it in line with the International Financial Reporting Standards. This circular is applicable to savings banks which have issued securities admitted for trading on equity markets. Finally, we refer to the **Venture Capital Business Law**, the main objectives of which are three-fold: to provide a more

In Europe, we highlight the green book on financial services policy

flexible control management regime, to extend the scope of activity of these entities and to establish a simplified regime for accredited investors.

2005 was also marked by a significant number of new provisions in the tax arena. The most relevant to the savings banks is the result of the modification introduced with Royal Decree 1122/2005 to the Corporate Income Tax Regulation in relation to credit risk hedging at financial entities. Other noteworthy developments include the new regulations pursuant to the General Tax Act (Royal Decree 520/2005 in relation to bankruptcy proceeding reviews and Royal Decree 939/2005 which develops the General Regulations on Tax Collection) and the implementation of the disclosure requirements derived from EU Directive 2003/48/EC (the so-called "Savings Directive"), preference shares and other public fixed income instruments.

In the **European context**, debate focused on the revision of the EC's legislative strategy now the FSAP is complete. In 2005 the Commission opened up its **Green Book on Financial Services Policy** for 2005-2010 for debate. The document reflects the Commission's acknowledgement of the widespread sense of regulatory fatigue in the wake of the FSAP. This is why during the next phase the focus is not so much on creating ever more initiatives, but rather on consolidating existing standards by means of a more stringent analysis of the extent to which Community directives are being faithfully transposed into national legislation. Few new initiatives are therefore envisaged. However, topics that could be tabled in the short term include: asset management and retail financial services.

The new solvency regime is a more risk-sensitive approach

Beyond the scope of this debate, the last measures provided for in the FSAP were passed in 2005. The most noteworthy is the **Capital Requirements Directive** for credit entities and investment services companies, which incorporates the New Basel II Capital Accord into EC legislation. The new solvency regime represents a more risk-sensitive approach designed to increase the stability of the European financial system by promoting the development of increasingly sophisticated risk management tools and processes. Ultimately, the establishment of more risk-sensitive solvency rules will facilitate optimal capital flows and thereby contribute to reinforcing the competitiveness of the European economy. The third Directive on Money Laundering Prevention was also passed, with the purpose of incorporating novelties resulting from the revision of the forty recommendations made by the Financial Action Task Force in June 2003.

The green book on mortgages debates the competitiveness of this market on a European scale

Among initiatives tabled in 2005, we would highlight the new proposal for the **Consumer Credit** Directive which is based on two fundamental premises: transparency (costs and terms applied to customers) and the ability to compare services on a cross-border basis. The **Green Book on Mortgage Lending** was also debated in the European Union. The Commission is reflecting on the opportunity to the enhance efficiency and competitiveness of the mortgage market across Europe. As with all Commission initiatives, CECA participated in these debates via the European Federation, representing the viewpoint of the Spanish savings banks, always one of support for building a more flexible framework in which all entities can compete on an equal footing.

Finally, at the **autonomous regional level**, the regional governments continued to pass standards pursuant to the Financial Act of 2002. For example, Asturias, via Law 1/2005, and Castilla y León, in the form of Royal Decree 66/2005, completed the reform of the rules for governing entities, a process initiated in 2004.

Three communities passed legislation on the community welfare work carried out by the savings banks. For example, Extremadura and Castilla-La Mancha regulated the social projects undertaken by savings banks not domiciled in their regions, while in La Rioja, similar legislation was passed for all savings banks, regardless of their domicile.

Galicia was a particularly active region, revising the region's two laws governing savings banks, in addition to two decrees in relation to the customer ombudsman and assistance fees and out-of-pocket expenses for members of governing bodies. In Galicia, Law 14/2004, dated 29 December, eliminated minimum contributions to community welfare initiatives.

In the Basque country, an Order was passed regulating the register of savings banks and senior management.

Finally, we highlight the debate surrounding the proposed reforms to the Catalonian and Valencian statutes of autonomy which began their legal courses in 2005. In both instances, the proposed legislation contains references to the allocation of jurisprudence in matters concerning the savings banks. CECA has been closely following both processes.

MAIN LEGISLATION PASSED AND PROPOSALS DEBATED IN 2005

All the laws listed below can be consulted on our website at **www.ceca.es** (under the "Guideline" tab). This tab contains CECA's database on financial legislation and can be accessed by experts from the savings banks and the general public. The database contains all legislation - current and repealed - at 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 for any amendments. The most significant laws can be searched by article on a disaggregate basis.

I. SPANISH STATE LEGISLATION:

Main provisions enacted in 2005

a) Account auditing:

- Royal Decree 1156/2005 amending the regulation enacting Law 19/1988 governing Account Audits, enacted by Royal Decree 1636/1990.

b) Money laundering:

- Royal Decree 54/2005 amending the regulation enacting Law 19/1993 regarding the prevention of money laundering, enacted by Royal Decree 925/1995 and other regulations governing the banking, financial and insurance system.

c) Venture capital:

- Law 25/2005, regulating venture capital firms and their management entities.

d) e-commerce:

- -Royal Decree 1163/2005, regulating consumer confidence in information society services and electronic commerce, including trading rules and requirements.

e) Financial conglomerates:

- Law 5/2005, which amends other financial sector laws in relation to the supervision of financial conglomerates.
- Royal Decree 1332/2005, which enacts Law 5/2005, which amends other financial sector laws in relation to the supervision of financial conglomerates.

f) Credit entities:

- Law 6/2005, regulating reorganization and winding-up of credit entities.
- Bank of Spain Circular 1/2005 for entities participating in TARGET-SLBE, regarding the adaptation of the SLBE standards to bring it in line with the modifications to the European Central Bank's TARGET system to enable connection to TARGET by means other than the «Interlinking» network.
- Bank of Spain Circular 2/2005 regarding computerized files containing personal data managed by the Bank of Spain.
- Bank of Spain Circular 3/2005 for credit entities, amending Circular 5/1993, regarding the establishment and control of minimum capital requirements.

g) Corporate governance:

- CNMV Circular 2/2005 regarding the annual corporate governance report and other disclosure to be provided by savings bank issuers of securities that have been admitted for trading on official secondary markets.

h) Collective Investment Institutions:

- Royal Decree 1309/2005, which enacts Law 35/2003 regarding collective investment institutions, amending their tax regime.

i) Securities markets:

- Royal Decree-Law 5/2005, regarding urgent reforms to boost productivity and enhance public tenders.

- -Royal Decree 1310/2005, which partially enacts Law 24/1988, regarding securities markets in relation to admittance for trading on official secondary markets, public securities offerings and the prospectuses required for said offerings.
- Royal Decree 1333/2005, which enacts Law 24/1988, regarding securities markets in relation to market abuse.
- Order EHA/848/2005, regulating the investment regime for the instrumental and temporary credit balances held by broker-dealers and brokers on behalf of their customers.
- Order EHA/3536/2005, regarding future credit rights that can be included in asset-backed securitization funds and charging the CNMV with establishing specific standards applicable to asset-backed securitization funds and their managing entities in relation to accounting and disclosure.
- Order EHA/3537/2005, which enacts article 27.4 of Law 24/1988, regarding securities markets.
- CNMV Circular 1/2005 amending the periodic disclosure requirements for issuers of securities admitted for trading on equity markets.
- The Resolution issued on 20 July 2005 by the General Directorate of the Treasury and Finance Policy, regulating fixed income market makers in Spain.

j) Government sponsored housing:

- Royal Decree 801/2005, ratifying the central government's 2005-2008 housing access plan.

II. INTERNATIONAL LEGISLATION:

Main EC provisions enacted in 2005

a) Money laundering:

- Council Framework Decision 2005/212/JHA on confiscation of crime-related proceeds, instrumentalities and property.
- Directive 2005/60/EC of the European Parliament and of the Council, on the prevention of the use of the financial system for the purpose of money laundering and terrorist financing.

b) Accounting:

- Commission Regulation (EC) No 211/2005 amending Regulation (EC) No 1725/2003, adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standards (IFRS) 1 and 2 and International Accounting Standards (IAS) No 12, 16, 19, 32, 33, 38 and 39.
- Commission Regulation (EC) No 1073/2005 amending Regulation (EC) No 1725/2003, adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council in relation to IFRIC 2.

- Commission Regulation (EC) No 1751/2005 amending Regulation (EC) No 1725/2003, adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council in relation to IFRS 1, IAS 30 and SIC 12.
- Commission Regulation (EC) No 1864/2005 amending Regulation (EC) No 1725/2003, adopting certain international accounting standards in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council as regards International Financial Reporting Standard (IFRS) 1 International Accounting Standards (IAS) No 32 and 39 (text pending for EEA purposes).

c) Statistics:

- European Central Bank Guideline 2005/4 concerning certain statistical reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics.

d) Organizational structure:

- Directive 2005/1/EC of the European Parliament and of the Council, amending Council Directives 73/239/EEC, 85/611/EEC, 91/675/EEC, 92/49/EEC and 93/6/EEC and Directives 94/19/EC, 98/78/EC, 2000/12/EC, 2001/34/EC, 2002/83/EC and 2002/87/EC in order to establish a new organizational structure for financial services committees.
- Commission Decision of 25 February 2005 amending Decision 94/140/EC setting up an advisory committee for the coordination of fraud prevention.

e) Euro:

- Commission Decision of 29 October 2004, creating the European Centre of European Technical and Scientific Centre (ETSC) and establishing the technical actions designed to protect the euro from counterfeiting.
- Commission Recommendation, dated 27 May 2005, regarding the authentification of euro coins and the treatment of euro coins not suitable for circulation.
- Council Decision 2005/511/JHA on protecting the euro against counterfeiting, by designating Europol as the Central Office for combating euro counterfeiting.
- Commission Recommendation dated 3 June 2005, regarding guidelines for the common national face design of euro coins to be put in circulation.

f) Corporate governance:

- Commission Recommendation dated 15 February 2005, regarding the role played by non-executive directors or supervisors and by Board of Directors steering committees or supervisory committees, applicable to publicly listed companies.

g) Unfair commercial practices:

- Directive 2005/29/EC of the European Parliament and of the Council concerning unfair business-to-consumer commercial practices in the internal market and amending Council Directive 84/450/EEC, Directives 97/7/EC, 98/27/EC and 2002/65/EC of the European Parliament and of the Council and Regulation (EC) No 2006/2004 of the European Parliament and of the Council (‘Unfair Commercial Practices Directive’) (text with EEA relevance).

h) Monetary policy:

- European Central Bank Guideline dated 15 February 2005, amending Guideline ECB/2003/2 concerning certain statistical reporting requirements of the ECB and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics.
- European Central Bank Guideline, dated 3 February 2005, amending Guideline ECB/2000/7 regarding monetary policy instruments and procedures of the Eurosystem.

i) TARGET:

- European Central Bank Guideline, dated 21 January 2005, amending Guideline ECB/2001/3 regarding the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET).

III. SPANISH REGIONAL LEGISLATION:

Main provisions enacted in 2005 affecting the savings banks

- Order of 23 December 2004, establishing the guidelines for community welfare work by savings banks domiciled outside the region (Extremadura).
- Order of 18 January 2005, issued by the Council for Tax and Public Administrations, regarding the register of local savings banks and senior management (Basque Country).
- Order of 9 February 2005, regulating welfare work by savings banks not domiciled in the region of Castilla-La Mancha (Castilla-La Mancha).
- Decree 83/2005, issued by the local government of Valencia regulating credit cooperatives in the autonomous region of Valencia.
- Law of the Principality of Asturias 1/2005, amending Law of the Principality of Asturias 2/2000, regarding savings banks, adapting it to the basic provisions of Laws 44/2002, regarding financial system reform measures, and 62/2003, regarding tax, administrative and social order measures.
- Legislative Decree 1/2005 enacting the amendment to laws 7/1985 and 4/1996 regarding the Savings Banks of Galicia.
- Decree 166/2005 amending Decree 240/1998, regulating the figure of customer ombudsman at the savings banks.
- Decree 170/2005 updating the ceiling on attendance fees and out of pocket expenses charged by members of the governing bodies of Galician savings banks.
- Legislative Decree 1/2005 enacting the revised text of the Savings Bank Law of Castilla y León.
- Decree 66/2005 enacting the revised text of the Savings Bank Law of Castilla y León, enacted by Legislative Decree 1/2005, in relation to governing and management bodies.
- Decree 62/2005 enacting Law 6/2004 regarding the savings banks of La Rioja in relation to their community welfare work.

ional Profile

Domestic Profile

7.1 INTERNATIONAL PROFILE

CECA has a permanent presence on WSBI and ESBG working groups

The Confederation maintained its prominent presence in international forums and organizations representing and defending the interests of Spanish savings banks. Most of these forums and organizations are, as would be expected, European in scope, and involved in developing community legislative initiatives as well as other issues of mutual interest such as corporate social responsibility, international accounting standards and the coordination of regulations.

CECA was particularly heavily involved in the **World Savings Bank Institute (WSBI) and the European Savings Bank Group (ESBG)** where it played a significant role. CECA's delegates held the vice-presidency of both WSBI and ESBG as well as heading the Coordination Committee, the chief body responsible for monitoring technical committees. It also remained a permanent member of all the committees and working groups in both organizations. The ESBG acts as a lobbying organization for the interests of European savings banks in Brussels, and CECA's contribution to its work is therefore of strategic significance for the sector.

Of the community-wide bodies, the role of the European Banking Industry Committee (EBIC) is particularly important. The EBIC brings together the associations representing each sector (private retail banks, savings banks, credit cooperatives, public banks, mortgage lenders, and insurance and leasing companies) and acts as the voice of the European financial industry at the European Commission. CECA contributes continually to the work of all committees, either directly as a member of key committees, or indirectly through the ESBG. Savings banks use the EBIC and, more specifically, the ESBG, to put across their positions on the various issues raised by the European Commission and other European bodies, such as the Committee of European Banking Supervisors (CEBS) and the Committee of European Securities Regulators (CESR).

CECA plays an active role on the consultative panel of the Committee of European Banking Superivsors

CECA was notably active on the **CEBS consultative panel.** The CEBS this year continued to focus on discussions about the consistent implementation of the Capital Requirements Directive in all EU countries and regulatory convergence on its future application. A number of consultative documents were published to which CECA responded either directly or through the ESBG. The CEBS also worked this year to institutionalise coordination with the two other level 3 committees in the Lamfalussy process, the CESR and the Committee of European Insurance and Occupational Pensions Supervisors (CEIOPS). This close coordination is designed to ensure consistency in technical and cross-sector regulations

CECA was also active in the European Payments Council (EPC), the coordinating and decision-making body on payments for the European finance industry. CECA sat on the Coordination Committee and contributed to the working groups, directly to those where it considered its interests were most closely involved, and to the others through the ESBG.

Still within the European environment, another contribution by CECA was to chair meetings of the Coordinating Committee of the WSBI-ESBG with officials of the countries holding the presidency of the EU Council over the year and with their successors. This tradition, which kicked off with the meeting with the UK authorities, opened up a particularly useful channel of communication and enabled the industry to ascertain first-hand, advanced knowledge of the priorities and positions of the governments that would be taking over the presidency for the following half-year.

On the global stage, CECA is, as we have said, an active member of the WSBI and made significant contributions to its various initiatives. These are described in detail below.

INTERNATIONAL ACTION TAKEN BY CECA IN 2005

CECA's presence on these committees and international organizations led to a number of specific results, described in detail below. CECA's activity on the international stage has focused on the following lines of action:

The Spanish financial system was the subject of an IMF asessment in 2005

The Spanish financial system came under scrutiny in 2005 by the International Monetary Fund (IMF), which ran a number of missions under its **Financial Sector Assessment Program (FSAP)**. The aim was specifically to assess the stability of the Spanish financial system. Of the EU countries, only Spain, Denmark and Portugal have consented to undergo this IMF examination.

In 2005, Fund officials visited CECA on a number of occasions to find out about the general background to the **financial activities of Spanish savings banks** and **the role CECA plays** in this activity. The IMF also visited specific savings banks and FUNCAS. All these missions were intended to give the Fund first-hand knowledge of the **legal and institutional framework** in which the savings banks operated and to evaluate the way the Bank of Spain exercised its supervisory role over the sector.

Its interviews with CECA tended to be highly technical. The main themes addressed were: the conditions under which banking was carried on, sources of risk, mortgage and consumer lending, management of the savings banks, application of new corporate governance legislation, the banks' investment policy, payment systems, securities settlement and transparency in financial policies. A CECA team gave a presentation on these issues and responded to the questions of the IMF technical staff. The issues that most concerned the IMF were cooperation between the banking regulators and Spain's Autonomous Communities, data about consumer and mortgage lending and information on the financial and technological services that CECA offered its member savings banks.

Savings banks play a key role in preserving the institutional biodiversity of Europe's financial sector

The final report from the FSAP will be written in the course of 2006.

On the **regulatory front**, debate intensified in 2005 on the process of creating the **European financial area** stimulated by two major initiatives from the European Commission:

- **The report on the main obstacles to cross-frontier financial integration.** The Commission carried out an exhaustive analysis of the potential barriers explaining the low level of integration of the European financial industry in 2005. The first phase was to open the issue up for debate across the whole European industry by carrying out an electronic survey. Then, having analysed the responses received, a final report was drafted for presentation to Ecofin, identifying the biggest barriers and proposing specific actions to eliminate them. Both the final report and the communications issued by Commissioner McGReevy emphasized **institutional biodiversity** as an essential feature of the European financial landscape that should be preserved insofar as it was beneficial to consumers.

- The **Commission's white paper** on the post-FSAP (Financial Services Action Plan) scenario. This set out the Commission's proposed strategy for financial policy in 2005-2010. Once the FSAP is fully in place, the Commission seems to want to move on to a new strategy for the creation of a single integrated financial area based on consolidation of existing legislation. Efforts would be concentrated less on designing new standards (it is felt that the FSAP has generated a degree of regulatory fatigue that must gradually be dispelled) and more on ensuring an efficient transposition of the existing community standards into national regulatory systems.

CECA took an active role in this debate defending the interests of the Spanish savings bank sector. It was aided in this endeavour by the ESBG which set up a dedicated working group to address these issues, on which CECA had a permanent seat.

Also in the field of regulation in 2005, the **Financial Regulation Committee** gave final approval to the EU's New Capital Requirements Directive, implementing the New Basel Capital Accords **(Basle II)**. This starts the clock ticking on the schedule for transposition of the Directive into national regulatory frameworks. Also in 2005, the **3rd Directive on Money Laundering and the Terrorist Financing** was definitively approved, although the impact of this standard on the savings bank sector will be fairly limited, many of its provisions having already been incorporated into Spain's Ley de Prevención del Blanqueo de Capitales (Prevention of Money Laundering Law) which came in January 2005.

As regards new initiatives, debate was dominated by the Green Paper on Mortgage Credit in the EU. With this initiative, the European Commission is seeking to decide whether there are grounds for intervening to regulate Europe's mortgage lending market. The Green Paper is, first and foremost, a consultative document aimed at the industry. In a similar vein, debate continued in 2005 on the **Consumer Credit Directive**. Following the negative reaction to its initial proposals the Commission reformulated the project and put forward proposals that were much more broadly welcomed. Finally, in the context of the latest measures envisaged by the FSAP, the Commission floated a number of preliminary proposals for implementing the new **Markets in Financial Instruments Directive**, which basically replaces the existing Investment Services Directive.

The Markets in Financial Instruments Directive will overhaul the European securities market

Other issues that concerned the experts in financial regulation were the legal implications of the Single European Payments Area (SEPA), possible revision of the Deposit Guarantee Schemes Directive, corporate governance of financial institutions, clearing and settlement systems, microcredit, issuance of electronic money, standardization of contracts and the common frame of reference for European contract law.

The issue of **Corporate Social Responsibility** remained on the agenda in 2005, although the expected European Commission Communication on the issue failed to materialise. Nonetheless, European savings banks took the opportunity to highlight their position as benchmarks for social responsibility within the financial sector. Two studies were published supporting this assertion. First, as a continuation of its 2004 work, the WSBI published the report **"Access to Finance: Measuring the Contribution of Savings Banks"**[1]. This report contributes to the global debate on how best to improve access to financial services, with data and figures that illustrate the contribution savings banks make to financial inclusion. Examples from developed countries are a notable new feature in a report of this type. These included references to the high level of banking penetration in Spain, higher than in other southern European countries, and the part played by savings banks in this process. This study formed the WSBI's submission to the United Nations' Blue Book published as part of the international year of microcredit.

Savings banks are a benchmark for CSR in the financial industry

The ESBG also published the report **"Savings banks' socially responsible activities, a wealth of experience"** [2] reviewing examples of good practice in social responsibility among European savings banks. The study served as the ESBG's application for admittance to the United Nation's Global Compact. A similar study but on a global scale is now being carried out to accompany the WSBI's application to join the Global Compact, and has already been approved by the official organs of the WSBI. Another matter related to access to financial services is the question of remittances. This is a major issue for savings banks as both senders and receivers of remittances, and the WSBI, together with Multilateral Investment Fund (MIF) of the Inter-American Development Bank (IADB),

(1) Available at: http://www.savings-banks.com/Content/Default.asp?PageID=184

(2) Available at: http://www.savings-banks.org/1/BJLLIFGCKEBBDOPFPPADJKEPPDB19DPNCDTE4Q/ESBG/Docs/DLS/2005-02680.pdf

held an international conference on the theme **"Remittances and financial inclusion: cross-regional perspectives"**. The conference was attended by representatives and experts from both ends of the remittance transfer process, including delegates from the CECA and savings banks. The conference was well-attended and the presentations were of high quality and dealt with the major themes affecting this global-scale process.

A key point among the international CSR initiatives is CECA's participation on the governing bodies of the Global Reporting Initiative. The open and inclusive approach of the GRI means it can incorporate different institutions, including companies, foundations and other bodies, into the core of its governing structure. These institutions are the "Organizational Stakeholders" and elect the Stakeholder Council and GRI Board, the top-level decision-making bodies of the GRI. The CECA board's decision to take part in May 2005 was influenced by the weight that GRI carried in the world of CSR internationally and the emergence of its proposals as de facto standards for the preparation of annual sustainability reports.

Still on the international stage, the commitment of savings banks to social issues led to their participation in the regional microcredit summit for Latin America and the Caribbean, held in Chile in April, as well as other forums organized by the European Microfinance Network as part of the international year. Also noteworthy was the participation of the Spanish pawnbroking institutions at the International Association of Collateral Credit Institutions held in Mexico in September. The savings banks are leading lights in this institution as they currently hold the presidency and represent the largest bloc of members.

In the area of **Payments**, CECA, through the ESBG and EPC committee, continued working to create a single payment zone for its clients (SEPA). The SEPA program aims to equalise payment terms in euros, whether national or cross-border. This is an unprecedented self-regulation initiative in the sector. Over the year the SEPA framework for payment cards was concluded and discussion begun on systems for transfers and debits. To complete its task the sector needs to resolve a number of outstanding issues such as approval of the directive on the new legal framework for payments, on which work continues.

CECA is playing an active role in the project to create a single European payments area

In the same field, in 2005 there were advances on the **clearing and settlement of securities** in Europe. In the course of the year there was a heated debate on the need to integrate this sector and the appropriate regulatory and prudential framework. The European Commission is carrying out an assessment of the likely impact of a directive in this field.

The biggest development in the field of **new accounting standards** was approval for the new version of IAS 39. There was also debate over the status of the European Financial Reporting Advisory Group (EFRAG), whether it should reinforce its independence or turn itself, as the Commission seems to want, into a Lamfalussy type committee. The ESBG, as the founder of the EFRAG, has been considering what position to take in this debate which is likely to intensify over the next few months.

As part of COAS's work on **Standards Specification and Definition** and in the context of the self-service standardization project, the savings banks took part in the European Committee for Standardization (CEN) XFS Group for the specification of development standards for self-service equipment (ATMs and other devices). Membership of this committee will mean the savings banks' needs will be represented in the final European standards – entailing compulsory compliance – for this equipment, which is an essential part of the distribution networks.

Regarding **technological cooperation**, a noteworthy development was the launch of the Retailbanks.net portal that will help clients to access financial services offered by twelve European countries, besides Spain. At the moment, these services include data on 51,000 branches, 69,000 cash machines and the Infodesk information service.

Finally, there was the **1st conference of the US/EU Retail Banking Forum** hosted by the WSBI in Brussels. The conference brought together experts from either side of the Atlantic to debate, analyse and compare their financial systems. The event's top-flight representatives of the financial world included European commissioners, senior federal officials and delegates from financial institutions in both continents. It was also an opportunity to showcase the report "A comparative analysis of the US and EU Retail Banking Markets", which included significant input from CECA's experts.

7.2

DOMESTIC PROFILE

CECA acts as a voice for savings banks in various government forums, concerning areas such as housing and land, agriculture, fisheries and food, labour and social affairs, industry, tourism and trade, culture, foreign affairs and co-operation, and economy and tax

CECA, as the voice of the federated savings banks before the public authorities, takes part in a number of Spanish national forums, through which it pursues the statutory objectives set out in this annual report.

For clarity, the Spanish forums where CECA represents Savings Banks have been classed into three groups. First, government forums, where CECA fulfils its role of liaising with Government representatives. Second, interbank forums, where the different representatives of the banking sector set out their views and positions on issues directly related to the industry. Finally, other organizations and associations. We limit ourselves here to mentioning the most important of these organizations or those that have played an especially prominent role in 2005.

GOVERNMENT FORUMS

CECA took part in the following Government strategic forums:

The **Tax Commission,** which includes representatives of the tax office, associations representing the sector, CECA and the AEB (*Asociación Española de Banca*) Spanish Banking Association together with Spain's four largest financial institutions. Debate was ongoing over the year on the tax implications of Bank of Spain Circular 4/2004 and led to amendments to the way Corporate Income Tax regulations treated banks' hedging of credit risk, and the clarification of other controversial points through responses by binding rulings from the Directorate General for Taxation *(Dirección General de Tributos)* on consultations submitted for this purpose by the associations.

The Commission also debated the treatment of financial intermediaries for VAT purposes which was settled in a satisfactory binding ruling by the Directorate General for Taxation.

The **Commission for Monitoring Garnishment Proceedings** is made up of representatives from the central tax agency (AEAT), the Confederation, AEB and the Spanish Union of Credit Cooperatives (*Unión Nacional de Cooperativas de Crédito* - UNACC). At meetings called by AEAT it receives information on official garnishment proceedings being undertaken by the central government against accounts held by debtors at lending institutions, and discusses any problems arising out of such proceedings. In 2005 it published statistics on action taken the previous year and resolved a number of discrepancies, although the issue relating to garnishment procedures on accounts where the debtor's salary is paid in remains outstanding.

The Confederation also belongs to the **Housing Framework Agreement Group**, together with representatives of the Housing Ministry, the AEB and UNACC. This group provides a forum for debate of the problems and proposals that affect credit institutions in the financing of low-cost public sector housing. In 2005, the group reported on the new State Housing Plan 2005-2008, which seeks to make it easier for citizens to find housing, published in the Official State Gazette on July 13, 2005 through Royal Decree 801/2005 of July 1, 2005. CECA gave input during the drafting of the Royal Decree, representing the views of the savings banks through a website set up by the Ministry for the various groups contributing to the decree.

The Committee for Monitoring the Arrangement for Financing the Improvement of Agricultural Structures, which brings together representatives from the Ministry of Agriculture, Fisheries and Food and CECA, approved a number of resolutions in 2005 on matters relating to implementation of the arrangement, such as advance payment of subsidies to savings banks, ranging from the standards to apply to the timing of new advance payments.

Spanish Confederation of Business Organizations (*Confederación Española de Organizaciones Empresariales* - CEOE)

The Confederation participates in the General Meeting of the CEOE, and sits on its Executive Board, Management Committee, Economic and Social Board, Export Promotion Board, Tax Committee, Social Security Commission, Labour Relations Commission, Education and Training Commission and the Corporate Commission for the Information Society.

The CEOE is the Spanish employers' organization. It is a voluntary organization counting a million private and public companies among its members, from all sectors (agriculture, industry and services). It keeps a permanent watch on economic, social and working conditions in Spain, with a view to putting forward solutions to improve corporate competitiveness.

It acts as a voice for companies vis-à-vis the government, public authorities, labour unions, public opinion and other forces of social and political influence. It also represents Spanish companies in international organizations and before the authorities of foreign countries.

It is also active in corporate training, the arts, research and education.

Economic and Social Council (*Consejo Económico y Social* - CES)

The Confederation forms part of CES representing the CEOE-CEPYME group. CES is the Spanish government's advisory body on socio-economic and labour matters. It issues rulings that may be binding or advisory, depending on circumstances, in regard to matters the Government submits to it for consultation and can report on its own initiative on matters falling within its remit. CES also produces an annual report on the socio-economic and employment situation in Spain.

CES was particularly active in 2005, including its exceptional report on the state of Spain (Social, Economic and Labour Annual Report), as well as its research and working documents on labour issues affecting companies. These included reports on Collective Labour Agreements and the retirement age, workers' participation in European public limited companies and the process for forming companies and encouragement of corporate dynamism.

In other areas, the group produced notable studies on technological and industrial co-operation, delocalization and the improvement of protection for consumers and users.

School of Industrial Organization (*Escuela de Organización Industrial*- EOI)

CECA is also a Founding Trustee and member of the Board of Trustees of the EOI, a not-for-profit organization set up in 1955 under an agreement with the Ministries of Industry and Education "to enhance the training of companies' executive staff or of those who may reach executive positions in the future". It is the first corporate management school in Spain and one of the oldest in Europe.

Its purpose is to be a standard-bearer in the training of directors and executives in corporate management, technology and the environment.

It notably developed a wide program throughout Spain to create and consolidate micro-enterprises and entrepreneurs, with a substantial contribution to funding from the European Social Fund.

The Confederation is also active in the Labour and Social Affairs Ministry's Expert Forum on Corporate Social Responsibility (CSR). This was set up the Government to hear proposals on CSR and advise on government initiatives in this field. As well as this Forum, there are two other bodies that the Government listens to before making any decisions on CSR: the Social Dialogue Forum, comprising the CEOE and unions, and the Spanish Parliamentary Sub-Commission for the Promotion of Corporate Social Responsibility.

Meetings of the CSR Expert Forum this year have sought to define and frame the concept of CSR and have analysed the basic guidelines laid down by the European Union.

INTERBANK FORUMS

Within the banking sector forums, mention should be made of work done in 2005 by the committees and working groups set up by the supervisory bodies, as vehicles for liaising with the industry. Likewise, mention should also be made of CECA's work in the Interbank Cooperation Center the Spanish Mortgage Association, the multi-sector forums for credit institutions and the Spanish Quality Association.

CECA remains in permanent contact with the AEB to discuss and coordinate on tax matters of common interest to put to the tax Authorities. The aim is to act more effectively to defend the interests of their respective sectors. In 2005, this led, among other matters, to negotiations on the tax implications of implementing IAS, via Bank of Spain Circular 4/2004, and the amendment of Corporate Income Tax Regulations relating to credit risk hedging. Action was also taken on the VAT treatment of financial intermediation services, information obligations regarding preference shares and other debt instruments and other obligations arising from the introduction of the EU Savings Directive.

Once again the Confederation worked in close cooperation with the **Bank of Spain**. The implementation of the new Accounting Circular, which profoundly altered the accounting regime for Spanish credit institutions, bringing them into line with the new environment of International Financial Reporting Standards, accounted for many of the contacts with the Bank of Spain in 2005.

The Confederation also participated directly in three commissions, the Advisory Commission on the National System for Electronic Settlement, the Payment Systems Commission and the Auxiliary Deposits System (SDA) Commission.

CECA, as representative of the savings banks, is in permanent dialogue with the Treasury, the CNMV and the Bank of Spain

CECA also cooperated closely with the Spanish securities market regulator, the **Comisión Nacional del Mercado de Valores** (CNMV). In 2005, much of its work with the CNMV concerned the new Circular on Corporate Governance Annual Reports by the Savings Banks. This helped introduce a standard that was better suited to the institutional and corporate nature of savings banks.

The Confederation was present, in addition, on the CNMV **Consultative Committee**, the main forum for representations and debate on the securities market. The broad representative base of this Committee (which brings together service providers and consumer representatives) affords its reports considerable weighting with the supervisory authorities. In 2005, the Consultative Committee looked at the various sanctions proceedings and proposed standards relating to the securities markets that came up in the course of the year. These notably included the new Regulations on Undertakings for Collective Investment, the Royal Decree on Market Abuse and the Circular on Savings Banks Annual Corporate Governance Reports. But the Consultative Committee also played a key liaison role between the Spanish financial industry and the CESR, the European Commission's main advisory body on these matters.

Finally, mention should be made of CECA's cooperation with the Expert Group set up by the Spanish Council of Ministers to standardise good governance recommendations for issuers of securities on Spanish markets.

The Confederation participates in the activities of the **Spanish Mortgage Association** and is represented at its General Meeting. Particularly noteworthy in 2005 was the cooperation on the proposed adjustment of Spanish standards to meet the recommendations of the European code of conduct on mortgage loans, which would allow Spanish lenders to sign up the code. CECA also cooperated on the assessment of two particularly important documents in this area that came out during the year: the European Commission's Green Paper on mortgage loans in Europe and the London School of Economics study on the EU mortgage market.

CECA, which represents its member savings banks before the public authorities, also works closely with the Ministry of Economy and Finance and with the **General Directorate of Treasury and Financial Policy**. The Confederation played an active role in all the standards proceedings arising in 2005, submitting technical reports to public hearings and thereby representing the views of the Savings Bank Sector. In the field of anti-money laundering measures, the Confederation was among the group of experts called in to prepare the Sample Catalogue of Risk Transactions for Credit Institutions.

The Confederation is also a member of the Financial Institutions Training Managers Group (*Grupo de Responsables de Formación de Entidades Financieras* - GREF) which comprises Heads of Training and Staff Development of banks, savings banks, rural banks and cooperatives.

It also sits on the Board and on various working groups of the **Interbank Cooperation Center**, a forum for cooperation between all Spanish banks, addressing projects of common interest.

Issues covered include the RAI (Register of Unpaid Acceptances), extra-banking information, handling of cash, standardization of the exchange of information for subsidized loans, computer security, electronic invoicing and shared software.

At the same time, the Confederation actively contributions to the multi-sector forums of the AEB, CECA and UNACC, ad-hoc committees that include representatives of all three associations and can thus address major systemic issues. 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, Standardization and Foreign Committee** (which basically deals with standardization and settlement systems).

It is represented in the Spanish Payment Systems Company (*Sociedad Española de Sistemas de Pagos* - SESP). This is a new company, set up to manage and administer Spain's National Electronic Clearing System, which is taking over this role from the Bank of Spain.

The sector is well represented on the Board of directors, created in April 2005, with nine members out of twenty (nine banks, Bank of Spain and the Cooperative Bank), and the Chairman and second Vice-Chairman drawn from the Savings Banks.

The main activities carried out at SESP in 2005 were: taking over responsibility for administering the National Electronic Clearing System, modernization of the communications network for exchange sessions, strengthening of the organizational structure, strategic analysis of the direction of Spanish payment systems under SEPA, and representing the Spanish financial industry by taking part in various international payment system forums.

The **Spanish Quality Association** (*Asociación Española para la Calidad* - AEC) is a private not-for-profit body, which seeks to foster and support a culture of quality as a means to boost the competitiveness of Spanish companies and organizations. CECA belongs to AEC's Committee of Financial Entities, which provides information and acts as a forum for the dissemination and promotion of quality and excellence in the management of financial entities and drives continual improvement and excellence through the sharing of experience and knowledge on "quality management" in the financial sector and among other interested organizations.

This role and the future projection of systems into a more European framework raises the issue of how to manage the necessary changes and what is the best way forward for Spanish institutions.

OTHER ORGANIZATIONS AND ASSOCIATIONS

Finally, other forums where the Confederation made a notable contribution are listed below.

The Spanish Association of Telecommunications and Information Systems Users *(Asociación Española de Usuarios de las Telecomunicaciones y de los Sistemas de Información* - **AUTELsi**), and the **Commission for the Development of Telecommunications.** The Confederation's role is to report needs identified by the sector (particularly of a regulatory nature) to try and provide feedback and solutions through any of its institutions.

Specifically, it supported the VoIP seminar and attended the AUTELsi Conference (for disseminating the results of working groups and commissions) and the AUTELsi Convention, where prizes were awarded for innovation and excellence in the sector for the promotion and development of telecommunications and of the Information Society.

CECA is also a member of the **Spanish XBRL** association headed by the Bank of Spain, alongside other financial institutions official bodies and service companies. It is part of the Technology working group and the Tools subgroup, whose aim is to compile first-hand knowledge of the different technologies (their benefits and drawbacks) involved in XBRL financial reporting. The association seeks to promote the introduction, adoption and development in Spain and internationally of XBRL (standard language for the exchange of financial information) to unify standards for presentation of corporate and financial information; to bring together public and private sector individuals and institutions to introduce and adopt XBRL, and to lobby both in Spain and internationally with organizations, entities, authorities, corporations and public and private sector groups; to plan and implement the process of adoption and development of XBRL in Spain and abroad; to cultivate the image and reputation of XBRL and promote the language through the process of introduction, adoption and development in Spain; to drive cooperation between the members of the association and promote initiatives for the introduction of XBRL to collaborate with the public authorities in the development, introduction and recognition of XBRL; to coordinate activities, events, research and similar activities involving XBRL and to promote and participate in studies and research into XBRL, both in Spain and internationally, as well as to advise members of the association and third parties.

The Confederation currently holds the Presidency of the employers' section of the Savings Banks Sector Joint Committee of the Tripartite Foundation for **Employment Training**, which is responsible for managing the training initiatives envisaged in the 3rd National Agreement for Continuing Training. In 2005, the committee met to debate with the unions at national level the priorities and relations regarding subsidies for continuing training and training plans in the savings banks.

08

Human Capital

The management of human resources has acquired strategic significance in the management of business organizations. The improvement of the quality of service depends increasingly on the professionalism and qualifications of individuals. As a result, human resources is now one of the main features distinguishing one organization from another.

These reasons are ample justification for giving CECA's human capital its own chapter in this report. The aim therefore is to describe the main developments in 2005 affecting the Confederation's human resources, and the principal objectives that have been set for the short and medium term. This chapter also gives details of the most significant activities in the human resources training service that the Confederation provides to savings banks.

8.1 PROJECT FOR STRATEGIC CHANGE IN THE INTEGRATED MANAGEMENT OF HUMAN RESOURCES

In the last decade the average age of the workforce has fallen: turnover has been 48% and 50% now have higher degrees

The progress made by the Confederation over the past 15 years, focused on the ongoing improvement of the service provided to its customers, has been reflected in the management of human resources. The various schemes and actions implemented during this period are evidence that the Confederation has been and is aware of the importance and significance of good management of human resources for a modern organization.

As an illustration of this process, over the last decade the headcount has been cut by 33%, turnover is 48%, 50% of CECA staff have higher university degrees, and the average age of staff has fallen considerably.

EMPLOYMENT FRAMEWORK

The savings banks and CECA set up a specific organization to negotiate industry-wide Collective Agreements and working conditions in 1978, ACARL (*Asociación de Cajas de Ahorros para las Relaciones Laborales)*, Savings Banks' Association for Labour Relations.

The previously excessive number of employee categories was trimmed to two professional groups in a deal struck in the last Collective Agreement for 2003-06. This creates an opportunity to reinvigorate human resources policies.

TOWARDS A STRATEGIC CHANGE

The strategy of Integrated Human Resources Management has been pursued through action in the following areas:

The integrated management project aims at a thorough overhaul of the culture, structure and skills of managers

- Renewing the corporate culture: our vision, mission and values have been updated and modernized to bring them more into line with the realities and needs faced by our member bodies, and to make them more competitive in terms of the quality and excellence of our services to members.

- Analysing and modernising the functional structure: in 2005 we began a process of analysis and moderniization of the functional structure, from the development of job descriptions to the evaluation of each role. This should allow CECA in 2006 to modernise its organizational structure (vertical and horizontal), through professional/job matching to achieve the best results and the greatest professional development.

- Development of a skills environment: the organization's skill bases are being enhanced by the design of an integrated and standardized skills system covering all levels of the organization, differentiating levels of functional responsibility and encouraging professional development.

- A new internal communications strategy has been launched, focused on active and, particularly, proactive communications in the pursuit of transparency and continuity. 2006 will be a year of communication and training in the new environment of active people management at all levels of the organization.

- To this end, a process that is fundamental for any strategic change in corporate culture is now under way, the implementation of CECA's first Executive Development program. This has begun with a process of training and technical and managerial development for seventy executives.

8.2 2005: MAIN ACTIONS

ESCA made a considerable contribution to the professional development of savings bank employees. 37,613 employees attended courses

TRAINING

The focus was on two main areas, internal training and training offered to savings bank personnel.

Internally, executive development was taken forward in line with the targets set out in the Integrated Management project, with a particular emphasis on management by skills, management by target and expertise and competence in using the comprehensive scorecard, without neglecting the extension of the program to all employees. This involved 343 courses, totalling 33,047 hours or 41.2 hours per employee over the year.

Training for savings bank employees was carried on through the Savings Banks Higher School (*Escuela Superior de Cajas de Ahorros* - ESCA).

Its activities in 2005 were as follows:

	PROGRAMS 2005	
CLASSROOM TRAINING	**143**	**4,307**
Seminars	104	2,271
Experts Long Term	16	818
Conventions	23	
OFF-SITE TRAINING	**787**	
Distance learning	79	
Online	569	
In Company	139	
TOTAL	**930**	

Notable innovations in the field of training included the teaching simulator in the Branch Management course, the new courses on Risks, the development program for sales managers and the area of standards compliance.

RECRUITMENT

Internal recruitment seeks the best fit of employee to post and prioritises opportunities for the association's employees.

When, for reasons of the high degree of specialiization required, no internal candidate is suitable, young professionals with considerable potential added value are recruited from outside the organization. Last year there were 34 such recruitments.

38.85% of CECA's staff are women, whose presence in executive posts is growing

HEADCOUNT

As of December 31, 2005, the headcount was 803 employees, a net rise of 23 (2.95%), following 34 hirings and 11 departures. At year-end, the Confederation employed 491 men and 312 women.

All new hirings were on permanent contracts.

Strategic Forum for Savings Banks

Forums Created by Board Committees

Representational Forums

09

Strategic Forums For Sector Cooperation

As a general framework for joint analysis and reflection on different topics of interest to savings banks, the Confederation has set up a number of forums for collaboration within the sector. These forums can be divided into two main groups: those drawn directly from the committees set up directly by CECA's board of directors (the Welfare Projects Study Committee and COAS), and representative forums, which also seek to defend the interests of the sector. All of these include participants from the savings banks and Confederation representatives.

Most of these forums are structured around a Commission or Committee, where savings banks from the various Federations are represented and which meet periodically, as well as holding an annual Conference, to which all 46 member institutions are invited. When circumstances so require, workshops, seminars or day-conferences are held on specific topics. The most important forums or those that have been most prominent in 2005 are described below.

9.1 STRATEGIC FORUM FOR SAVINGS BANKS

For the first time ever, the boards, control committees and top management of Spain's savings banks met in a strategic forum, this time to discuss corporate social responsibility

In addition to these two types of meeting, a strategic forum for the sector was held this year under the slogan Savings Banks, Leading the way in Social Responsibility. For the first time ever this brought together the boards, control committees and top management of the Spanish savings banks to address, from different points of view, a vital issue for the sector: Corporate Social Responsibility.

The Forum attracted more than two thousand people, and was well attended by different authorities from the economic and social arena. These included Spanish Prime Minister José Luis Rodriguez Zapatero, Rodrigo de Rato y Figaredo, head of the IMF, for the opening address, and the Prince of Asturias at the closing ceremony.

Working sessions divided into four main blocks. These analysed: CSR from an international perspective, savings banks as a model for CSR, the role of savings banks in issues related to social responsibility and CSR in 21st century Spain.

The Strategic Forum of Savings Banks served to highlight two core issues: first, fraternity and cooperation as two of the key features of the Spanish savings banks, and, second, the part the banks have played in leading the way in corporate social responsibility since first being founded.

Discussion revolved around the four essential pillars of CSR for savings banks: rules and practice for good corporate governance, the social and environmental dimension in domestic and international relations, the social focus of the finance industry, and the Welfare Fund programs.

9.2 FORUMS CREATED BY BOARD COMMITTEES

In 2005 the welfare projects study committee worked mainly on the proposal for a sector model based on CSR in savings banks, with welfare projects playing a leading role

CECA's Board has created two support committees: the Welfare Projects Study Committee and the Committee for Organization, Automation and Services (Comisión de Organización, Automación y Servicios - COAS).

The **Welfare Projects Study Committee** was created to investigate and analyse this area and to take forward new Welfare Fund initiatives.

The Committee met twice in 2005, with two priority aims: first, to develop a model for the sector based on the concept of CSR in savings banks, with a leading role for the Welfare Fund approach, and, second, to anticipate and debate the direction of Welfare Fund projects over the coming years.

The **Committee for Organization, Automation and Services (COAS)** is the main body for promoting cooperation between savings banks in operations, technology and new products and services. It pursues this aim by collecting, exchanging and disseminating expertise on best practice and experience, both in Spain and abroad, and carrying out studies and projects designed to enhance the organization and operation of savings banks. It backs this up with technical assistance where necessary and assessments of needs for the development of common services.

COAS has created a number of functional committees to respond to the needs and concerns of federated savings banks, looking at areas such as distribution channels, the quality and management of knowledge, negotiating with suppliers, business support systems and processes, technological architecture and innovation, standardiization and harmoniization, and enhancing cooperation.

Notable among the tasks COAS worked on in 2005 were a number of strategic projects: Launch of R+D+I activities, with publication of regular updates and the creation of R+D+I observatories; development of models for the promotion of services the savings banks offer to companies; analysis and redefinition of the services provided by savings banks and cash management (SDA) as well as the CECA abierta quality program.

COAS, in its role as a channel for the industry's concerns, sought to identify the main short- to medium-term issues affecting the sector through a wide-ranging survey of all the savings banks. Analysis of the results highlights the continuing spirit of cooperation in the sector and general satisfaction with the achievements of COAS over its first phase (1999-2005) and establishes a clear path forward for new projects and proposals. Conclusions were distributed to the savings' banks management to endorse and support the future direction.

Notable COAS projects this year include: the launch of its R+D+I activity, the development of the models for developing savings banks' services for companies, analysis and revision of services offered, cash management and the CECA abierta quality program

The main activities of the COAS committees in 2005 were as follows:

- The **Technology Architecture and Innovation Committee** carried out a detailed monitoring exercise on progress in new technologies and how these can be used to add value to the savings banks business both in terms of cost savings and through the creation of new customer-focused products and services.

  In 2005, four main projects were managed: Financial Reporting to the Bank of Spain under IFRS – ARIES, Analysis of Alternatives to Central Systems Architectures, Virtualiization of Servers and, finally, Standardiization of Self-service.

The ARIES project has given savings banks a common tool for generating the financial statements required by the Bank of Spain under the new Circular 4/2004 incorporating international accounting standards (IAS). This tool, coupled with the centralized support service at CECA, provides a common and homogeneous template for information filed with the regulator and will allow the industry to perform common revisions and maintenance to financial statements in the future.

The Alternatives to the Central Services Architectures project looked at technical and economic options for developing traditional IT systems based on "centralized architecture" from a limited number of suppliers towards "open architecture" systems that hold out the prospect of improved service to users and customers as well as major savings in operating costs.

Server virtualiization is an emerging technology that makes more efficient use of technological resources, cutting the operating costs of IT systems and the time it takes to deliver new resources on demand, allowing quick response to market needs for new products and services.

- The **Quality and Knowledge Management Committee** is working on the following projects: CECA Abierta, a procedure and solution for managing and controlling requests, enquiries, suggestions and incidents generated in the course of providing the services offered by the Confederation, and the Impact of Quality on Savings Bank Management (indicators of quality, customer satisfaction and excellence - EFQM).

The Committee investigated security issues in the sector with a view to redefining and standardising new threats and creating appropriate organizational structures at sector level. It also issued recommendations on how best to coordinate security in a bank's internal organization.

Melania, the industry Knowledge Management Network, continued its web-based cooperation activity. In 2005 there was a considerable rise in the creation of new forums and the activity of existing forums.

- The **Distribution Channels Committee** pursued the Internet Financial Channel project in 2005, which produced sector-specific reports on the main financial distribution channels that savings banks offer their clients. The project took a strategic view of internet distribution, identifying the key factors in its development and best practice in the financial sphere, both at home and internationally. It also included a bank-by-bank study in which, apart from ranking each savings bank in terms of sector best practice, it diagnosed the situation of each and made a series of recommendations for immediate action. Finally, the project created an observation model that sets benchmarks for continuous monitoring of the development of internet distribution.

- The Standardiization and Payment Systems Committee worked intensively on the transformation of the banking system based on the European target - under the SEPA project - of having a standardiization process in place by 2008.

Also, administration and management of the SNCE (*Sistema Nacional de Compensación Electrónica*) was transferred from the Bank of Spain to the institutions in a new payment systems company, the *Sociedad Española de Sistemas de Pago* (SESP).

In addition, necessary steps were taken to upgrade Spanish infrastructure for interbank exchanges and settlement in preparation for January 2008 and so that Spanish banks will then be able to offer pan-European products and services, taking account as far as possible of the expectations and needs of Spain's savings banks. In the same field of European upgrading, the Committee worked to improve implementation of Regulation 2560/2001 as regards transfers and its requirement for absolute harmoniization between Spanish and other European transactions.

Another leading project was the promotion at home - in Spain - of a stronger perception by customers of the services offered by banks in the field of payments and a wider understanding by the Spanish regulators. Work continued to implement transfers with shared costs - between originator and beneficiary - and to develop the Analysis and Redefinition of Services (ARS) project.

In the area of improving efficiency and cash distribution the development and implementation phases of the Bank of Spain's Auxiliary Deposits Systems (*Sistema de Depósitos Auxiliares* - SDA) were successfully completed. This project has substantially cut the costs of cash management and increased the service options available for the savings banks and their clients. At the end of 2005 there were 31 SDA operational centres offering services in nearly the same number of provinces again and managing substantial quantities of cash. The committee also started work to integrate management of coins to the SDA over the coming year.

Interbank cooperation was fostered with the development of a standard electronic bill, which was published. The government, via the tax authorities of the AEAT, has adopted this standard and is supporting its general acceptance and, ultimately, its success.

As part of its relations with the government, the Confederation continued to work on the processes for making tax collection more efficient. The most important development here was the launch of the payment gateway, a major step forward for online tax collection.

- The **Business Systems and Processes Committee** was active in three main areas in 2005. In its Operating Efficiency project for the sector, it completed its fourth comparative study and rolled out its tool for control, management and monitoring of efficiency, scaling and productivity in all areas of the savings banks' activity.

Its project on Immigrant Remittances was designed as a fully competitive service to support the savings banks in their strategies to capture business from the burgeoning sector of new residents. Under the Bravo brand and with fifteen correspondents in eleven countries, the service covers the home countries of more than 80 per cent of immigrants and ended the year with over 20,000 remittances sent.

Finally, it made available to savings banks SBPweb, the online version of its wealth management/private banking tool. In the course of 2005 participating banks completed the necessary steps to migrate to this new version.

9.3 REPRESENTATIONAL FORUMS

PUBLIC PROFILE FORUMS

CECA has encouraged the setting up of a network of strategic forums to look into all the management and advisory functions that make up the activity of a savings bank. 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.

The **Marketing Commission** is the forum for cooperation between savings banks to pool knowledge and experience of financial products available, of their features and of any issues concerning the marketing of products and services.

The Marketing Commission in collaboration with the technology area, has begun to market and run its Pulso information service, which means all savings banks can find out the financial flows are going through the Spainish financialal system

In 2005, work concentrated on identifying the product and pricing strategies currently applied by the Spanish financial markets and the European banking sector. It also addressed the improvement in the indices used by the COAS Efficiency project to measure the effectiveness of marketing departments.

At the same time the Pulso information service, which means each bank can check the monetary flows being generated by the financial system was rolled out. This service gives marketing departments a precise analysis of their competition.

The **Committee for Directors of Communications** is a forum for media relations managers from the savings banks to address all the issues that affect them in common.

CECA has developed a communications policy based around the conviction that transparency of information is essential if our member institutions are to be viewed positively by the public.

To this end, the committee remains in continuous dialogue with the media, ensuring relations remain fluid and easy with an attitude of openness and accessibility, frequently putting over our points of view and responding quickly to media requests.

In 2005, major progress was made on two projects within the communications strategy. The first was an analysis of the image offered by savings banks. The second was the implementation of a communications strategy to highlight the impact of savings banks' welfare projects.

The heads of advertising and communications have their own forum for cooperation in the **Savings Banks Advertising Committee**. This forum pulls together members' experience on campaigns, promotions, suppliers, merchandising and any other issue or problem related to advertising.

Among the problems discussed over the year is the analysis of the problems created for savings banks by the need to get advertising campaigns approved by the authorities given the lack of clear criteria and sometimes excessive delays in processing applications. The committee also investigated the use of new technologies to disseminate advertising campaigns in the branches.

The *"Hogares Conectados"* (Online Homes) initiative ran a campaign in which the final images and printed publicity materials were made available to the savings banks based on their specifications.

The **Customer Service Commission** is the space for cooperation between savings banks on all matters relating to customer service.

In 2005 the commission's work centred on collaboration with the Bank of Spain, responding to requests for information on the current state of the savings banks' customer service departments following Ministerial Order ECO/734/2004, and passing on suggestions from the industry following new requests for information on complaints and claims lodged with member institutions.

A report was drawn up on behalf of the savings banks summarising the results of a survey of each customer service department on complaints and claims dealt with over the year. The report presented the results grouped together for the sector as a whole.

The committee also worked on a system for classifying complaints and claims that would make the work of these departments simpler and easier.

FORUMS FOR REGULATORY GUIDANCE

The purpose of the **Legal Advisory Committee** is to study and implement measures of a legal nature that affect the whole sector. In 2005, the committee analysed in detail the legal implications of each legal measure passed or coming into force in the year. In Spain, notable measures included the new regime for issuing securities (including new prospectuses), the obligations on inside information and market manipulation in the Royal Decree on market abuse and the new regulations on undertakings for collective investment.

In 2005 CECA's Legal Advisory Committee focused on two issues: good corporate governance and money laundering

In this context, two specific matters that dominated the attention of the legal committee should be highlighted: corporate governance and the prevention of money laundering. As regards corporate governance, the committee continued its labours alongside the board of directors' working group in connection with the Annual Corporate Governance Report on savings banks issuing negotiable securities for the first time in 2005. On money laundering, the **Working Group for the Prevention of Money Laundering** continued its work. The group was set up by the legal committee and includes legal and technical experts from several savings banks who are charged with analysing, among other matters, the implications of the wide-ranging reform of regulations under the Law on the Prevention of Money Laundering (approved in January 2005) and to draw up technical reports for various regulatory projects proposed by the General Directorate of Treasury and Financial Policy.

The Legal Committee also collaborated closely with the Accounts Committee on analysing the new Accounts Circular. Specifically, it clarified the decisions and policies imposed by the new regime on the Board of Directors and provided technical assistance to the Accounts Committee in preparing a model annual report for savings banks.

The Legal committee also paid close attention to affairs related to compliance in the savings banks. Here it is worth pointing out the presentations on this subject at conferences for legal advisors, as well as the workshop on Regulatory Compliance in the Savings Bank Sector.

The Tax Commission has paid particular attention to the tax implications of BOS Circular 4/2004 with its changes to the rules on Corporate Income Tax

Finally, the 2nd workshop for General Secretaries was held in February attended by the Vice-Chairman of the CNMV. The workshop was an opportunity to pool reflections on recent reforms to the regulatory regime applying to the supervisory bodies and corporate governance of savings banks.

The **Taxation Committee** meets monthly to put forward for analysis and debate any taxation issues affecting the sector. It also has an institutional role representing the sector to the tax authorities facilitating the defence of savings banks' interests. Over the course of the year, it has paid special attention to the tax implications of Bank of Spain Circular 4/2004 and the resulting amendments to regulations on Corporate Income Tax.

It also looked at other relevant issues: the tax and information regime on preference shares and other debt instruments, VAT treatment of financial intermediation services, information obligations flowing from the EU Savings Directive, levying of municipal taxes on cash machines, billing of interbank transactions, certification of contractors, requirements of the autonomous tax offices, taxation of loan guarantees, etc.

The savings banks' tax specialists also meet every six months to analyse and discuss tax matters affecting the banks. The two meetings in 2005 concentrated on the tax implications for savings banks of the transition to International Accounting Standards (IAS) implemented through Bank of Spain Circular 4/2004 and amendments made to the Corporate Income Tax regulations. They also analysed other relevant issues such as the regulations published in implementation of the General Tax Law, the new disclosure obligations deriving from the Savings Directive, the special tax rules under the Spanish non-resident tax regime (IRNR) and the Directorate General for Taxation's binding rulings on consultations lodged by CECA on various issues.

ACCOUNTING AND AUDIT FORUMS

The State Auditors' Coordinating committee raises, analyses and coordinates all actions required to ensure the correct and efficient discharge of internal audit functions at savings banks.

Projects carried out in 2005 either directly by the coordinating committee or by its various working groups were aimed to develop audit programs, most notably work on IAS and, based on Basle II, the revised treatment of credit, market and operational risk.

The State Auditors Coordinating Committee has focused on developing audit programs, most notably on IAS and changes to the treatment of risk under Basle II

Also, as part of its mission of permanent education of internal audit professionals at the savings banks the committee, in partnership with ESCA, offered various courses on the prevention of money laundering and sector training in Internal Audit of Models (BIS II).

In the first half of 2005, the **Accounts Committee** of the savings banks carried out an in-depth analysis of Circular 4/2004 governing the transition by financial entities to IAS, issuing a number of reports on the content of the items to be included in the new financial statements, both public and reserved, which could be used as a guide by the savings banks in drawing up their financial statements. It also launched an application that allows the preparation of financial statements using a Unified Charter of Accounts and a data model that contains all necessary information. This was adopted by twenty savings banks.

The committee also worked alongside the Savings Banks Tax Committee to produce a full set of accounts which can be used by the sector for preparing the data for first-time application of IAS. These included the whole range of transactions that would be affected by the adoption of the new accounting standards.

After completing its analysis of standards deriving from the Accounting Circular, in the second half of 2005 the committee studied the information that must be made public under IAS and included in the Annual Report and Financial Statements of financial entities. As a result of this study, it developed a model for both consolidated and parent company annual reports, containing the accounting tables and relevant information required by the Bank of Spain and IAS.

WELFARE FUND FORUMS

In 2005 the Chairmen and Executives workshop on the savings banks' Welfare Fund projects, which had been held the two previous years, was integrated into the Strategic Forum held in June which was also attended by members of the Boards, Control Committees and senior management of the 46 savings banks. The forum focused on the part played by savings banks in CSR, emphasized the leading contribution of Welfare Fund projects and the way that the relatively recent concept of CSR had in fact been integral to the activity of the Spanish savings banks since their origins.

Among the main illustrations of the cooperation between Savings Banks in their Welfare Fund projects are the activities carried on through the **National Savings Banks Commission for Welfare Fund Projects**. This is a chiefly consultative body although it is responsible for managing, at the behest of CECA, many of the savings banks' join social projects.

The National Commission for Welfare Fund projects has rolled out an initiative to assess the impact of projects on wealth creation and employment in Spain

This year it has set up a project for cooperation on Welfare Fund projects involving 37 savings banks, who between them make 97 per cent of Welfare Fund investment. 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 part 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. The Assessment of the Impact of the Welfare Fund, the first study of this nature anywhere in the world, was entrusted to the consultants PriceWaterhouseCoopers and AIS, based on a proposal by CECA's Welfare Fund Department. As well as the assessment report, published in November, the project included others on best CSR practice in Spain and the strategic role of Welfare Fund projects, as well as creating tools such as a simulator for wealth and job creation.

There was a considerable increase in 2005 in cooperative welfare projects involving savings banks. Of the two National Commission working groups created in 2004 to look at microcredit and intellectual property rights, respectively, only the microcredit group remained active in 2005. The intellectual property working group stopped meeting having achieved the first of its targets: the conclusion of a framework working agreement with the copyright management company VEGAP, signed by nearly all the savings banks on April 6.

The National Commission for Welfare Fund projects also created two new working groups, on Standards and Communications. The standards committee's role is essentially to analyse the impact of the latest standards affecting social projects, particularly those produced by Spain's autonomous regions, and to standardise information for the authorities. The communications working group was mainly concerned with identifying best practice in the sector regarding the communication of Welfare Fund projects, both externally and to employees and government bodies.

The microcredit working group together with some of the savings banks most active in the field operated as a standing advisory committee for any banks interested in entering the business. It also took part in events to celebrate the UN's international microcredit year. Caja Granada, the designated focal point for events in Spain, acted as a conduit for the International Year of Microcredit to the whole of the savings bank sector. Among other initiatives, the working group and Caja Granada organized an exhibition on microcredit, opened at CECA by Queen Sofía in November, and published a microcredit white paper in collaboration with FUNCAS.

More concretely, the working group undertook closer collaboration with Spain's Official Credit Institute (Instituto de Crédito Oficial - ICO), an initiative that culminated in the signature of a specific framework agreement with the savings banks on microcredit lines offered by the official financing agency.

As regards cooperation on social projects with public authorities the savings banks, through CECA's mediation, signed a framework cooperation agreement with Spain's Culture Ministry to promote joint initiatives with national museums and to disseminate contemporary art. Joint actions with the Social Affairs Ministry included the promotion of the 4th centenary of Don Quixote and discussions on possible cooperation on dependency.

There was public recognition for social projects in 2005 in the form of prizes presented by the magazines *Mi Cartera de Inversión* and *Actualidad Económica* for various of the savings banks' Welfare Fund projects. The program as a whole was also honoured with the 2005 Imserso Infanta Cristina prize, for its important long-term work for the benefit of the elderly or dependent people.

CECA and 19 Spanish savings banks helped pilot the financial supplement to the GRI

Notable contributions in the area of providing information on social responsibility included the Spanish savings banks' role in **piloting the financial services supplement to the GRI. The GRI** is becoming a de facto standard for the drafting of annual sustainability reports. In 2005, it published the environmental section of the supplement for financial services companies, as an addition to the social section, and invited various of the world's financial institutions to take part in the pilot process. This meant working together on these new social and environmental indicators for the financial sector, to give an idea of how they work in practice. Based on these assessments the GRI will publish its definitive version of the indicators to be used by financial service companies that prepare their annual sustainability reports according to GRI guidelines. CECA and the 19 savings banks that took part in the project were the only Spanish participants.

National Committee of Pawnbroking Institutions held a historical exhibition and a joint auction of jewellery in Granada

All of Spain's 25 pawnbroking institutions are affiliated to savings banks and are represented in the National Meeting and, by proxy, in the **National Committee of Pawnbroking Institutions**. 2005 was an exceptional year for pawnbrokers from the point of view of sector cooperation. A historical exhibition and a joint auction of jewellery were mounted at the General Meeting of Pawnbroking Institutions, held in Granada in October, to which most of the pawnbrokers contributed pieces either as exhibits or lots. At the meeting, progress was noted towards closer coordination in operational matters, the strengthening of training programs for valuers and joint initiatives to bolster the public image of pawnbrokers. It was proposed that each meeting should organise relevant events, like the exhibition or auction held in Granada, to accompany the annual workshops at the pawnbrokers' forum.

HUMAN RESOURCES FORUMS

The **Savings Banks Technical Training Committee** is a knowledge-sharing forum that suggests initiatives, lays down principles and coordinates actions to develop all aspects of human resources in savings banks.

OTHER FORUMS

The **Savings Banks Management Planning And Control Committee** held a number of working meetings over the year, as well as its annual workshops which fundamentally discussed the budgeting systems for financial institutions, the risk mapping envisaged under CECA's Sector Risk Project and key issues deriving from the migration to IAS, as a result of the new accounting Circular.

In 2005 the Melania Management Planning and Control Club was implemented with the usual modules for this knowledge management tool.

The **Statistics and Analysis** working group was set up in September 2005, with a number of aims. First, to identify what information, in addition to that required by the Bank of Spain, each bank should submit to the Confederation to improve the financial analysis of the savings banks. A second aim is to define and harmonise the methodology used to analyse the savings banks. The third aim is to help design the content of statistical publications aimed exclusively at savings banks and of management reports to be produced by the Confederation's Management Statistics and Analysis Department, with details on each bank.

In 2005, Bank of Spain Circular 4/2004 came into force, requiring members to file their financial statements under international financial reporting standards (IFRS). This brought with it a radical change in the basic accounting information and, hence, in the statistics derived from it. As a result the Management Statistics and Analysis group had to intensify its work, holding three meetings in the year's final quarter. These redefined ratios for NPLs, profitability, liquidity and solvency, decided the content of the monthly statistics Bulletin and made progress in devising a number of other reports.

In 2005 the Research Commission was set up, with a remit to pool information and experience and to oversee economic analysis

The **Research Commission**, comprising heads of the research departments of savings banks, was set up to exchange information and experiences and pool their efforts in analysing the economic situation in Spain and its regions as well as internationally.

In 2005, its first year of operation, the Research Commission met three times and analysed the national and international economic environment, presented statistical methodologies and data bases and initiated a number of projects, including the possibility of joining forces in analysing the Spanish housing market, based on the experience of the savings banks in their various markets.

The Commission also sponsored a number of seminars such as the EU Financial Perspectives 2007-2013 seminar.

In June 2005, the first **New Channels Conference** was held, serving as a point for meeting and debate on issues of common interest to the sector such as: electronic signatures, contact centres, multi-channel strategies, e-administration, etc.

The various committees set up to steer the process of Basle II implementation also enabled savings banks to take an active role in the **Risk** forum, looking to seek solutions, harmonise criteria and plan future actions to achieve the aims of this process. In 2005, representatives of the savings banks met in commissions set up to look into each of the risks included in the sector risk control project.

The **Savings Banks Housing Group** looks at all aspects of Spanish housing strategy that affect savings banks and seeks consensus among member institutions on what position to take to the Housing Ministry. It was intensely active in 2005. There were a number of meetings to analyse drafts of Royal Decree 801/2005, of July 1, 2005, and the new State Housing Plan for 2005-2008 promoting citizens' access to housing, as well as the Ministerial Orders and Resolutions that implemented the decree. The group also submitted the relevant representations to the Ministry.

The Housing Group held a meeting with the chairman of ICO, at ICO's request, to analyse the situation of reverse mortgages in the savings banks and invite member savings banks to present proposals on this financial product.

CECA provides a wide range of financial, associative and technological structures and services for its member banks, that support and channel the products and services savings banks offer their customers.

10.1 TECHNICAL AND FINANCIAL GUIDANCE

CECA offers the banks a wide range of associative, financial and technological structures and servcies

The Confederation compiles and analyses data for the savings banks on both the sector and the financial system as a whole, including data required by the Bank of Spain and other institutions and supplementary data collated from the banks themselves. It provides the savings banks with the necessary IT tools to collect, collate and submit the information required by the Bank of Spain. In 2005, CECA had the major task of adapting all its systems and analysis to the new information structure introduced under Bank of Spain Circular 4/2004.

This information is enriched, analysed and periodically reported back to members in a number of internal publications available to all savings banks (Statistical Gazette, Quarterly Report, Comparative Analysis) as well as others specific to each bank (Income statement, Capital, Liquidity, NPL, etc.). By delegation from the Bank of Spain, the Confederation also publishes the balance sheets and income statements for individual banks and consolidated accounts for savings bank groups.

The Confederation compiles and analyses data for the savings banks on both the sector and the financial system as a whole

It also draws up reports for savings banks on the Spanish and international economies, summaries of which are made public through a number of media addressing whatever issues are current at the time. Savings banks have instant access to the main Spanish and international economic indicators, which the Confederation summarises and presents.

The Confederation has a documentation centre for issues affecting savings banks, the financial system and the economy in general

The Research Club makes the latest economic publications available to savings banks, both concerning Spain and international, as well as the most relevant economic indicators, updated daily.

The Confederation is also responsible for collecting and disseminating reports issued by the savings banks and has a documentation center specialising in issues affecting savings banks, the financial system and the economy in general, which savings banks can access either directly or via Melania. It also publishes the Confederation's circulars to savings banks and maintains subscriptions to external documentary data bases for the sector, thereby saving on costs.

CECA offers advice and consultancy services to the savings banks in a number of areas: financial regulation, organization, project management, human resources, quality, legal and tax advice, regulatory compliance, advertising etc.

CECA also offers advice and consultancy services to the savings banks in a number of areas: financial regulation, organization, project management, human resources, quality, legal and tax advice, regulatory compliance, etc. Besides these it provides marketing and advertising services mainly aimed at the analysis of customer attitudes and preparation of campaigns.

Elsewhere, CECA took part in negotiating and structuring various framework agreements, including the agreement with the Housing Ministry on financing the State Housing Plan 2005-2008, and with the Ministry of Agriculture, Fisheries and Food, on a framework for collaboration to help equip the holdings of farmers belonging to Irrigation Communities that have improved and consolidated their irrigation systems, as part of the National Irrigation Plan 2008.

It also negotiated and signed the Framework Agreement on Collaboration with the Spanish Association of Foundations, a public service organization created from the merger of the Spanish Confederation of Foundations and the Foundations Center, with the aim of promoting commercial and financial relations between the Association and CECA and its member savings banks.

CECA also signed ten financing contracts in 2005 and an addendum with ICO

CECA also signed ten financing contracts in 2005 and an addendum with ICO. The first of these was to finance investment in SME projects worth EUR 8.1 million. The second was to finance the acquisition of any productive asset by transport companies and was worth EUR 2 million. The third, was for projects that promoted the internationaliization of Spanish companies for EUR 1 million. The fourth was to finance investments in technological innovation and was worth EUR 7 million. The fifth provided funds for investment projects to take advantage of renewable energies and improve energy efficiency and was worth EUR 14 million. The sixth, the 2005 Microcredit Facility worth EUR 750,000 went to finance employment or business projects that encourage self-employment in microenterprises or economic activities that find it hard to access normal financing channels. The seventh was to fund investments in renovation and complete moderniization of mature tourist destinations. This is developed and run as a joint initiative between local authorities and the private tourist sector. Funds available total EUR 6.75 million. The eighth, worth EUR 1 million, is to finance the repair or refurbishment of industrial, commercial, agricultural, forest or farming plant and equipment and irrigation systems in Autonomous Communities that were hit by forest fires in 2005. The ninth is to fund investment to maintain production, under market conditions, in farms affected by the freezes of 2005 for EUR 750,000. The final agreement is to finance investments in farming concerns affected by the drought of 2005 and is worth EUR 4 million.

10.2

FINANCIAL AND SUPPORT SERVICES

The Confederation supports the savings banks' foreign business through its representative offices, an operational branch in London and a 2,000-strong network of correspondent organizations

Responding to requests by the savings banks, CECA developed a wide range of operational financial services, as well as a full offer of savings and financing products that members can distribute to their clients.

The Confederation supports the savings banks' foreign business through its representative offices, an operational branch in London, a 2,000 strong network of correspondent organizations and its membership of the various international Settlement Systems.

In pursuance of the aims set out in the Plan for International Development of Savings Banks' activity, the Confederation signed a cooperation agreement in September 2005 with the Spanish Foreign Trade Institute under which members can offer services and products to the 4,000 Spanish companies participating in the Plan for the Initiation and Promotion of Exports.

Similarly, in the field of international trade, a cross-European direct debit service has been developed which will come onstream early in 2006. Under this scheme savings banks can process the collection of money owed to their clients, essentially companies, by importers in Portugal, France, Italy and Germany. More countries are expected to join the scheme in 2006.

Also, in 2005, CECA developed new products and services in association with Euro-Sofac, a subsidiary created by a number of European savings bank groupings, including CECA, to support their corporate customers trading in more than 80 countries: country and market reports, selection of intermediaries, incorporating, registering and managing subsidiaries, tax representation and VAT recovery, etc.

CECA and 27 savings banks are collaborating on the "Online Homes" initiative to give households easy access to IT equipment

CECA, along with 27 savings banks, won the tender organized by the Ministry for Industry, Tourism and Trade at the initiative of the Secretary of State for Telecommunications and the Information Society as part of the "*Hogares Conectados*" (Online Homes) project. The framework agreement, signed on November 23, 2005, aims to set up financing on preferential terms for families to buy IT equipment, broadband connections and training, based on zero interest rate loans. This is to be managed through a purpose-created **Jointly Controlled Entity** bringing together 27 savings banks with CECA as sole manager. The loans will be processed and distributed through 13,221 branches of savings banks together comprising the JV funded by a Ministry grant of EUR 33 million.

The **Jointly Controlled Entity**, which was set up to manage cash held by Spain's National Lottery and Gambling Agency *(Loteria y Apuestas del Estado* - LAE) and which comprises 36 savings banks with CECA as sole manager, continued its work. In 2005, the annual average sum held by the Lottery Agency in accounts at the JV's member banks was approximately EUR 65 million, which is around 50% of the Agency's total cash generated through the marketing of all its forms of gambling. In 2005 the JV implemented new measures to allow member savings banks who so wished to use the LAE's internet payment gateway for games. Six savings banks are expected to sign up to this new channel over the year.

The **Central Discount Office** which handles documents related with bill discounting recorded a rise in both transaction numbers and total volumes compared to 2004 (see chart).

TRANSACTIONS IN THE CENTRAL DISCOUNT OFFICE
Nominal values in EUR million

Item	2004	2005	% CHG
Incoming bills	15,789,264	16,044,498	1.62
Nominal value of incoming bills	42,155	46,444	10.17
Outgoing bills	15,781,173	15,972,223	1.21
Nominal value of outgoing bills	41,364	45,439	9.85
Bills deposited	1,870,418	1,944,204	3.94
Nominal value of bills deposited	7,340	8,363	13.93
Truncated bills presented	9,907,757	9,438,312	- 4.74
Nominal value of truncated bills presented	25,280	26,634	5.35

Securities services provided to the Savings Banks and their clients include custody, settlement and management of financial transactions including tax advice. In 2005, volumes in this business were as follows.

DEPOSITS BY EFFECTIVE VALUE
Amounts in EUR million

Type of instrument	2004	2005	% CHG
Private fixed income	13,188	16,706	26.68
Equities	16,733	21,717	29.79
Government debt	6,532	6,502	- 0.45
Foreign securities	32,365	38,685	19.53
TOTAL DEPOSITS	**68,817**	**83,610**	**21.50**

MARKET TRANSACTIONS
Amount settled, at effective value, in EUR million.

	2004		2005		Change	
	No. transactions	Settlement value	No. transactions	Settlement value	No. transactions	Settlement value
Buy securities	276,058	12,565	353,964	23,305	28.22	85.48
Sell securities	372,249	12,372	461,668	23,340	24.02	88.66
TOTAL	**648,307**	**24,936**	**815,632**	**46,645**	**25.81**	**87.06**

BOOK ENTRY SYSTEM/: GOVERNMENT DEBT
Amount settled, at effective value, in EUR million.

	2004		2005		Change	
	No. of transactions	Settlement value	No. of transactions	Settlement value	No. of transactions	Settlement value
Government debt added	89,576	234,816	86,673	265,618	-3.24	13.12
Government debt removed	94,401	234,998	90,804	265,803	-3.81	13.11
TOTAL	**183,977**	**469,814**	**177,477**	**531,421**	**-3.53**	**13.11**

SPANISH FOREIGN INVESTMENT
Settled amount and deposit volumes, in EUR million.

	No. of transactions	YoY change	Amounts settled	YoY change	Volumes deposited	YoY change
1999	39,243	248.98	13,148	201.22	8,231	55.99
2000	133,820	241.00	51,852	294.36	25,724	212.52
2001	171,440	28.11	99,470	91.83	34,923	35.76
2002	184,390	7.55	110,346	10.93	38,666	10.72
2003	197,390	7.05	117,498	6.48	29,273	-24.29
2004	166,756	-15.52	126,740	7.87	32,365	10.56
2005	178,903	7.28	168,876	33.25	38,685	19.53

The table below shows activity in the transaction processing and settlement services involving movements of funds through the Exchange and Settlement Center, either via electronic systems or as physical documents, as a result of the Confederation's participation on savings banks' behalf in the different domestic and international clearing and settlement systems.

MOVEMENT OF FUNDS
Nominal values in EUR million

	2004	2005	% CHG
EXCHANGE OF CHECKS IN FOREIGN CURRENCIES BETWEEN RESIDENT INSTITUTIONS			
Checks and commercial paper in foreign currencies	1,589	1,662	4.59
CROSS-BORDER EXCHANGE OF CHECKS			
Checks handled	916,688	723,531	-21.07
SWIFT MESSAGES EXCHANGED			
Outgoing	1,118,357	1,096,808	-1.93
Incoming	1,302.978	1,111,851	-14.67
SPI (Interbank Payment Service)			
Transactions handled	216,572	0	-100.00
Nominal value	48,447	0	-100.00
SLBE, (Bank of Spain Settlement System - Orders for Transfers of Funds)			
Transactions handled	0	119,497	100.00
Nominal value	0	446,893	100.00
EBA (Euro Banking Association) - STEP 1 & STEP 2			
Transactions handled	568,692	782,012	37.51
Nominal value	4,779	6,472	35.43
TARGET (Cross-border Transfer Orders)			
Transactions handled	181,696	191,528	5.41
Nominal value	113,492	149,615	31.83
TRUNCATION OF CURRENT ACCOUNT CHECKS AND COMMERCIAL PAPER			
Truncated checks and commercial paper	46,943,000	45,384,000	-3.32
Nominal value	206,870	232,358	12.32
EXCHANGE OF BILLS			
Bills exchanged	18,091,000	17,190,000	-4.98
Nominal value	44,603	47,365	6.19
EXCHANGE OF DIRECT DEBITS			
o Transactions handled	395,818,000	432,951,000	9.38
o Nominal value	99,194	111,238	12.14
EXCHANGE OF TRANSFERS			
Transactions handled	107,058,000	117,104,000	9.38
Nominal value	211,821	230,975	9.04
OTHER TRANSACTIONS			
Collection transactions	249,231	197,843	-20.62
Nominal value	15,231	2,900	-80.96
Payment transactions	15,681	8,599	-45.16
Nominal value	260	119	-54.15

In 2004, the Confederation began managing Sistema de Depósitos Auxiliares (SDA, Auxiliary Cash Deposits System) on behalf of the Bank of Spain for the distribution of bank notes, and along with it a number of transactions to do with cash processing to help improve efficiency in the sector and the wider economy. At the same time, it also helps to enhance the quality of the notes in circulation.

The Confederation's **Trading Room** provides Spanish savings banks with a wide range of financial services, such as dealing in foreign currencies, options, interest rate swaps, government debt, treasury bills, bonds and futures, and acts as a market maker, which means it can offer savings banks competitive prices on any size transaction for their clients.

The Trading Room set **new records** in 2005 for financial transactions by savings banks, with a 12% increase in transaction numbers from 159,803 in 2004 to 180,360. This growth was much faster than that in 2004 and in line with growth of recent years. It means the annual number of trades by savings banks over the last 10 years has risen from 90,000 in 1995 to 180,000 in 2005.

CECA is Spain's leading dealer in foregn bills by volume

CECA is also active in **dealing in foreign bank notes**, not just for all the Spanish savings banks but also for nearly all Spain's rural banks and a good number of foreign financial institutions. This makes it far and away the Spanish market leader in this area and a substantial player in the wider European market.

In 2005, it began to import dollar bills directly from the US Federal Reserve and the greater volumes allowed the Confederation to undertake wholesale operations on a global scale.

The specialiization in foreign currencies means CECA has been able to offer its services to institutional clients other than savings banks with the aim of boosting its volumes and securing economies of scale. The same approach is applied to other financial products where CECA has a high degree of specialiization, such as dealing in Spanish public debt or savings bank securitizations.

2005 saw a noteworthy expansion of CECA's Treasury business in all activities related to the lending of equity instruments (shares), a field where the Confederation has rapidly established itself as a benchmark in the Spanish market with some global presence.

Another key point in 2005 was CECA's active participation in treasury activities as an underwriter for new issues by savings banks via securitization funds and the sale of these instruments to investors worldwide.

Another strong-performing product in 2005 was the *Depósitos Ahorros Platino,* which continued to sell well to savings bank clients and has led to the launch of many similar structured products that offer clients added value as they can earn high yields in the right market conditions.

In the capital markets, the Confederation pioneered the development of new and sophisticated transactions, structuring and managing Spain's first securitization offer to use savings bank bonds as underlying. This was the AyT bonos Tesorería I, in which eleven savings banks took part for a total issue volume of EUR 1.18 billion. Another wholly new transaction was the structuring of a securitization fund using leasing deals by LICO leasing, a savings banks subsidiary organization. The issue was for a total of EUR 331 million and was fully subscribed by the European Investment Bank.

In total, CECA structured and managed 5 securitizations over the year, with a total value of around EUR 3 billion on behalf of 16 savings banks.

In another aspect of its role as a facilitator of capital market transactions where savings banks act as issuers or investors, the Confederation officially provided liquidity for 31 transactions involving EUR 12.9 billion and acted as paying agent in 27 cases, for a total nominal sum of EUR 6.5 billion.

10.3 TECHNOLOGY SERVICES

CECA runs the Euro 6000 System, an exchange system for transactions carried out by the 13,3 million cards issued by the Savings Banks under this system, as well as transactions in their 15.000 ATMs and 266.000 POS terminals.

As in previous years, CECA's technology services performed positively in 2005, with growth in operations driven by increasing penetration of new channels and payment cards in the market, and with the diversification, encouraged by the launch of new services relating to security, mobility and management information.

In means of payment, CECA runs the processing center for Sistema EURO 6000, an exchange system for transactions carried out using more than 13.3 million cards issued by savings banks under this system, as well as transactions in the 15,000 ATMs and 266,000 POS terminals. In 2005, the number of transactions processed was 527.5 million, an increase of 15.8% on 2004. The availability of the service over the year, weighted for real traffic at any time was 99.95%.

There is constant technological progress in the support CECA provides for Sistema EURO 6000. In 2005, the Esprint protocol, developed by CECA, came into widespread use by savings banks. Esprint supports the EMV standard. As a result the old magnetic strip cards are being gradually phased out and replaced by cards using embedded chip technology. CECA also supported savings banks in their adoption of new communication tools (GPRS, UMTS, ADSL, WiFi) and the joint development of secure modules and applications for ATMs that match the most demanding requirements in the field.

Special mention should be made of the incorporation of a new anti-fraud system based on neural networks and other Artificial Intelligence techniques. The system is operated by CECA on behalf of all savings banks belonging to Sistema EURO 6000.

This has enabled savings banks to offer their clients a full range of payment methods (chip cards, proximity cards, radio frequency identification systems for toll payment) for traditional services and new applications (digital certificates, authentication systems, citizen and public transport cards, university cards) and new areas for their use (e-commerce, mobility) based on the latest technology and security systems.

2005
The Confederation also provides the technological services PECA, SAT and CARD to its members.

Retail outlet transactions:	**365,742,984**	
ON-US		17,572,118
Exchanges between savings banks		140,700,799
Exchanges between savings banks and other issuers		113,013,098
Exchanges between savings banks and other acquirers		94,456,969
ATM and branch transactions	**151,857,723**	
ON-US		40,896,721
Exchanges between savings banks		43,356,899
Exchanges between savings banks and other issuers		25,553,279
Exchanges between savings banks and other acquirers		19,122,432
Special services (Telephone top-up cards)		22,928,392
TOTAL 2005	**517,600,707**	
TOTAL 2004	455,536,722	
	15.79%	

- PECA is Savings Banks Electronic Payment (*Pago Electrónico Cajas de Ahorros*) allowing savings banks to manage every aspect of their means of payment products. 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 with retailers and saving bank customers in line with the savings banks' commercial policies. The adaptation of this service to the EMV standard facilitates user savings bank strategies for migration to chip technology. In 2005 the volume of transactions processed using PECA topped EUR 79 million.

- SAT is the Card Authoriization Service (*Servicio de Autorización de Tarjetas*) allowing savings banks to manage their means of payment credit products. The solution generates transaction statements, debits customers and credits retailers for transactions made with credit cards, applying the different items defined in the savings banks' commercial policies relating to charges, interest, etc. In 2005 the volume of transactions processed using SAT topped EUR 90 million.

- The CARD service allows savings banks to delegate, to whatever degree each bank considers appropriate, the processing and control of means of payment incidents. Members are showing great interest in this product as it resolves a central and extremely time-consuming problem for highly qualified personnel. At the end of 2005 13 savings banks had signed up for this service.

The e-banking system handled 209,754,907 transactions in 2005 for 544,289 users

The New Channels service provides services connected with virtual channels to 43 savings banks. These aim to bring innovative technologies to the savings banks and promote technology as a means for the efficient distribution of financial products and services.

Its main service is the **multichannel electronic banking platform**. The availability of the service over the year, weighted for real traffic at any time was 99.82 %. In 2005, it processed 209,754,907 financial transactions by 544,289 active users. In 2005 connectivity was extended with the banks' suppliers making e-banking the key to access all the savings bank services. As part of this policy, CECA integrated its services with those provided by GEYCE and GTT for paying taxes, and Maninvest for managing guarantees. CECA, in tandem with the principality of Asturias and Cajastur, helped pilot the telematic processes for payments to public authorities developed by RED.ES. The applications for generating online notebooks were consolidated this year into extremely useful tools, used by 7,709 customers of 12 savings banks.

Unquestionably, one of the key issues in e-banking for 2005 was the rise in attempted fraud on customers. CECA has continued to act to develop measures that can be put in place allowing savings banks to offer safeguards to their clients. As part of this policy CECA passed on to the Banks all the recommendations from the security group of the Interbank Cooperation Center (*Centro de Cooperación Interbancaria* - CCI) where it represents the industry. Progress was made with the S21Sec-Verisign electronic signature system, in a **framework agreement for combating online fraud**. Any savings bank can sign up to get price discounts and use CECA's infrastructure to detect and combat fraud. These measures, plus others available to the savings banks, such as coordinate cards, electronic signatures, virtual keypads, etc. should help minimise the amount of fraud through these channels. In the same vein, different pilot schemes were mounted with savings banks to validate third-party certificates, support EMV card certificates or issue tokens to access electronic banking.

The internet channel has continued to consolidate its positions, even overtaking branches for some operations such as **online dealing in securities**, where it was used for an average 40% of the trading volumes carried out through savings banks.

Contact center services have completed the integration of savings bank telephony and e-banking functions. All seats positions have automatic access to all the equipment available to internet banking clients. **Connectivity** was enhanced **between CECA-run call centres and savings banks**, so that calls or parts of calls can be seamlessly switched between the bank and CECA thereby optimising the costs. It also developed a platform for the **collection** of debts, currently in use at one savings bank and available for any others that wish to use it.

In 2005, work continued and expanded on developing the new distribution channels based on mobile banking, with progress both in the creation of online mobile portals, that do not require clients to install software on their cellphones, and on the use of SMS as a means of communication between the client and their savings bank. At the moment, 23 savings banks are using the portal developed by CECA for mobile internet technology. There were 87,062 transactions through savings banks' mobile portals ranging from balance checking and transfers of accounts, cards or loans, to share trading. The SMS

Savings banks handled 87,062 operations through the online mobile portals, ranging from balance checking and account, card or credit transfers to share dealing

channel is getting increasingly intense use as a means of confirming transactions carried out through other channels. SMS technology is gaining importance as a way of providing an instant response to transactions requested by clients such as mobile top-ups, card blocking and emergency withdrawals from cash machines. In 2005, 5,902,456 short messages were processed on behalf of 33 savings banks.

Since December 2004, the New Channels technology platform has been in use in branches as a support for processing **immigrants' remittances sent through savings banks**. In 2005, they processed 20,004 money transfers for 23 savings banks, the operations being integrated with 10 partner banks.

In June 2005 the **new channels scorecard** was made available to savings banks. The scorecard monitors savings banks' use of new channels so that senior managers can access information to support their decision making. The statistics department of CECA is working on a periodic survey to be filled out by savings banks to monitor this aspect of the sector's development.

The remittances platform processed 20,004 transactions for 23 savings banks

Work began in 2005 on the **electronic invoice** project, based on the bills sent and received by CECA, and which aims to be a point of departure to extend the project to customers in the savings banks. The ultimate aim is to provide a standard e-billing solution across all savings banks which will make it easier for them to provide finance for their business customers' trade cycles.

The increasing complexity of the savings bank portal and the need to continuously update its content has led many banks to start acquiring **Content Management** tools. CECA has sponsored a framework agreement to use a market tool on advantageous terms. Savings banks that so wish may now migrate to this technology. In the same field, CECA has offered ongoing support to savings banks to keep their electronic banking environments and portals up to date, providing whatever developments are appropriate to allow them to be updated. Similarly, a number of savings banks are now giving their customers access to products and services that can be arranged through the bank's portal using the simulation and trading tools that CECA developed under its **e-marketing** project. Meanwhile, the **EnCuenta** and **Financial Aggregator** applications have continued to consolidate as value added services within savings banks' virtual service offering, sometimes linked to high value products like cards or bundled as part of a business services package.

In the field of e-commerce operations, CECA's virtual POS software has continued to establish itself as a standard for processing transactions between savings banks. It is now used by 34 banks and handled 2,255,692 transactions in 2005. This year it incorporated multi-currency processing allowing sterling transactions through the system. As regards service tools for card holders, there are now 30 savings banks using one of the secure e-commerce applications (VINI/HACES/CVC2). To monitor transactions performed, a **secure console for monitoring e-commerce transactions** has been created which will allow savings banks to respond more efficiently to queries raised by their customers.

As member of the Adoption Committee CECA promoted the participation of savings banks in the first **Internet Day**, held on October 25, with 16 savings banks organising different events to help spread internet awareness in society.

In June, the first **New Channel Conference** was held in Vigo, attended by the head of Channels of 40 savings banks and which served as a meeting point and forum for debating issues of interest to the sector such as: electronic signatures, contact centres, multi-channel strategies, e-administration, etc.

CECA has provided management support services to savings banks over many years now, using a SAP software platform. In 2005 further functional advances were added to the standard versions, and these are increasingly complemented by internal developments that offer a major source of added value. These services address areas such as purchasing and supplier management, property management, human resources (payrolls, personnel development, hazard prevention and occupational health) and general accounting functions.

Data warehousing and mining techniques were used to try and broaden the applications of marketing technology by setting up Pulso, an information service that member banks can use to analyse financial flows by its clients in the Spanish financial market. In this way, the savings banks that use this service can analyse their competition, capital flows, market trends, etc. and calculate their rankings relative to other savings banks in the system. The service also provides value added reports and the opportunity to take part in workshops with other savings banks to encourage the pooling of experience. Since its presentation in March, 13 savings banks have signed up and are now using the system.

Continuing a project launched in 2004, the Corporate Management Platform was consolidated as a working environment for CECA's managers, integrating services for the monitoring of projects and targets, the income statement and scorecards for all area's of the Confederation's business. The system for creating and maintaining scorecards as a decision support tool has been extended to savings banks in various forms for different areas of activity. Accordingly, there are now customized versions for different services such as the New Channels scorecard, the EURO 6000 (ESCENA) reporting scheme and, scheduled for next year, Human Resources.

The Hidra intranet allowed CECA to make available to the savings banks in 2005 a set of services designed to meet the needs of their branches and head offices. A total of 38 services are available on this network, used by 45 savings banks, 10 other lending institutions and 15 service companies. Noteworthy new additions to the services provided include a shared anti-spam utility to filter out junk e-mail, and the consolidation through Hidra of traditional interconnection services between the savings banks central computers and CECA (TAF, SICA and SIAMI).

In 2005, the main activities of the Technology Outsourcing service were:

- Production Service for transactions in Z/OS environments by the five savings banks that belong to InfoCaja.
- Migration of some of the 21 savings banks using the Private Banking and Personal Banking Systems to their web-based versions.
- Prevention of Money Laundering Service.
- Infrastructure services such as website hosting, hosting of savings bank servers or corporate internet and e-mail access, etc.

As part of the continuing improvements to security systems CECA has implemented a system of remote web access with strong authentication using one-time passwords. This system is an additional security layer on top of that needed for each system or application. Being common to host systems and distributed environments, it also extends and improves the capabilities of system security personnel to diagnose and resolve problems remotely and to have more secure remote access to standard network resources such as e-mail, network content, local applications, etc.

11

Welfare Fund

11.1

THE SAVINGS BANK FOUNDATION (FUNCAS)

As a savings bank, part of CECA's corporate purpose is to plough profits not applied to reserves into projects to help wider society.

To channel these profits as part of its social projects, in 1979 CECA founded the Savings Bank Foundation (*Fundación de Cajas de Ahorros* - FUNCAS), a private not-for-profit institution dedicated to activities that benefit Spanish society, promote saving and enhance knowledge of savings banks, allowing them to contribute more to society.

In 2005, FUNCAS underwent a number of major changes, moving head office to a new site in the Edificio Foro, calle del Caballero de Gracia, No. 28. The space available to CECA in this new site has allowed it to embark on new activities that were previously impossible.

In June 2005 FUNCAS brought together 185 posters and 40 original water colours, oils and tempera works in its Posters for Saving exhibition

A good example was the Posters for Saving exhibition, which ran from June 8 to 24. This featured a hundred and eighty five posters and forty originals in water colour, oils and tempera, contributed by all the member savings banks, whose cooperation made the exhibition possible.

Its research program yielded twenty-three completed projects which provided the material for the Foundation's various series of publications. Research concentrated on financial issues, which are of key interest to savings banks, as well as financial exclusion, ethical banking and risk management.

In 2005 FUNCAS also contributed to reflections on the position and prospects of the Spanish economy via the work of its Economy and Statistics Team. The Financial Analysis team published a number of newsletters on the current financial situation in Spain and internationally.

Following up a longstanding concern of the foundation, special attention was accorded to the economic situation of Spain's Autonomous regions. Figures for GDP growth by region and province are always eagerly awaited by academics and the financial press, and the results of this research receive wide coverage. Similarly, timed to coincide with Savings Day, there was the annual estimate of savings in the Spanish economy, another piece of data that garners considerable media attention.

Another major development was the publication of a new magazine: *Panorama Social*, responding to the interest expressed by the Foundation's trustees in widening the scope of activities to social concerns. The first edition of this half-yearly review included works by a number of widely respected experts in social problems.

This year the Foundation launched a new twice-yearly magazine: Panorama Social. The first issue featured expert views on a number of social problems

FUNCAS also continued to publish its existing magazines to help publicise its research. The 2005 editions of Papeles de Economía Española dealt with the challenges facing the tourist sector, the problems that ensue from EU enlargement, the profound changes arising from the demographic transformation that Spain is undergoing, plus a special double issue given over to the history of the savings banks.

Perspectivas del Sistema Financiero addressed the biggest current issues in the financial sphere. There were three new editions of the *Estudios de la Fundación series*, four of *Ensayos* and four also of the *Cuadernos de Información Económica* magazine. The Foundation also published some thirty working documents on its website.

All of the above represented a considerable editorial achievement to collate and disseminate the research carried out by the Foundation.

The second channel for the Foundation's activities was through public events, conferences and courses that it organized or participated in. It took part in more than forty such events including workshops on immigration, the economy and regional statistics, an academic session on economic research in Spain to mark publication of the doctoral theses honoured in the Foundation's thesis competition, a course on productivity and economic growth and a workshop on Basle II and savings banks.

In the same vein, the Foundation played a leading role in developing the Expert Course in Management of Financial Institutions, sponsored by CECA as part of its work in collaboration with the Carolina Foundation, directing the syllabus and developing materials.

But FUNCAS has also extended its activities beyond purely economic issues - although these remain its core area of activity - turning its attention also to culture, via the awards in the Golden Moneybox short story competition, a competition that has now run for more than thirty years. This year more than 5,500 stories were entered. The jury was made up of Luis Mateo Díez, José María Merino, Luis Landero, Clara Sánchez and Soledad Puértolas. First prize went to Ignacio Ferrando Pérez for his piece, Yardbird.

In support of environmental activities the Foundation funded the V Fondeno Prize, awarded for major contributions to flora and/or fauna of Spain. It also lent financial support to Europarc España with a series of bursaries for masters students in Natural Protected Spaces organized by this institution.

- CECA Publications
- FUNCAS Publications
- Glossary
- Chronology
- Branches and Representative Offices

12.1 CECA PUBLICATIONS

WEEKLY

Acciones comerciales

Report on financial product advertising published in the press.

MONTHLY

Agrocajas

Review of European agrarian legislation.

QUARTERLY

Análisis Comparativo (*)

Benchmarking of the basic data of financial entities by province and Autonomous Community. Market shares. League table of entities.

ANNUAL

Anuario Estadístico de las Cajas de Ahorros

Statistical yearbook containing relevant data for each savings bank and sector statistical series. Includes the yearend 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 14th General Assembly of Pawnbroking institutions held in Las Palmas, Gran Canaria.

MONTHLY

Avance de Datos del Sistema (*)

Urgent preview of the figures for loans and deposits at Spanish Banks and Savings Banks.

MONTHLY

Balances de las Cajas de Ahorros

Public balance sheets of each savings bank and for the whole sector.

QUARTERLY

Benchmarking de Liquidez (*)

Comparative information of the liquidity positions of each savings bank in relation to its groups of reference and the sector, as well as breakdown of the balance sheet by terms.

QUARTERLY

Boletín COAS

Semi-monthly R+D+I bulletin. Brief roundup of latest news on new technologies in the fired of information and communications systems.

MONTHLY

Boletín Confidencial de la Sala de Mercados

Confidential Trading Room Newsletter providing an overview of market performance by financial market traders.

THREE TIMES A YEAR

Boletín de Marketing

Marketing newsletter with the latest developments and articles relating to the financial market.

MONTHLY

Boletín Estadístico (*)

Statistical gazette containing all the monthly data available for the savings bank sector, with the basic details of each entity and the financial system.

ANNUAL

Convención de Obra Social

Publication of the papers presented at the 30th Welfare Fund Convention held in Vigo

QUARTERLY

Cuentas de Perdidas y Ganancias de las Cajas de Ahorros

Public Income Statements of each savings bank and for the sector as a whole.

QUARTERLY

Encuesta de Expectativas de las Cajas de Ahorros (*)

Analysis and results of the survey of the expectations of savings banks regarding the performance of the main economic and financial aggregates.

QUARTERLY

Estadísticas de las Federaciones (*)

Aggregation by Federation of the most significant statistical information relating to savings banks.

QUARTERLY

Estados Financieros Consolidados de las Cajas de Ahorros

Consolidated balance sheet and income statement for each savings bank.

HALF-YEARLY

Estudios Jurídicos

Articles and documentation of a legal nature on topics of interest to the savings banks.

MONTHLY

Evolución de las Cuentas Consolidadas de las Cajas de Ahorros (*)

Report prepared for the Board of Directors, with an analysis of the economic framework and the evolution of the principal aggregates of the savings banks in comparison with other groups of financial entities.

ANNUAL

Evolución del Crédito en las Cajas de Ahorros (*)

Analysis of the situation and evolution of loans and discounts at savings banks in relation to the financial system as a whole.

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.

ANNUAL

Informe Estadístico de los Montes de Piedad

Basic details of the pawnbroking institutions' activities.

HALF-YEARLY

La Morosidad de las Cajas de Ahorros (*)

Analysis of the situation and evolution of non-performing loans at savings banks in relation to the financial system as a whole.

MONTHLY

Panel de Precios de Productos Financieros

Analysis and monitoring of financial prices.

ANNUAL

Los Recursos Propios de las Cajas de Ahorros (*)

Analysis of the situation and evolution of equity capital in the savings banks sector.

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 2005 (408-416).

MONTHLY

Tipos de Interés de Referencia (*)

Urgent preview of the latest reference interest rates for mortgage loans published by the Bank of Spain.

(*) Restricted publication, available only to savings banks.

Other Publications

APRIL 2005

Las Cajas de Ahorros y su Impulso a la Sociedad Civil

Study of the Welfare Fund work in collaboration with the Savings Banks.

MAY 2005

Las Cajas de Ahorros y su Obra Social: Pasado, Presente y Futuro

Selection of documents and articles on savings banks' Welfare Fund.

NOVEMBER 2005

Guía del Sistema Financiero Español (4th edition)

Summary of the development of the Spanish economy and study of international financial reporting standards.

OCTOBER 2005

Microcrédito de las Cajas de Ahorros Españolas

Catalogue of the travelling photograph exhibition on microcredit which opened in CECA's offices

OCTOBER 2005

Montes de Piedad. Tres Siglos de Obra Social

Catalogue for the joint exhibition on the history of Pawnbroking institutions. Catalogue for the joint exhibition on Jewellery held by Pawnbroking institutions.

NOVEMBER 2005

Valoración del Impacto de la Obra Social

First study evaluating the impact of welfare projects conducted by savings banks on Spain's economy and social structures.

Digital publications

DAILY

Boletín Fiscal

Legislation, doctrine and case law of tax interest to savings banks.

THREE TIMES A YEAR

Boletín Melania de Auditoría

Internal and external audit function, money laundering, compliance and risk management.

OCCASIONAL

Boletín Melania de Calidad

Quality management and best practice at savings banks.

ANNUAL

Boletín Melania de la COAS

Savings Banks partnership projects.

SIX TIMES A YEAR

Boletín Melania de la ESCA

Business management, training and leadership.

MONTHLY

Boletín Melania de Marketing y Publicidad
Financial products, marketing and banking advertising.

HALF-YEARLY

Boletín Melania de Operaciones
Operational performance of the savings banks and their financial products.

THREE TIMES A YEAR

Boletín Melania de Recursos Humanos
Selection, recruitment, hiring, human resources management, labour relations, prevention of occupational hazards training.

WEEKLY

Boletín Melania de Seguridad
Financial security, security products, topics and interviews relating to these areas.

ANNUAL

Legislación de las Cajas de Ahorros. Normativa Autonómica
Compilation of the legislation enacted by Spain's Autonomous Communities on matters affecting savings banks.

12.2 FUNCAS PUBLICATIONS

Papeles de Economía Española (Papers on the Spanish Economy)

JANUARY 2005 — Tourism: challenges of a strategic sector (2005) No. 102

MAY 2005 — The New European Union (2005) No. 103

JULY 2005 — Demographic transformation, roots and consequences (2005), No. 104

NOVEMBER 2005 — History of the savings banks. New Perspectives (2005), No. 105/106

Perspectiva del Sistema Financiero (Financial System Prospects)

JANUARY 2005 Tax harmoniization (2005), No. 82

MAY 2005 Competition and efficiency in the banking sector (2005), No. 83

OCTOBER 2005 Financial exclusion (2005), No. 84

Economía de las Comunidades Autónomas (Economy of the Autonomous Communities)

MAY 2005 La Raya Ibérica (2005), No. 21

Cuadernos de Información Económica (Economic Information Notebooks)

MARCH 2005 Water, sun and war in Sebastopol (January-February 2005), No. 184

MAY 2005 Autonomous growth 2004: focused and converging (March-April 2005), No. 185

JUNE 2005 Spaniards' property ownership (May-June 2005), No. 186

JULY 2005 Economy: on the waiting list (July-August 2005), No. 187

OCTOBER 2005 Saving in the bad times (September-October 2005), No. 188

DECEMBER 2005 Budget, growth and stability (November-December 2005), No. 189

Estudios de la Fundación (Foundation Reports)

MARCH 2005 International transfer of technology (2005), No. 18

MAY 2005 Social leadership by the savings banks (2005), No. 19

OCTOBER 2005 Structural changes in the EU population. Ageing and migration/ Encarnación Cereijo, Francisco J. Velásquez (2005), No. 20

DECEMBER 2005 New directions in the economic study of tourism/ Javier Ferri, Vicente M. Monfort Mir and Ezequiel Uriel (2005), No. 21

Essays

The modern role of internal audit in corporate governanc
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negui Rodrigo (Febru

Inequality, polariization and regional mobility in the European Union / Roberto Excurra Orayen (June 2005), No. 3

Property and the national balance sheet of the Spanish economy (1991.2004) / José Manuel Naredo, Óscar Carpintero and Carmen Marcos (2005), No. 4

Other Publications

Posters for Saving 1880-1975 (2005)

Microcredit White Paper / Santiago Carbo Valverde (2005)

Regional economic balance sheet (Autonomous Communities and Provinces): 2000-2004 /Julio Alcaide Inchausti, Pablo Alcaide Guindo (2005)

Digital publications

The model of belief revision as a psychological approximation to the formation of the listener's judgement in continuous management / Andrés Guiral Contreras and Francisco Esteso Sánchez (2005), No. 195

New healthcare finance in Spain: decentraliization and prospective / David Cantarero Prieto (2005), No. 196

A Cointegration Analysis of the Long-Run Supply Resrpron of Spanish egr
egralPV.: meneza and Car
2005), No. 176

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Does the development of non-cash payments affect monetary policy transmission / Santiago Carbó Valverde and Rafael López del Paso (2005), No. 200

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Firm and time-varying technical and allocative efficiency: an application for port cargo handling firms / Ana Rodríguez-Álvarez, Beatriz Tovar de la Fe, Lourdes Trujillo (2005), 201

APRIL 2005
Contractual complexity in strategic alliance / Jeffrey J. Reuer, Africa Ariño (2005), No. 202

APRIL 2005
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JUNE 2005
Nonlinear Forecasting in Economics: a comparison between Comprehension Approach versus Learning Approach. An Application to Spanish Time Series / Elena Olmedo Juan M. Valderas, Ricardo Gimeno and Lorenzo Escot (2005), No. 204

JUNE 2005
Land prices under urban pressure: a model for Spain / Esther Decimalilla, Carlos San Juan, Stefan Sperlich (2005), No. 205

JUNE 2005
Interregional migration in Spain: a semiparametric analysis / Adolfo Maza and José Villaverde (2005) No. 206

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Productivity growth in European banking / Carmen Murillo-Melchor, José Manuel Pastor and Emili Tortosa-Ausina (2005), No. 207

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Explaining Bank Cost Efficiency in Europe: Environmental and Productivity Influences / Santiago Carbó Valverde, David B. Humphrey y Rafael López del Paso (2005), No. 208

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JULY 2005
The effect of geographic expansion on the productivity of Spanish savings banks / Manuel Illueca, José M. Pastor and Emili Tortosa-Ausina (2005), No. 213

SEPTEMBER 2005
Dynamic network interconnection and consumer switching costs / Ángel Luis López Rodríguez (2005), No. 214

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On the generation of a regular multi-input multi-output technology using parametric output distance functions / Sergio Perelman and Daniel Santin (2005), No. 217

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OCTOBER 2005
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OCTOBER 2005
Auditors' Forecasting in Going Concern Decisions: Framing, Confidence and Information Processing / Waymond Rodgers and Andrés Guiral (2005), No. 223

OCTOBER 2005
The effect of Structural Fund spending on the Galician region: an assessment of the 1994-1999 and 2000-2006 Galician CSFs / José Ramón Cancelo de la Torre, J. Andrés Faiña and Jesús López Rodríguez (2005), No. 224

OCTOBER 2005
The effect of ownership structure and board composition on the activity of audit committees: Spanish evidence / Carlos Fernández Méndez and Rubén Arrondo García (2005),N° 225

NOVEMBER 2005

Cross-country determinants of bank income smoothing by managing loan loss provisions / Ana Rosa Fonseca and Francisco González (2005), No. 226

NOVEMBER 2005

Personal income tax evasion (1993-2000): an analysis of determining factors / Alejandro Estellér Moré (2005), No. 227

NOVEMBER 2005

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NOVEMBER 2005

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NOVEMBER 2005

On Zero Lower Bound Traps: a Framework for the Analysis of Monetary Policy in the `age´ of central banks / Alfonso Palacio-Vera (2005) No. 230

DECEMBER 2005

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DECEMBER 2005

Can The Excess Of Liquidity Affect The Effectiveness of the European Monetary Policy? / Santiago Carbó Valverde and Rafael López del Paso (2005) No. 232

DECEMBER 2005

Inheritance Taxes in the EU Fiscal Systems: the Present Situation and Future Perspectives / Miguel Angel Barberán Lahuerta (2005), No. 233

12.3 GLOSSARY

ACARL	Asociación de Cajas de Ahorros para las Relaciones Laborales *(Savings Banks' Association for Labour Relations)*
ACRECA	Asociación Cultural y Recreativa de Empleados de Cajas de Ahorros *(Saving Banks Employees Cultural and Recreational Association)*
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)*
ALM	Asset Liability Management
ARS	Analysis and Redefinition of Services
ASF	Asset Securitization Fund
AUTELSI	Asociación Española de Usuarios de las Telecomunicaciones y de los Sistemas de Información *(Spanish Association of Telecommunications and Information Systems Users)*
BOS	Bank of Spain
BPM	Business Process Management
CARD	Centro Activo para Resolución de Disputas (Active Center for Dispute Resolution)

CBE	Circular Banco de España *(Bank of Spain Circular)*
CCI	Centro de Cooperación Interbancaria *(Interbank Cooperation Center)*
CEA TSL	Cajas Españolas de Ahorros *(Spanish Savings Banks)* Trade Services Limited
CEBS	Committee of European Banking Supervisors
CECA	Confederación Española de Cajas de Ahorros
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors
CEN	Comité Europeo de Normalización *(European Committee for Standardiization)*
CEOE	Confederación Española de Organizaciones Empresariales *(Spanish Confederation of Business Organizations)*
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)*
CESR	Committee of European Securities Regulators
CNMV	Comisión Nacional del Mercado de Valores *(Spanish Securities Market Commission)*
COAP	Comité de Activos y Pasivos *(Assets and Liabilities Committee)*
COAS	Comisión de Organización, Automación y Servicios *(Organization, Automation and Services Commission)*
CSR	Corporate Social Responsibility
DGSFP	Dirección General de Seguros y Fondos de Pensiones *(Directorate General for Insurance and Pension Funds)*
EBA	Euro Banking Association
EBIC	European Banking Industry Committee
EC	European Commission
ECB	European Central Bank

ECO	Ministry of the Economy
ECOFIN	Economics and Finance Committee
EEA	European Economic Area
EEC	European Economic Community
EFMA	European Financial Management & Marketing Association
EFQM	European Foundation for Quality Management
EFRAG	European Financial Reporting Advisory Group
EHA	Ministerio de Economía y Hacienda *(Ministry for the Economy and Finance)*
EMU	European Monetary Union
EMV	Europay Mastercard Visa
EOI	Escuela de Organización Industrial *(School of Industrial Organization)*
EPC	European Payments Council
ESBG	European Savings Banks Group
ESCA	Escuela Superior de Cajas de Ahorros *(Higher School of Savings Bank Studies)*
ETSC	European Technical and Scientific Center
EU	European Union
FATF	Financial Action Task Force
FED	Federal Reserve
FEDECRÉDITO	Federación de Cajas de Crédito y Bancos de los Trabajadores *(Federation of Credit Banks and Employees' Banks)*
FOMIN	Fondo Multilateral de Inversiones *(Multilateral Investment Fund)*
FSAP	Financial System Assessment Program
FT	File Transfer

FUNCAS	Fundación Cajas de Ahorros *(Savings Bank Foundation)*
GDI	Gross Disposable Income
GDP	Gross Domestic Product
GREF	Grupo de Responsables de Formación de Entidades Financieras *(Financial Institutions Training Managers Group)*
GRI	Global Reporting Initiative
HR	Human Resources
IABD	Inter-American Development Bank
IAS	International Accounting Standards
ICCA	Instituto de Crédito de las Cajas de Ahorros *(Savings Bank Credit Institute)*
ICEX	Instituto Español de Comercio Exterior *(Spanish Institute for Foreign Trade)*
ICO	Instituto de Crédito Oficial *(Official Credit Institute)*
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IMSERSO	Instituto de Mayores y Servicios Sociales *(Institute for the Elderly and Social Services)*
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)*
ISO	International Organization for Standardiization
JAI	Justicia y Asuntos Interiores *(Justice and Internal Affairs)*
LAE	Lotería y Apuestas del Estado *(Spanish State Lottery Agency)*

LORCA	Ley Órganos Rectores de las Cajas de Ahorros *(Law on the Governing Bodies of Savings Banks)*
MTAS	Ministerio de Trabajo y Asuntos Sociales *(Ministry of Labour and Social Affairs)*
NAV	Net Asset Value
OBS	Obra Benéfico Social *(Social Work)*
OFICEMEN	Trade association of Spanish cement manufacturers
P.P.	Percentage points
PASF	Plan de Acción de los Servicios Financieros *(Financial Services Action Plan)*
PAT	Profit after tax
PECA	Pago Electrónico Cajas de Ahorros *(Savings Bank Electronic Payments)*
PIPE	Programas de Iniciación a la Promoción Exterior *(Introduction to International Marketing Programs)*
POS TERMINAL	Point of Sale terminal
RAI	Registro de Aceptaciones Impagadas *(Register of unpaid bills of acceptance)*
SAP	Sistemas de Aplicaciones y Productos *(Product and Application Systems)*
SAT	Servicio de Autorización de Tarjetas *(Card Authoriization Service)*
SBP	Sistema de Banca Privada *(Private Banking System)*
SDA	Sistema de Depósitos Auxiliares *(Auxiliary Deposits System)*
SEPA	Single European Payment Area
SEPBLAC	Servicio Ejecutivo para la Prevención de Blanqueo de Capitales e Infracciones Monetarias *(Executive Service for the Prevention of Money Laundering and Financial Abuse)*
SESP	Sociedad Española de Sistemas de Pagos *(Spanish Payment Systems Company)*
SIAMI	Sistema de Interconexión de Aplicaciones Múltiples e Independientes *(System for Interconnection of Multiple and Independent Applications)*

SICA	Servicio Intercomunicación Cajas de Ahorros *(Savings Bank Payments 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)*
TARGET	European Central Banks Payments System
UCI	Undertaking for Collective Investment
UN	United Nations
UNACC	Unión Nacional de Cooperativas de Crédito *(Spanish National Union of Credit Cooperatives)*
USA	United States of America
UTE	Unión Temporal de Empresas *(Jointly Controlled Entity)*
VAR	Value at Risk
VAT	Value Added Tax
VEGAP	Visual Entidad de Gestión de Artistas Plásticos *(Visual Arts Management Entity)*
WSBI	World Savings Bank Institute
XBRL	Extensible Business Reporting Language

12.4 CHRONOLOGY

January 11
- CECA was awarded AENOR ISO 9000 Certification for its settlement, trustee, custody and depository services for UCIs.

January 17
- Spanish day in the workshops on Access to Financial Services in Colombia program held by the World Bank in Bogotá.

January 17
- 2nd Corporate Social Responsibility workshop

January 19
- Meeting of the Board of Directors

January 19
- Lunch for the CECA board hosted by the Spokespersons of the Upper Chamber in the Senate.

January 25
- Meeting of the Organization, Automation and Services Commission (COAS)

January 26
- Control Committee Meeting

January 27-28
- CECA visited by a delegation of savings banks from Aragua State in Venezuela

February 7
- CECA visited by a delegation from Banco Caja Social in Colombia

February 10
- CECA visited by a delegation from Bancolombia

February 15
- Presentation of COAS's *Servicio Depósitos Auxiliares* (SDA) project

February 16
- Meeting of the Board of Directors

February 16
- Investment Committee meeting

February 16
- Media presentation of savings banks' results

February 21
- 2nd workshop for General Secretaries

February 22
- Meeting of COAS Coordinators

February 24
- 1st Technical workshop on the Evaluation of the Impact of Welfare Fund projects

February 24
- 1st Meeting of the Savings Bank Research Departments

February 24
- Virtualiization Workshops with Savings Banks (COAS)

February 24-25
- Workshop on the Spanish Data Protection Law

February 25
- Control Committee Meeting

February 25
- Meeting of the Organization, Automation and Services Commission (COAS)

February 28
- Visit of the Chairman of the Caja Central de Puebla (Mexico)

March 9
- Meeting of FUNCAS trustees

March 10
- Presentation of Pulso to the savings banks

March 16
- Meeting of the Board of Directors

March 16
- Signature of the framework agreement for collaboration between the Ministry of Culture and CECA to disseminate Spanish art and culture.

March 16
- 1st workshop on the savings bank/SME business

March 17
- Control Committee Meeting

March 17
- Meeting of the Organization, Automation and Services Commission (COAS)

March 17
- 1st workshop on new developments in the Standards for Prevention of Money Laundering in Barcelona

April 4
- Signature of the framework agreement between the Ministry of Labour and Social Affairs and CECA to promote and disseminate Don Quixote to pensioners

April 6
- 11th Executives Convention

April 6
- Signature of a framework agreement for collaboration between VEGAP and CECA

April 6
- Launch of the COAS *Canal Internet* project

April 11-14
- Wosa/XFS workshop by the European Standardiization Committee

April 13-17
- Award ceremony for the winners of the 2004 *Juego de la Bolsa*, Spanish and international versions.

April 14
- Creation of the Spanish focal point for the UN international year of microcredit

April 16
- 18th National Congress of ACRECA in Guadalajara

April 19
- Visit of the General Manager for Banking Oversight in Bolivia

April 19-22
- Regional Microcredit Summit for Latin America and the Caribbean in Santiago, Chile

April 20
- Meeting of the Board of Directors

April 20
- Control Committee Meeting

April 20
- 91st General Meeting of CECA

April 21
- Meeting of retired Chairman and Chief Executives of savings banks

April 21
- Meeting of the *Proyecto Emigrante* business group

April 21
- Workshop on Corporate Governance in Savings Banks

April 21
- Conference presentation by John David Koch, chairman of Capital Inc. and director of the WSBI on the activity of American community banks: an overview", held by FUNCAS

April 21-22
- Workshop on Pension Funds in Financial Institutions: a new stage

April 25
- Presentation on the single European Payments Area (SEPA) by COAS

April 27-28
- Workshops on latest legal developments concerning UCIs

April 28
- *Caja Abierta* Presentation

May 4
- Presentation of number 185 of the FUNCAS *Cuadernos de Información Económica* (Economic Information Notebooks), Autonomous Growth 2004: focused and converging

May 9-13
- Visit of a delegation from the mutual savings and credit banks of Costa Rica

May 12
- Award ceremony for the 2004 *Juego de la Bolsa Universitario*

May 12-13
- 3rd Convention for Savings Bank Portfolio Managers, Oviedo

May 16
- Presentation of issue 103 of FUNCAS's *Papeles de Economía* on The new European Union

May 16-17
- Visit of the Dominican Republic league of Savings and Loan Associations

May 17
- Presentation ceremony for the Investment Prizes for Welfare Fund projects by the savings banks

May 17-18
- Workshop on the new insolvency law (*Ley Concursal*) and its application by savings banks, Barcelona

May 18

- Meeting of the Board of Directors

May 18

- Presentation of the application of the Projects sponsored by COAS

May 19

- COAS conference on immigrant remittances, at the WSBI in Brussels

May 24

- Workshop on Corporate Social Responsibility in the finance business

May 25

- Control Committee Meeting

May 25

- Meeting of FUNCAS trustees

May 25

- Meeting of the Welfare Fund Research Committee

May 25-27

- 18th series of workshops on Management Planning and Control, Oporto (Portugal)

June 1

- Meeting of the Organization, Automation and Services Commission (COAS)

June 2

- *Actualidad Económica* Welfare Fund Awards ceremony

June 8

- Meeting of the Board of Directors

June 8

- Control Committee Meeting

June 8

- Investment Committee meeting

June 8-9

- COAS architecture committee meeting, Santiago de Compostela

June 8-24

- FUNCAS exhibition Posters for Saving

June 9-10

- Strategic forum of savings banks on CSR

June 15

- Conclusion of the COAS Efficiency project and delivery to savings banks of their individualized reports

June 15-17

- 23rd human resources conference in Lanzarote

June 16

- Meeting of the Organization, Automation and Services Commission (COAS)

June 16

- Presentation of the COAS Property project

June 16-17

- 7th conference on customer service, Toledo

June 16-17

- 1st series of technical workshops on operational risk

June 16-18

- CECA took part in the first international exchange of successful financial products of Latin American Savings and loan cooperatives, Quito (Ecuador)

June 21-22

- Workshop on the legal framework for corporate operations

June 22
- Presentation of the results of the Customer Satisfaction benchmarking project

June 23-24
- Meeting of Treasury and Capital Markets Managers, Amsterdam

June 28
- Presentation of the COAS project Analysis and Redefinition of Saving Banks' Services (ARS)

June 28-29
- 53rd Meeting of Tax Advisors, Tenerife

June 29
- Visit to CECA by the IMF

June 30
- Presentation of the Immigrants project and the Bravo cash transfer brand to savings banks, embassies and Immigrants' associations

June 30 -July 1
- 1st Conference on New Channels, Vigo

June 30 - July 1
- 63rd Conference of Legal Advisors, Oporto (Portugal)

July 6
- Signature of a framework agreement between ICO and CECA on microcredit

July 6
- Workshop on the Markets in Financial Institutions Directive

July 6
- Launch of the pilot for the COAS SBP Web project

July 10
- First report to the Bank of Spain on financial statements using the ARIES tool, COAS

July 14
- Presentation of issue 104 of FUNCAS's *Papeles de Economía Española*, Demographic transformation: roots and consequences, Zaragoza

July 15
- Control Committee meeting, Zaragoza

July 15
- Meeting of FUNCAS trustees, Zaragoza

July 19
- Visit to COAS by the Banco Bolivariano

July 20
- Meeting of the Board of Directors, Pamplona

July 21
- Meeting of the Organization, Automation and Services Commission (COAS)

July 21
- Visit by a delegation from the Peruvian Cooperatives Confederation

September 7-10
- 23rd International Conference of Pawnbroking Institutions (Mexico)

September 12
- Award ceremony for the *Nuevo Lunes* prize for information transparency to the Savings banks and CECA

September 14
- Presentation to savings banks of the results of the COAS project Redesign and Alternative Architectures for Central Systems

September 15

- Presentation of the general conclusions of the COAS Efficiency project

September 15

- Meeting of the Organization, Automation and Services Commission (COAS)

September 15-16

- 7th conference on Advertising in Alcalá de Henares (Madrid)

September 15-16

- 3rd Conference on Accounting, London (UK)

September 16-17

- CECA participated in the International Cooperatives Conference, Morelia (Mexico)

September 20

- Signature of an agreement between the Spanish Institute for Foreign Trade (ICEX) and CECA to offer products and services on favourable terms to companies taking part in the Introduction to International Marketing Program (PIPE)

September 21

- Meeting of the Board of Directors

September 21-23

- 30th conference of Training and Development Managers, Cadiz

September 21-23

- 20th Auditors' conference, Pamplona

September 22

- COAS workshops on New directions in Buildings Management

September 22-23

- 7th Conference of Communications Directors, Peñafiel (Valladolid)

September 26

- Meeting with Finantel (Peru)

September 27

- 6th Meeting of Technical Assistance Providers Network of the European Savings Bank Group

September 28

- Control Committee Meeting

September 28-30

12th Meeting of the WSBI, Lima (Peru)

September 29

- Workshop on the importance of UCI custodians

September 30

- Presentation of the report Evaluation of the Impact of Welfare Fund projects in Alicante

October 5

- Presentation of the COAS project: Automation and electronic connection for control of loan and guarantee subscriptions

October 5

- COAS *Canal Internet* project: workshop on transaction and multichannel penetration

October 5-7

- 28th Marketing conference, San Sebastián

October 6

- 2nd workshop on the savings bank/SME business

October 6

- Publication of the COAS White Paper on Financial Agents

October 7
- Meeting with Planet Finance

October 17
- Immigrants project: visit to partner banks in Romania and Bulgaria

October 18
- Workshop on Financial Perspectives of the EU 2007-2013

October 18-19
- Visit from the Regulatory Committee of the Bank of China

October 18 - November 6
- Pawnbroking exhibition, Granada

October 19
- Meeting of the Board of Directors, Toledo

October 19-21
- 25th Conference of Technical managers of Organization, IT and New services departments, part of the series of COAS workshops, Zaragoza

October 20

Meeting of the Organization, Automation and Services Commission (COAS), Zaragoza

October 20
- Meeting with the Chairman of the Peruvian Federation of Municipal Savings and Credit banks

October 24
- Workshop on Basle II and savings banks, held by FUNCAS in Alicante

October 25
- 2nd Technical workshop in the Project *Evaluation of the Impact of Welfare Fund projects*

October 26
- Control Committee Meeting

October 26-28
- 24th National Conference of Security Managers, Bilbao

October 27
- Joint auction by pawnbroking institutions, Granada

October 27
- Meeting with representatives of the Banco de Buenos Aires

October 27-28
- 15th General Meeting of pawnbroking institutions, Granada

October 27-28
- 3rd Conference of Quality Controllers, Seville

October 27-28
- 5th Conference of Securities Managers, Santander

October 27-28
- 5th conference on Global risk Control, Malaga

October 31
- Universal Saving Day

November 2
- Presentation of the report Evaluation of the Impact of Welfare Fund projects in Zaragoza

November 3
- Signature of a Statement of Intent of Cooperation and Technical Assistance between CECA and the Dominican Republic League of Savings and Loans Associations

November 3
- Workshop on the ICO line of microcredit

- **November 3**

2nd Presentation on the Single European Payments Area (SEPA)

November 3

- Presentation of issue 188 of FUNCAS's *Papeles de Economía Española*: History of Savings Banks

November 3

- Immigrants project: trip to visit Banks of Argentina, Bolivia and the Dominican Republic

November 10

- Visit to CECA by the IMF

November 10

- Workshop on the Financial Supplement to the Global Reporting Initiative for the drafting of annual reports on sustainability and CSR

November 10-11

- 17th Conference of Foreign Managers, Seville

November 14

- Workshop on the new *Ley de Dependencia*

November 16

- Meeting of the Board of Directors

November 16 - December 14

- Exhibition Microcredit and Spanish Savings Banks, "people deserving of credit"

November 17

- Presentation of financial reports of the European Financial Marketing and Management Association, sponsored by COAS

November 17

- Launch of the Pilot Process for reviewing the Financial Supplement to the Global Reporting Initiative

November 17

- Meeting of the Organization, Automation and Services Commission (COAS)

November 17

- Signature of the framework agreement between the Ministry of Agriculture, Fisheries and Food and CECA to facilitate financing for equipment for irrigation areas covered by the Spanish National Irrigation Plan, 2008

November 17

- Workshop on the role of standards compliance in Savings Banks

November 21

- Presentation of the report Evaluation of the Impact of Welfare Fund projects

November 21

- Meeting of the Welfare Fund Research Committee

November 23

- Control Committee Meeting

November 23

- Signature of the framework agreement Online Homes with the Ministry for Industry, tourism and Trade

November 23

- Meeting of FUNCAS trustees

November 23

- Control Committee Meeting

November 23-24

- Open seminar on the new UCI regulations

November 24
- Workshops on Business Process Management (BPM) with savings banks (COAS)

November 24-25
- 64th Conference of Legal Advisors

November 30
- Presentation of the report Evaluation of the Impact of Welfare Fund projects in Oviedo

November 30 - December 1
- Workshop on the General Tax Law

November 30 - December 1-2
- 7th National Conference on Volunteering, Granada

November 30 - December 1-2
- 31st National Conference on Welfare Fund projects, Gijón (Asturias)

December 1
- 2nd series of workshops on new developments in Regulations for the Prevention of Money Laundering

December 12
- Jazz concert with the Natalia Farran Jazz Ensemble (National Jazz Orchestra Quintet), held by *Sa Nostra Caja de Baleares and Fundación Orquesta Nacional de Jazz de España*

December 13
- Presentation of results of the Sector Project on Evaluation using the European Foundation on Quality Management (EFQM) Model

December 14
- Meeting of the Board of Directors

December 14
- Control Committee Meeting

December 14
- 92nd General Meeting of CECA

December 14
- Presentation of results from the pilot process on Quality Indicators - *EFICACIA*

December 14
- Presentation of the FUNCAS White Paper on Microcredit

December 15
- Meeting of the Organization, Automation and Services Commission (COAS)

December 15
- Award of the 2005 IMSERSO Infanta Cristina prize for the Welfare Fund projects of the savings banks

December 20
- 54th Meeting of Tax Advisors, Madrid

* Unless otherwise specified, events took place at the CECA head office in Madrid.

12.5

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Registered in the Madrid Mercantile Register. Volume: 5197, Book: O, Folio: 180, Section: 8, Sheet: M85116, 1st Entry.

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DESING R+A Strocen Rey
www.strocen.com

PRINTING Artes Gráficas Palermo, S.L.

DEPÓSITO LEGAL M-16.076 - 2006