Annual Report 2007

ceca
CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS

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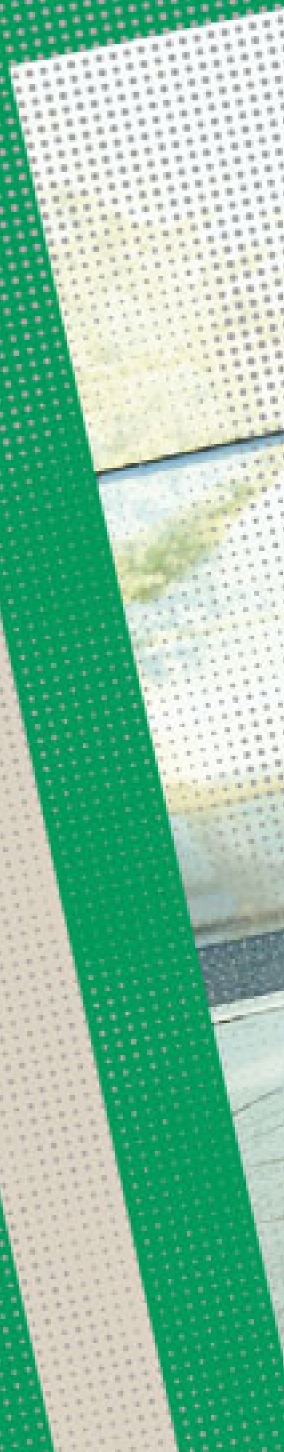
Introduction




01

2007 will be remembered as the year when the international financial markets suffered one of the sharpest and deepest convulsions of recent years. The start of the crisis was so abrupt that we can precisely identify the date it started: August, although of course the causes and factors behind it date back to well before this. The depth of the crisis is reflected in the performance of the markets and the intervention of monetary authorities from August last year.

In effect, it seemed that when we got back from our summer holidays the international financial system had been attacked by a virus (sub-prime mortgages) which was threatening to rage out of control. It was not long before headlines appeared estimating the size of the crisis at losses of hundreds of billions of dollars. This fear of increasingly intense waves of asset deterioration, and even of potential crises in the system, choked the markets, and some of them virtually ceased to function.

Spain was not spared from these international upheavals. The new environment of high risk premiums and deficient wholesale markets could affect the strategic positions of Spanish financial institutions, particularly with regard to credit expansion. In addition, there has been a noticeable slowdown in the growth of the Spanish economy, which might result in lower growth in business volumes.

This background is challenging, but not dramatic. Here at the Confederación Española de Cajas de Ahorros (CECA) we have been following the situation very closely. As a result we can state that, as far as the international financial crisis is concerned, the level of exposure of the Savings Bank sector in Spain to these "toxic assets" is almost zero. Furthermore, the levels of efficiency and sophistication in risk management achieved by Spanish institutions (backed up by regulatory and supervision systems which are creating enormous interest at the international level) means that they have adequate safety margins. And as for the performance of the Spanish economy, the figures forecast for 2008 show that the situation is much more satisfactory than in the previous crisis (1992-93), when we were faced with a recession on a scale which does not appear likely today.

CECA, as a provider of financial services and technology to the market, achieved satisfactory performance levels in all the objectives established by the General Assembly for the year just ended.

This Annual Report describes how 2007 was also an active year for CECA on the institutional front. From the regulatory standpoint, last year will be remembered for the significant steps taken towards achieving real financial services policy in the European Union, which has acquired unprecedented visibility. Security markets have experienced the most far reaching reform of their regulations in over fifteen years (which, through the Markets in Financial Instruments Directive, MiFID, affected the structure of the markets and the way in which they provide investment services to their clients). There was significant progress on the project for creating a Single European Payments Area (SEPA), and this is now very much becoming a reality. The solvency requirements arising from the New Basel II Capital Accord have also been the focus of a great deal of effort, and will continue to be so in 2008.

CECA and the Spanish Savings Banks have taken an increasingly influential role in all of these projects, in keeping with the role they perform in the European financial system as a whole.

CECA's defence of the corporate model of Spanish Savings Banks has continued to achieve the desired results, particularly in front of the European Commission, which in 2007 focussed strongly on the retail banking sector: publishing a Green Paper and finalising its investigation into competition in the sector. Community authorities have clearly seen the advantages of the corporate and business structure of Spanish Savings Banks, including their commitment to free competition.

Based on our experience in 2007, it is not difficult to predict that 2008 is also going to be a very intense year. As the Catalan philosopher Eugenio Trías said, "crises, although they are frightening, serve to put an end to one period and begin another". The past performance and the, staff and attitudes of the Confederación Española de Cajas de Ahorros, fill me with confidence for the journey ahead.

Juan R. Quintás Seoane
Chairman - Managing Director

Self-definition

Vision
Mission
CECA's principal objectives
History of CECA


02

VISION

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

In addition to being the national association for savings banks, CECA is also a credit institution which provides very competitive technological and financial services to savings banks and other parties which are active in the market.

MISSION

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

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

CECA's Principal Objectives 2.1

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

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

CECA'S MAIN OBJECTIVE IS TO PROMOTE, FACILITATE AND INCREASE THE ACTIVITIES OF SAVINGS BANKS, ENCOURAGING SAVING AND UPHOLDING AND UPHOLDING THEIR INTERESTS

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

  - Encourage savings banks to fulfil the important role they perform for society.
  - Work with member institutions to spread and promote the virtue of saving as efficitively as possible.
  - Work directly or indirectly to educate all social classes about savings and the effective use of personal and collective wealth.
  - Report on such issues as the Government decides to study, whether voluntarily or in response to official requests.

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

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

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

History of CECA 2.2

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 for them in different forums.

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

CECA WAS FORMED IN 1928 BY THE FEDERACIÓN DE CAJAS DE AHORROS VASCO NAVARRA

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

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

With the liberalisation of the Spanish financial system in 1977, savings banks returned to their traditional model of independence and full operational capacity (having been significantly undermined by the interventionist attitude taken by public authorities from 1940 onwards, which was especially evident in the regulation of obligatory investments). The legislative changes implemented in the late seventies and early eighties 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 structure for governing bodies was implemented with the participation of depositors, employees, founding bodies and local institutions.

IN 1977, SAVINGS BANKS WERE PLACED ON AN EQUAL OPERATING FOOTING AND A NEW CONFIGURATION OF THEIR GOVERNING BODIES WAS PUT IN PLACE, WITH THE PARTICIPATION OF DEPOSITORS, EMPLOYEES, FOUNDING BODIES AND LOCAL BODIES

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

The Law passed in 1985 concerning the Governing Bodies of Savings Banks (LORCA) definitively established the model initiated with the 1970s reforms. Since then, and taking into account the major expansion of 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 in free market conditions. Under this new arrangement, it became general practice to set rates for the operating, financial and technological services offered to savings banks and voluntarily purchased by them, with the ultimate aim of making them self-financing. Apart from this, the growth in productivity of membership functions has made it possible to steadily reduce membership fees since 1995. The amount is currently set at EUR 0.136 for every EUR 6.010 of deposits.

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

In December 2007, the 96th Ordinary General Assembly approved the new Confederation bylaws, which are described in this Report.

NEW ARTICLES OF ASSOCIATION FOR THE CONFEDERATION WERE APPROVED TO MODERNISE THE EXISTING ARTICLES IN DECEMBER 2007

Corporate Governance: Governing Bodies

Corporate governance
Structure and functions of the governing bodies
Changes in senior management at the savings banks
Group structure and investees
Other information regarding governance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Corporate Governance 3.1

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

FULL INFORMATION ABOUT CORPORATE GOVERNANCE CAN BE FOUND ON CECA'S WEBSITE

The "Corporate Information" section of the CECA website, www.ceca.es, includes full details relating to Corporate Governance.

Structure and functions of the Governing Bodies 3.2

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 Managing Director of the Confederation is also a member of the General Assembly.

THE GENERAL ASSEMBLY IS THE CONFEDERATION'S SUPREME GOVERNING AND DECISION MAKING BODY

At December 31, 2007, the General Assembly of CECA had the following members:

Vicente Sala Belló
Roberto López Abad
Agustín González González
José Manuel Espinosa Herrero
Jose Manuel Sánchez Rojas
José Antonio Marcos Blanco
Narcís Serra Serra
José María Loza Xuriach
Isidro Fainé Casas
Juan María Nin Génova
Xabier de Irala Estévez
Guillermo Ibañez Calle
José Ignacio Mijangos Linaza
Santiago Ruíz Díez
José María Arribas Moral
Leoncio García Núñez
Jesus Medina Ocaña
José Mª Portillo Melo
Santiago Gómez Sierra
José Antonio Arcenegui Rodrigo
Juan Pedro Hernández Moltó
Ildefonso Ortega Rodríguez-arias
Arcadi Calzada Salavedra
Aleix Gimbernat i Marti
Antonio Mª. Claret García García
Ildelfonso Pastrana Sánchez-Crespo
José Luis Ros Maorad
Felix Pérez Rodríguez
José Antonio Arcos Moya
Dionisio Martín Padilla
Mauro Varela Pérez
Jose Luis Méndez López
Antonio Marrero Hernández
Juan Manuel García Falcón
Santos Llamas Llamas
José Ignacio Lagartos Rodriguez
Fernando Beltrán Aparicio
Jorge Albajar Barrón
Miguel Blesa de la Parra
Mariano Pérez Claver
Braulio Medel Cámara
Miguel Angel Cabello Jurado
Joan Contijoch Pratdesaba
Didac Herrero Autet
Valentín Roqueta Guillamet
Adolfo Todó Rovira
Jaume Boter de Palau i Rafols
Pedro Antonio de Doria Lagunas
Juan Roca Guillamón
Carlos Egea Krauel

Rafael Soriano Cairols
Vicente Penadés Torró
Manuel Menéndez Menéndez
Felipe Fernández Fernández
Fernando Alzamora Carbonell
Pedro J. Batle Mayol
Miguel Sanz Sesma
Enrique Goñi Beltrán de Garizurieta
Martin Torrandell Orrell
Jaime Amengual Llompart
Salvador Soley i Junoy
Jordi Mestre González
Julio Fermoso García
Lucas Hernández Pérez
Carlos Etxepare Zugasti
Xabier Alkorta Andonegui
Rodolfo Nuñez Ruano
Álvaro Arvelo Hernández
Enrique Manuel Ambrosio Orizaola
Victor Javier Eraso Maeso
Atilano Soto Rábanos
Manuel Escribano Soto
Antonio Pulido Gutiérrez
José María Ramírez Loma
Gabriel Ferraté Pascual
Rafael Jene Villagrasa
Francesc Astals Coma
Enric Mata Tarragó
José Luis Olivas Martínez
Aurelio Izquierdo Gómez
Julio Fernández Gayoso
José Luis Pego Alonso
Josep Colomer Rafols
Ricardo Pagés Font
Gregorio Rojo García
Joseba Barrena Llorente
Amado Franco Lahoz
José Luis Aguirre Loaso
Rafael Alcazar Crevillen
Tomás García Montes

The CECA General Assembly is responsible, among other functions laid down in the bylaws, for appointing the members of the Board of Directors and the members of the Monitoring Committee, and for approving the annual report and the annual accounts.

THE ASSEMBLY IS RESPONSIBLE FOR THE APPOINTMENT OF BOARD MEMBERS AND MEMBERS OF THE COMPLIANCE COMMITTEE, AND THE APPROVAL OF THE BALANCE SHEET AND INCOME STATEMENT

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

In 2007, the General Assembly of CECA held two ordinary meetings, on 18 April and 19 December. All CECA member banks were represented at the two Assemblies held in 2007.

A fortnight before the first Ordinary General Annual Assembly was held, the General Assembly members were provided with a report detailing the Confederation's progress in 2006, as well as the annual balance sheet, income statement and proposed allocation of earnings.

In 2007, the CECA General Assembly approved, among others, the following resolutions:

18 April 2007

- Approval of the Chairman's Report

- Approval of the Monitoring Committee Reports:
  - on economic-financial performance.
  - approving the annual financial statements for 2006.

- Approval of the individual and consolidated financial statements (balance sheet, income statement, statement of changes in net assets and annual report), management report and the allocation of earnings, for the 2006 tax year, in line with the purposes of the Confederation and the Board of Directors' work, and submission of the previous year's financial statements.

- Settlement of the Welfare fund budget for 2006 and the Welfare fund maintenance budget for 2007.
- Ratification and appointment of Directors to the Board.
- Appointment of controllers to approve the minutes of the Assembly.

19 December 2007

- Approval of the Chairman's Report
- Ratification and appointment of Directors to the Board.
- Approval of the Monitoring Committee report on the first half of 2007
- Definition of CECA's strategy for 2008.
- Approval of annual budget and CECA membership fees for 2008.
- Approval for modification of certain bylaws.
- Approval of the Regulating Procedure for Appointment of members of CECA's Compliance Committee and repeal, as required, of the Procedure Regulating the System for Designation to the Governing Bodies of the Confederación Española de Cajas de Ahorros.

- Appointment of controllers to approve the minutes for the Assembly.

- Appointment of the external auditor for the organisation's 2008 financial statements.

  Nombramiento de los señores interventores para la aprobación del acta de la Asamblea.

3.2.1 Board of Directors

The administration and representation of Confederación Española de Cajas de Ahorros is entrusted to the Board of Directors. CECA's Board of Directors has a minimum of seventeen members and a maximum of thirty five.

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

THE BOARD OF DIRECTORS IS RESPONSIBLE FOR ADMINISTERING AND REPRESENTING CECA

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

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

a) Whenever the Chairman deems it necessary.

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

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

In 2007 the Board of Directors met on eleven occasions, at the initiative of its Chairman.

The Chairman of the Board of Directors attended all the meetings held in 2007. The Confederation's General Secretary also attended the sessions of the Board, in his capacity as Non-Executive Deputy-Secretary, with neither voice nor vote.

At 31 December 2007, the composition of the Board of Directors was as follows:

Chairman:

Juan Ramón Quintás Seoane

Deputy Chairmen:

Isidro Fainé Casas

Braulio Medel Cámara

Miguel Blesa de la Parra

José Luis Olivas Martínez

Secretary:

Carlos Egea Krauel

Board members:

Vicente Sala Belló

Miguel Sanz Sesma

Manuel Menéndez Menéndez

José María Loza Xuriach

Pedro Batle Mayol

Amado Franco Lahoz

Fernando Beltrán Aparicio

Gregorio Rojo García

Jesús Medina Ocaña

Álvaro Arvelo Hernández

Enrique Manuel Ambrosio Orizaola

José Luis Ros Maorad

Santiago Ruiz Díez

José Luis Méndez López

Pedro Antonio de Doria Lagunas

Ricard Pagés Font

Adolf Todó Rovira

Antonio Pulido Gutiérrez

3.2.2 Remunerations Committee

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

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

In 2007, the Remunerations Committee met three times and submitted reports to the Board of Directors on the following subjects:

THE REMUNERATION COMMITTEE IS RESPONSIBLE FOR ATTENDANCE FEES AND PER DIEM ALLOWANCES TO CECA'S GOVERNING BODIES AND FOR THE ANNUAL INCENTIVES FOR ALL OTHER EMPLOYEES

- Award of the Order of Merit for Saving (*Medalla al Mérito en el Ahorro*)
- Variable remuneration at the Confederation
- Remuneration to the Confederation's Directors, and pensionable earnings implications
- Salary increases and health insurance

CECA's Remuneration Committee was reappointed in 2007 (at the Board Meeting held on 16 May) and had the following members at 31 December:

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

THE INVESTMENT COMMITTEE IS RESPONSIBLE FOR THE CONFEDERATION'S STRATEGIC INVESTMENTS AND DISPOSALS

3.2.3 Investment Committee

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

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

In 2007 the Investment Committee met six times and issued six reports, which, among other aspects, analysed the activity performed by the Confederation's Assets and Liabilities Committee. It also submitted to the Board of Directors the required annual report for 2007, in which it stated that:

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

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

Two members of CECA's Investment Committee were reappointed at the Board Meeting held on 16 May. As a result, the Committee had the following members at 31 December 2007:

Amado Franco Lahoz	(Chairman)
José María Loza Xuriach	(Member)
Manuel Menéndez Menéndez	(Board member and Secretary)

THE MONITORING COMMITTEE IS RESPONSIBLE FOR ENSURING THAT THE BOARD OF DIRECTORS CONDUCTS ITS ACTIVITIES EFFICIENTLY AND ACCURATELY

3.2.4 Monitoring Committee

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

Specifically, its tasks include the following:

- To analyse the institution's economic and financial management and submit a half-yearly report thereon to the Bank of Spain and the General Assembly.
- To examine the audit of the financial statements summarising the year's activities and to submit a report on this examination to the General Assembly.
- To inform the General Assembly about the budgets and allowances allocated to community welfare projects, and to monitor compliance with projected investments and expenses.
- 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.
- To ask the Chairman of the Confederation to hold an extraordinary General Assembly, in the aforementioned circumstances and in any circumstances in which it considers this to be necessary.

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

- To perform the duties of the Audit Committee. This role, which is required by the 18th additional provision of the Securities Market Law, is undertaken in CECA by the Monitoring Committee.

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

The term of office of the members of the Committee is four years. At 31 December 2007, the composition of CECA's Monitoring Committee was as follows:

Chairman:

Rafael Jené Villagrasa

Deputy Chairman:

Rafael Soriano Cairols

Secretary:

Antonio Mª. Claret García García

Members:

Martín Torrandell Orell

Atilano Soto Rábanos

Xavier Alkorta Andonegi

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

In 2007 the Monitoring Committee met monthly on eleven occasions.

In 2007, the following individuals appeared before this body:

- CECA's external auditor, to report to the Committee on the main regulatory changes which affect the framework in which the financial statements were drawn up and to explain the content of the audit reports concerning the Confederation's 2006 individual and consolidated financial statements.

- The Internal Audit Director, to present to the Committee the information required for it to draft the required half-yearly reports.

- The Head of Regulatory Management to explain the lines of action undertaken in 2007 in compliance risk management, as well as those planned for 2007 and to present the annual report.

Reform of the Confederation's Bylaws and approval of new Regulations for the Procedures for Appointment of Members of the Monitoring Committee

THE REDRAFTING OF THE CONFEDERATION'S BYLAWS REDUCED THE ADMINISTRATIVE LOAD FOR THE GOVERNING BODIES

At its meeting on 18 July 2007, CECA's Board of Directors approved redrafting of the Confederation's Bylaws; this process was due to be completed with approval of the review by the General Assembly in December 2007 and with authorisation by the Ministry of Economy and Finance and subsequently recorded in the Mercantile Registry.

According to the letter sent by the Chairman of CECA to all Chairmen and Managing Directors of savings banks at the end of July, the proposed redrafting of the bylaws had three objectives. Firstly, to adapt the bylaws to the de facto manner in which the Confederation had been acting for several years, and so that it would not be restricted solely to savings banks but would cover all parties active in financial markets and other public and private sector entities. Secondly, it aimed to clarify the status in the bylaws of the positions of General Assembly member or member of the Board of Directors, to specify that the positions belonged to the individual (Chairmen and Managing Directors) and not to a body corporate (the confederated savings banks). And thirdly, it aimed to reduce the bureaucratic load in the Confederation's bodies of corporate governance.

In parallel to the redrafting of the bylaws, the Monitoring Committee had exposed certain gaps in the regulations on reappointment for this body resulting from the Procedure Regulating the System for Appointment to the Confederation's Corporate Governance Bodies not having been amended to reflect changes to the bylaws which took place in 2002 and 2005.

As a result, in response to a proposal by the Monitoring Committee, at its meeting on 17 October, the Board of Directors agreed to begin the process of preparing new Regulations for the Procedures for Appointment of Members of the Monitoring Committee to replace the existing Regulations.

At its meeting on 17 October, the Board of Directors agreed to send the proposed redrafting of the Confederation's bylaws and the proposal for the new Regulations for the Procedures for Appointment of Members of the Monitoring Committee to the Chairmen and Directors of the savings banks. In the letter sent to all Chairmen and Directors it was announced that both proposals would be presented to the Board of Directors on 21 November so that, if approved, they could be submitted for approval to the General Assembly on 19 December 2007.

With regard to the redrafting of the bylaws, on 21 November the Board of Directors agreed to send the rationale for the modifications to the General Assembly, and agreed to propose the modification of specific articles and their new drafting, and approval of a revised text for the bylaws, to the General Assembly. With regard to the approval of the new Regulations for the Procedures for Appointment of Members of the Monitoring Committee, the aforementioned Board Meeting also agreed the wording of the report justifying the proposal, and further agreed to propose to the General Assembly the approval of the new regulations and the repeal of the existing ones.

At its meeting on 19 December, the Confederation's General Assembly approved the modifications to the bylaws proposed by the Board of Directors and the new revised text of the Confederation's Bylaws. Furthermore, the General Assembly also approved the new Regulations for the Procedures for Appointment of Members of the Monitoring Committee. With regard to the redrafting of the bylaws, the documentation demonstrating this has been sent to the Ministry of Economy and Finance for approval and should subsequently be recorded in the Meracantile Register.

Changes in senior management at the savings banks 3.3

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

In 2007 the following appointments were made:

At Caja de Ahorros de Santander y Cantabria

Enrique Manuel Ambrosio Orizaola

Chairman

At Caja de Ahorros y Monte de Piedad de Córdoba

Santiago Gómez Sierra

Chairman

José Antonio Arcenegui Rodrigo

Managing Director

At Caixa D'estalvis i Pensions de Barcelona

Isidro Fainé Casas

Chairman

Juan María Nin Génova

Managing Director

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

Antonio Pulido Gutiérrez

Chairman

José María Ramírez Loma

Managing Director

At Caja de Ahorros de Ávila

Agustín González González

Chairman

At Caixa D'estalvis de Sabadell

Salvador Soley I Junoy

Chairman

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

Carlos Tamayo Salaberria

Managing Director

At Caja de Ahorros Municipal de Burgos

Leoncio García Núñez

Managing Director

At Caja de Ahorros de Valencia, Castellón y Alicante

Aurelio Izquierdo Gómez

Managing Director

Group structure and investees 3.4

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 and other network links

CASER GRUPO ASEGURADOR: 1.60 %

Insurance

EURO 6000, S.A.: 10.00 %

Administration of credit and debit card programmes

EUROTEVEA: CECA 20 %

Support for the international activity of savings banks and their clients

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: 0.46 %

International electronic payments

CEA TSL: 100 %

Credit document management

EUFISERV: 20.49 %

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

Except for AHORRO Y TITULIZACIÓN, CAJA ACTIVA, S.A., EUROTEVEA, CEA TSL and EUFISERV, the Confederation owns less than 20% of the companies detailed above and, with the exception of BME, 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 had one operative branch in London, which channels savings banks' transactions in international markets, and a number of field offices in various European capitals.

Other information regarding governance 3.5

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

In addition there are the Compliance and Operational Risk Committees specialise in the management of CECA's compliance and operational risk, respectively.

3.5.1 The Management Committee

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

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

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

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

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

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

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

The Management Committee has its own Internal Regulations, which were approved on 19 February 2007, which permit it to delegate its role to the Executive Committee.

THE MANAGEMENT COMMITTEE HAS ITS OWN INTERNAL REGULATIONS, WHICH WERE APPROVED IN FEBRUARY 2007

The Management Committee meets prior to the Board of Directors' meetings and as many times as it is called upon to do so by its Chairman. In 2007, it met eleven times.

3.5.2 The Assets and Liabilities Committee

The Assets and Liabilities Committee (COAP) has the following duties, among others:

- To monitor and analyse the Confederation's balance sheet, assessing the underlying risk in its structure, in line with monetary, economic and currency exchange variables, in accordance with the policies issued by the Board of Directors.
- To report to the Board on the progress of the company's risk policy, in line with market trends and conditions.
- To evaluate the risks deriving from the likely performance of the balance sheet items and, consequently, to assess their influence on the Confederation's net interest income.
- To establish the management, monitoring and control procedures for credit, market (interest rate, exchange rate and price) and liquidity risk approved by the Board of Directors.
- To issue general policies within the framework of the Confederation's risk policy, in relation to credit, market (interest rate, exchange rate and price) and balance sheet liquidity risk, in their entirety.
- To evaluate market conditions.
- To be aware of the cash positions in euros and other currencies.

- To prevent liquidity pressures.

- To analyse public data.

The Assets and Liabilities Committee is chaired by the Managing Director of the Confederation, whilst the Vice-Chairman acts as Deputy General Manager of the Operating-Financial Area. It has eight members and the Head of the Legal Department acts as Secretary. By agreement of the Board, in 2007 the Regulations of the Assets and Liabilities Committee were completely redrafted.

The Assets and Liabilities Committee meets in ordinary sessions once a month and also whenever any market situation or the Confederation's performance requires it, with prior notice being given by the Chairman via the Secretary. The Assets and Liabilities Committee met 35 times in 2007.

The Assets and Liabilities Committee has the following support units to help it meet its objectives:

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

THE ROLE OF THE RISK COMMITTEE IS TO ENSURE THAT EXPOSURE STAYS WITHIN THE LIMITS ESTABLISHED BY THE BOARD OF DIRECTORS

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

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

- There is full awareness of all the risks incurred.
- That appropriate infrastructure is in place for their management, control and administration.
- That capital consumption from risk, exposure and potential losses is sufficiently well known and quantified.
- Progress is made on the standardisation of the financial products in which it operates from the point of view of systems and procedures.

3.5.3 The regulatory compliance committee

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

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

1 At the lower level there are specialist committees for specific issues: the Prevention of Money Laundering Committee, Code of Conduct in the Securities Market Committee and the Data Protection Committee.

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

The Compliance Committee has the following powers and responsibilities:

- To promote the implementation of compliance risk control at the Confederation.

- To identify and evaluate, with the assistance of the Regulatory Management Department, matters relating to compliance risk and the plans for its management. Within the framework of this process:

  - To perform periodic monitoring of compliance risk management. For which the Compliance Committee meets at least once every quarter.

  - To review the standard management of compliance risk by the Regulatory Management Department. For this purpose, to analyse the information and supervise the documentation concerning compliance risk management submitted by said Department.

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

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

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

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

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

The Committee met five times in 2007. In addition, the Compliance Committee has supervised the process of preparing new internal regu-lations, in particular the revision of the Prevention of Money Laundering Manual and the new Internal Code of Conduct and their development circulars).

THE COMPLIANCE COMMITTEE SUPERVISED THE REVIEW OF THE PREVENTION OF MONEY LAUNDERING MANUAL AND THE NEW INTERNAL CODE OF CONDUCT

The Board of Directors delegated to this Committee coordination of the actions required to adapt CECA to the MiFID, which came into force in November.

This new EU regulation resulted in a thorough review of the regime applicable to securities markets and resulted in intensive work on adapting the regime. In particular, this process involved: a review of the internal control and operational structures and procedures; the updating and formalising of internal policies relating to the provision of investment services; adapting mechanisms and instruments for getting information to and from clients; and the review of technological systems and applications.

3.5.4 The operational risk committee

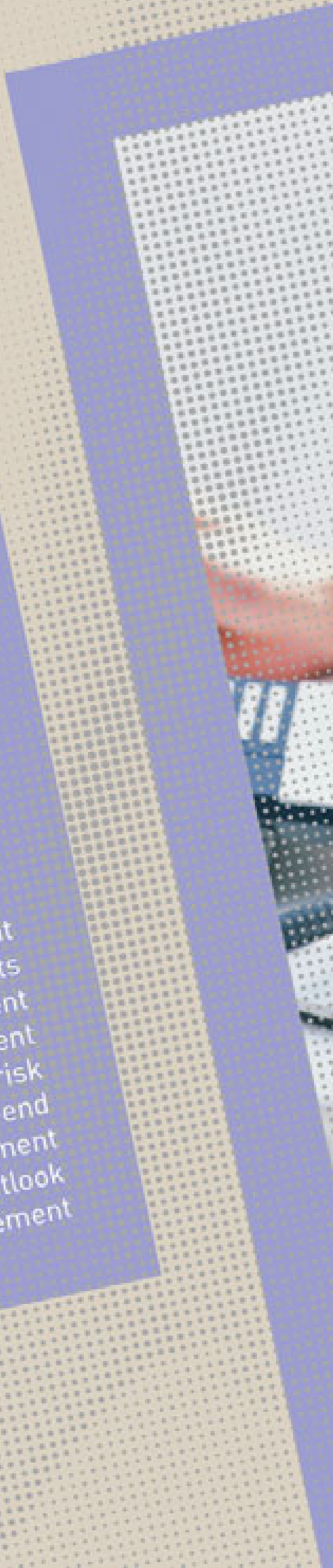
The section on allocation of responsibilities of the Control Framework develops an organisational structure which includes an Operational Risk Committee with the following role:

- To carry out periodic monitoring of the management of operational risk, informing the Management Committee of the activities carried out in relation to the management of operational risk.
- To analyse the information on operational risk management received from the Confederation's Operational Risk Unit.
- To supervise the documentation provided by the Operational Risk Unit on operational losses.

THE OPERATIONAL RISK COMMITTEE HAS APPROVED AN ACTION PLAN FOR IDENTIFYING OPERATIONAL RISKS

- To promote implementation of operational risk control in the organisation.
- To monitor the degree of compliance with the Operational Risk Control Framework.
- To approve procedures for the organisation's operational risk management.
- To propose procedures and systems for transferring risk (insurance, guarantees, outsourcing, etc) so as to offset operational risk based on the Confederation's risk profile.
- To establish the maximum permitted limits in relation to residual operational risk.

Management Report




04

Confederación Española de Cajas de Ahorros (CECA) is the Parent of the Confederación Española de Cajas de Ahorros Group. The companies composing the Group are listed in Note 1 to the consolidated financial statements for the year ended 31 December 2007.

Since CECA represents approximately 99.95% of the assets and 96.88% of the profit attributable to the Group at 31 December 2007, the data and comments contained in this directors' report relate only to CECA, since they are applicable to and representative of the Group of which the Confederación is head.

Business Performance and Achievement of Targets in 2007 4.1

In this section relating to business performance and the results obtained in the development of the business, comment will be made, on the one hand, to the most significant actions undertaken during 2007 in order to comply with the main objectives set by the 94th General Assembly on 13 December 2006, within the framework of the permanent strategic lines of action which direct CECA's activities, and on the other, the attainment of the profit targets through the various items of the income statement.

In relation to the first of these matters and with respect to each strategic line, noteworthy of mention was the performance of the following actions:

THE DEVELOPMENT OF INDUSTRY-WIDE PROJECTS SAW INTENSE ACTIVITY IN 2007

Institutional representation and development: as industry representative, the Confederación participated actively in various working groups in relation to the regulation of the mortgage loan market, the preparation of reports and work on Corporate Social Responsibility (CSR) and with the implementation of the Single Euro Payments Area (SEPA); it has analysed the adaptation of corporate income tax to IFRSs, the treatment of capital gains in personal income tax, the related party transactions regime, with respect to this tax, the tax legislation of VAT for group entities, and reported the regulation of financial transactions with respect to this tax.

THIS YEAR CECA STARTED TO INCLUDE DOCUMENTATION IN THE DATABASE WHICH WILL CONSTITUTE THE CONFEDERACIÓN'S HISTORIC DOCUMENTATION

The development of industry-wide projects saw intense activity in 2007; the main trends and strategic variables in relation to human resources management at savings banks were defined and reports were prepared in relation to a differential management model which incorporates best practices and the values and culture of the savings banks; with respect to the adaptation process to the financial markets legislation (MIFID), the impacts on the savings banks were considered and analysed, giving rise to the preparation of an implementation guide; in relation to the Basel II requirements the transposition of the Directive to Spanish legislation was analysed and reported upon; the directors' report and the industry-wide annual report were adapted to the corporate reforms and changes introduced by IFRSs; action was taken developed to address the update of processes and systems to SEPA, and analyses and contacts were made to provide the industry's training institutions with a system of professional accreditations. Likewise, other industry projects were implemented through COAS (CECA's Organisation, Automation and Service Committee), the contents of which are specified under "Research and Development" in this report.

As regards the institutional development of CECA, the 96th Ordinary General Assembly approved the modification of the bylaws, and a start was made on the inclusion of documentation in the database which will constitute CECA's historic documentation.

PROGRESS WAS MADE IN REDUCING IT COSTS, THE REVIEW OF TARIFFS IN THE TELLER SERVICE AND BRANCHES AND THE REFORM OF DEALING ROOM PROCEDURES

Efficiency: the expected objectives for reducing the information technology costs for hosting, diskettes and electronic banking were achieved, as was the reduction in the unit costs of Unix power and in the interchange services and PECA of payment methods. Likewise, an analysis of operational services was carried out and a proposal for a review of tariffs in the teller service and at agencies and SWIFT and international payment orders was prepared; the procedures review plan for the streamlining of Treasury dealing rooms was implemented.

Growth: in technology services, the projected increase; in new channels, payment methods, SAP and outsourcing services were achieved; in operational and financial services the most significant growth was produced by the documentary credits processed by CEA Hong Kong, the transactions managed by the London branch, purchases and sales of banknotes from/to foreign counterparties and the volume of financial transactions processed by the savings banks' commercial distribution department; in relation to the risk control product offering, demand for product valuations was met through the Market Data Service, new customers availed themselves of the risk solutions and 31 savings banks joined the project relating to Pillar II, which was launched in 2007.

Effectiveness: the effectiveness objectives for technology, operational, financial, and audit and control services for 2007 were tied to an improvement in the quality of the services and internal support provided to the savings banks; on the basis of the initial objectives established, an average score exceeding 95% was obtained in the quality survey. In the services for federated savings banks, CECA improved the communication and marketing information on the claims handled and the tariff board was remodelled; a real estate observatory was created and a boost was given to the creation of a Spanish microfinance network.

THE QUALITY OF TECHNOLOGY, OPERATIONAL, FINANCIAL AND AUDIT AND CONTROL SERVICES HAS IMPROVED

IN TECHNOLOGY SERVICES, NEW TRANSACTIONS WERE MADE AVAILABLE THROUGH MOBILE TELEPHONY AND ELECTRONIC BILLING WAS SET UP

Innovation: in this strategic line the Confederación achieved objectives set regarding an improvement in technology services, such as the enabling of new transactions through the mobile telephony channel, the start-up of electronic billing and new functionalities and technologies in the payment means and the Internet systems. Operational and financial services were adapted to facilitate the new SEPA transactions and provide products demanded by the savings banks.

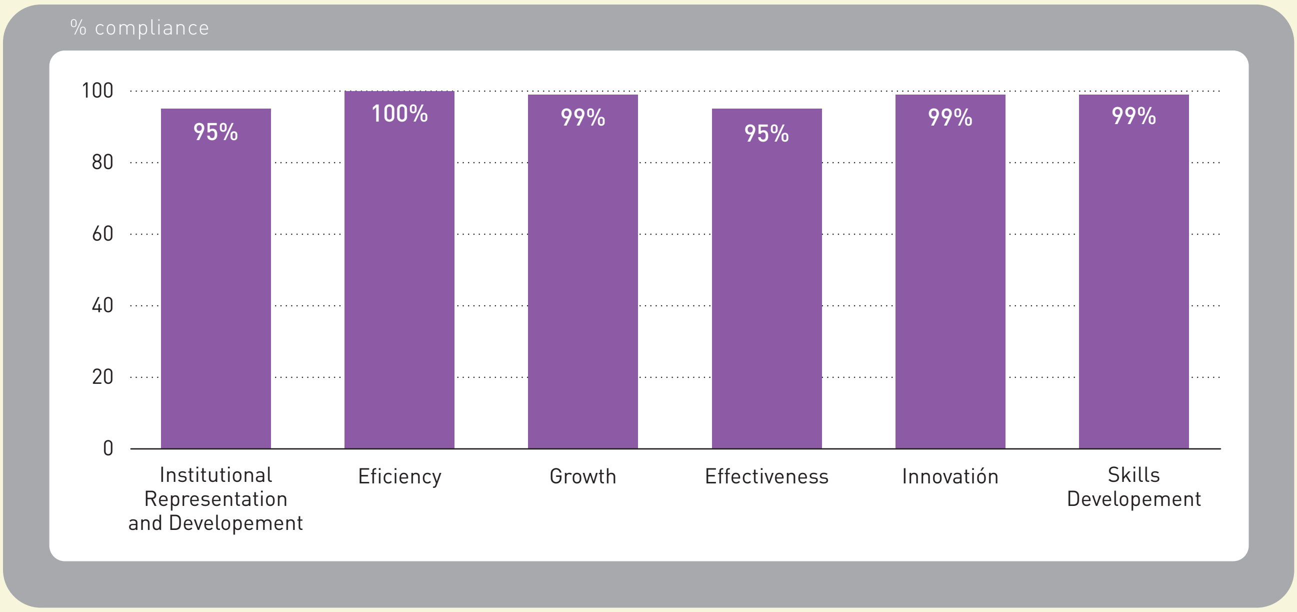
Skills development: with regard to the improvement and development of the technological infrastructure, operational systems platforms were updated, servers were extended and converted, help desk services improved and methodologies for tracking operations were developed.

In control systems a Master Plan for the improvement of operational systems and the accounting records of Treasury room activity was implemented and derivative product valuation and documentation units were created; in order to improve application infrastructure, new functionalities were added to the Treasury Front Office and Back Office activity support tools. In order to contribute to the development of financial risk control processes, the management of which is described in another section of this report, improvements were made to the measurement and control of credit and market risk and a new version was included in the monitoring and control platform; the implementation of structural balance sheet risk control management tools commenced.

THE MASTER PLAN FOR THE IMPROVEMENT OF OPERATIONAL SYSTEMS AND CONTROL OF THE DEALING ROOMS WAS INITIATED

Management capacity was increased through a significant technological development of the management intranet and the implementation of an integral human resources system continues.

Expressed as a percentage, the degree of compliance with the strategic lines discussed above in 2007 was as follows:



Income Statement 4.2

Thousands of Euros	2007	Budget	Variance	%
Financial margin (*)	47,305	84,223	-36,918	-43.83
Net fee and commission income	81,186	74,368	6,818	9.17
Gross income	128.491	158,591	-30,100	-18.98
Other operating income	74.875	67,344	7,531	11.18
Operating expenses	-163,870	-171,173	7,303	-4.27
Net operating income	39,496	54,762	-15,266	-27.88
Other gains and losses	15,342	-240	15,582	-
Profit before tax	54,838	54,522	316	0.58
Income tax	-13,359	-16,650	3,291	-19.77
Profit for the year	41,479	37,872	3,607	9.52

(*) Including net gains/losses on financial transactions and exchange differences.

THE RESULTS OF ALL THE HEADINGS EXCEPT THE FINANCIAL MARGIN SURPASSED THE BUDGETED FIGURES

The balance of the 2007 income statement surpassed the budget by 0.58% before tax, and by 9.52% if the comparison is made against the profit for the year after the provision for taxes.

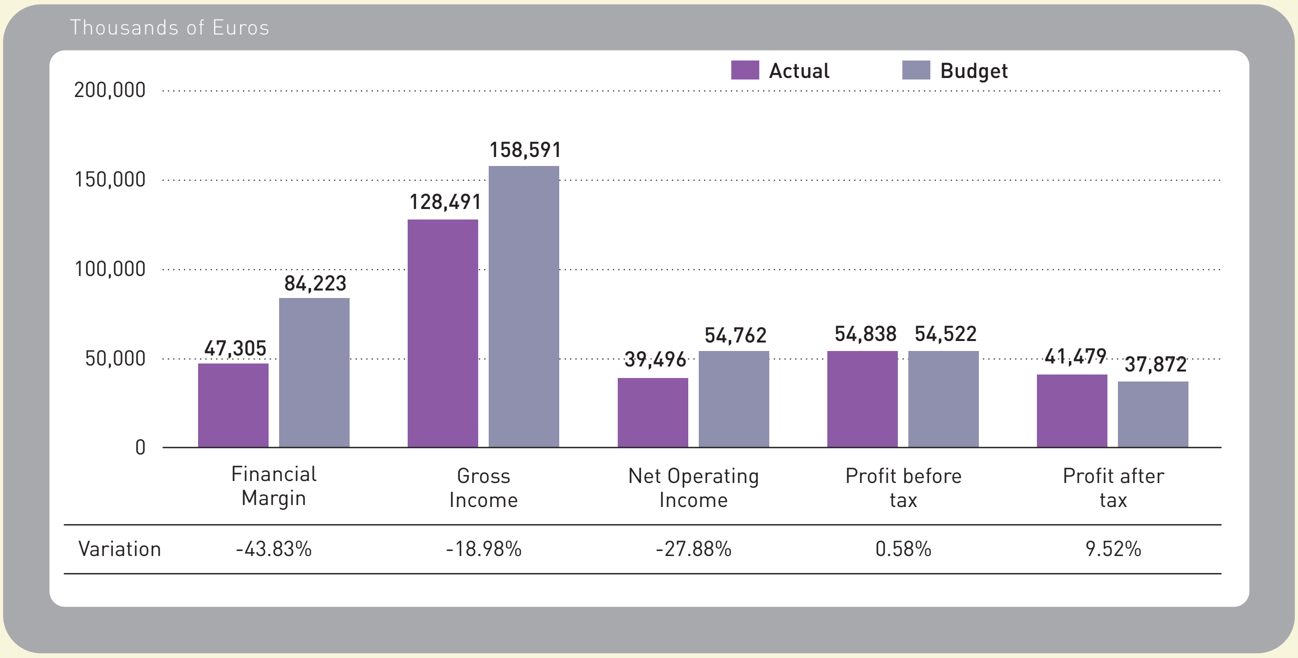
As observed in the comparison table above, all the income statement items exceeded the budget with the exception of the financial margin, which, as a consequence of the volatility of market prices, experienced losses on sales and price adjustments in the held for trading portfolio which prevented the net profit obtained in the financial margin from reaching the budgeted amount.

With respect to the remaining income, net fees and commissions exceeded the budget by EUR 6.8 million, due mainly to the greater than expected volume of securities, means of payment and new channel activities. Other operating income also increased, in this case by EUR 7.5 million, due mainly to the increase in financial services and training activities carried out by ESCA.

Under "Expenses", the effort towards increasing efficiency enabled the budgeted figure to be undercut in personnel expenses, general administrative expenses and depreciation and amortisation of tangible and intangible assets, which saw increases of EUR 2.9 million, EUR 3.5 million and EUR 1.1 million, respectively.

In relation to other gains and losses, the amount recognised arose from the recovery of allowances of EUR 6.2 million, gains on the sale of property of EUR 3.7 million and other extraordinary gains of EUR 5.4 million.

INCOME INCREASED BY MORE THAN EXPECTED DUE TO THE NOTEWORTHY ACTIVITY OF SECURITIES, PAYMENTS AND NEW CHANNELS



Proposed Distribution of Profit

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

Thousands of Euros

Return on participation certificates		2,281
To Welfare Fund		6.428
Fundación de las Cajas de Ahorros (FUNCAS)	4,487	
II Savings Banks' Strategic Forum	1,806	
Edition of a book on the history of CECA	135	
To reserves		32,770
Profit for the year (profit after tax)		**41,479**

Credit Ratings

The ratings assigned to the Confederación in 2007 by the international agencies Fitch Ratings, Moody's and Standard & Poor's ratified the high levels achieved in 2006.

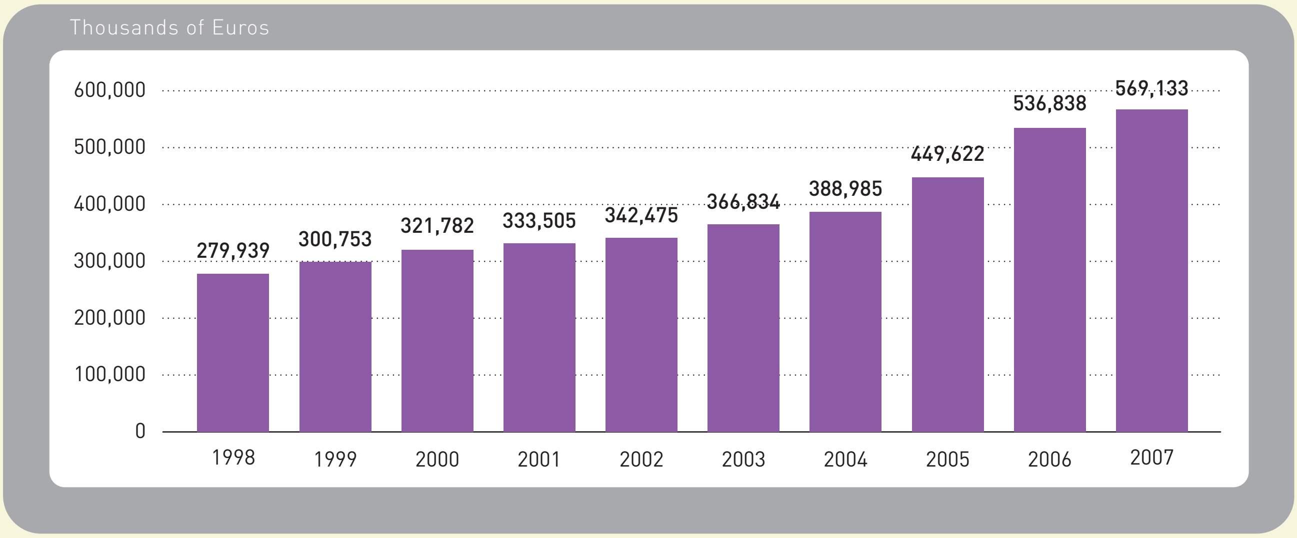
FITCH RATINGS	Short Term: F1+	Long Term: AA-	Individual: B	Legal: 2
MOODYS	Short Term: P1	Long Term: Aa2	Solvency: B-	
STANDAR & POOR'S	Short Term: A-1+	Long Term: AA-		

ALL THE INTERNATIONAL RATING AGENCIES HAVE RATIFIED THE HIGH LEVEL REACHED BY THE CONFEDERACIÓN IN 2006

Capital

Eligible capital amounted to EUR 569,133 thousand at 31 December 2007, up 6.02% on 2006. The variations in the last ten years were as follows:

THE CONFEDERATION'S CAPITAL INCREASED BY 6.02% COMPARED TO 2006



Risk Management 4.3

For the Confederación, risk management constitutes one of the pillars for healthy business growth. This is clearly demonstrated by the continuous improvement attained each year in risk applications and procedures. Notwithstanding the above, the forthcoming entry into force of the new BIS II capital regulations made 2007 a particularly intensive year for CECA in relation to improvements in risk measurement and control. In order to ensure the Entity's convergence with these regulations, at the end of 2006 the Master Plan for Adaptation to BIS II was established, including all the tasks to be performed in the 2007-2009 period.

The Risk Division is responsible for ensuring that all the risks to which the Entity is exposed fall within the tolerance level established by the Board of Directors and supervised by ALCO as the top executive body.

THE YEAR HAS PROVED ESPECIALLY INTENSE IN RELATION TO RISK MEASUREMENT AND CONTROL AS A RESULT OF THE BIS II REGULATIONS

The low risk profile maintained by the Entity for risk management is underpinned by four pillars:

- Maintenance of the quality of the loan portfolio and therefore, the preservation of the Entity's solvency levels.
- Separation of risk management from the risk taking areas and maintenance of a high level of business proactivity.
- Aggregation of all the risks.
- Availability of sufficiently specialised professionals in line with the increasing sophistication of operations and financial markets.

The most significant risks incurred by the Confederación, by operational type, are as follows:

- Credit risk
- Market risk
- Operational risk
- Structural balance sheet risk

THE MAIN RISKS FACED BY CECA ARE CREDIT, MARKET, OPERATIONAL AND STRUCTURAL BALANCE SHEET RISK

For correct risk management, procedures for risk analysis, approval, monitoring and control are included in the policy and procedures manual duly approved by the Board of Directors. As laid down by best practices, the basic management framework applied by the Confederación is based on the availability of policies, procedures, methodologies and control systems adapted to the volume and complexity of the business.

Credit Risk

Credit risk management is centred on the analysis, monitoring and control of the customers and transactions subject to any credit risk category, namely principal, replacement or counterparty risk, issuer risk, liquidation or delivery risk and country risk.

The rating is a key element in the credit risk analysis process and it is used strategically to define the level of risk assumed. By taking into account these ratings, the guarantees, the borrower's equity position and the product, the Entity is able to classify the transaction and adopt the appropriate decisions at the relevant decision-making levels.

For the classification of counterparty risk, the Confederación uses internal models through which Maximum Weighting Limits (MWL) are assigned to all its counterparties taking into consideration financial, profitability, economic, size and country variables, etc.

Additionally in order to make the use of risk limits more effective, substantially all the risk assumed in operations involving derivative instruments, repos, sell/buy backs and securities lending agreements is covered through the use of standard ISDA/CMOF, GMRA and GMSLA agreements, respectively, the terms of which envisage the possibility of offsetting outstanding collection and payment flows between the parties for all transactions covered by these agreements.

The methodology applied for the calculation of credit risk exposure is the sum of the current exposure or market value plus an add-on to reflect potential future exposure.

THE MAIN OBJECTIVE OF CREDIT RISK CONTROL IS TO DETECT IN ADVANCE THE COUNTERPARTIES WHERE CREDITWORTHINESS COULD DETERIORATE

Credit risk monitoring and control

Credit risk monitoring is performed through active portfolio management. The main objective is to detect, sufficiently in advance, counterparties whose creditworthiness could deteriorate. Systematic monitoring enables all the portfolio to be divided into normal risk counterparties and special vigilance counterparties. All the counterparties in this latter category are assigned an action policy which can vary from simply reviewing creditworthiness after a certain period of time or freezing all the counterparty's transactions.

As in risk analysis, ratings constitute the primary basis for the monitoring process together with other variables including the country and type of business.

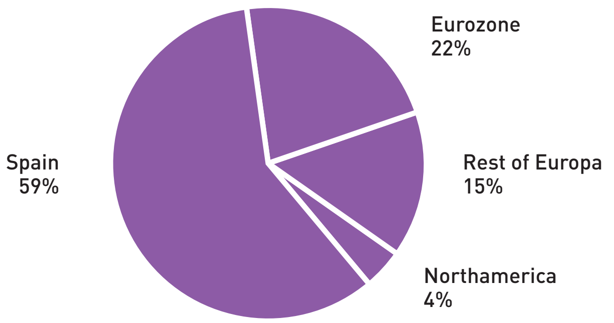
Credit risk exposure

CECA HAS A LOW CREDIT RISK PROFILE BY TRANSACTION TYPE SINCE MOST OF ITS EXPOSURE IS HIGH QUALITY

The Confederación has a low risk profile since a significant portion of its exposure is of high credit quality because its operations are strongly focused on the financial services industry. In this context, particular importance is given to the permanent control of concentration risk both by country and with respect to major risks. To achieve this, measures and controls more conservative than those required by regulations have been established and these have resulted in comfortable margins within the legal limits.

As set forth in the following table, which shows the distribution of the average use of credit limits in 2007, 81% of credit risk is with counterparties in European Monetary Union countries (including Spain) and the remaining 19% is divided between other European countries and North America.

**RIESGO DE CRÉDITO:
DISTRIBUCIÓN GEOGRÁFICA**



Market Risk

Market risk is the risk of loss to which the Entity is exposed as a result of adverse changes in the prices of the variables affecting the portfolio's market value.

The basic measure of market risk at CECA is value-at-risk (VaR), which includes, uniformly and taking into account the effect of diversification, all the significant risk factors.

MARKET RISK IS THE RISK OF LOSS TO WHICH THE ENTITY IS EXPOSED AS A RESULT OF ADVERSE CHANGES IN THE PRICES OF THE VARIABLES AFFECTING THE PORTFOLIO'S MARKET VALUE

Every year the Board of Directors approves the maximum level of market risk exposure, which is subsequently distributed between the different areas of the Treasury Department. In addition, ALCO approves the maximum monthly and annual loss limit (stop-loss).

The Methodology and Treasury Control Division of the Risk Section is responsible for the daily calculation of risk measures and the verification of limits. In addition, this Division has been assigned the responsibility for the daily calculation of the management results of the Treasury Department and the various desks composing it using methodologies, models and price sources that are separate from those used by the Trading Dealing Room. This structure guarantees total independence from the risk-generating business areas.

Every month, the levels of risk exposure, limit monitoring and the management results of the Treasury Dealing Room are reported to the Risk Committee and to the ALCO.

Measurement of market risk 4.4

Value-at-Risk (VaR)

VaR measures the maximum potential loss on a portfolio with a given confidence level and for a specific time horizon. CECA uses as general parameters a one day time horizon and a 99% confidence level.

CECA calculates value-at-risk using the so-called parametric methodology and volatilities and correlations are calculated using at least one year's market data observations. One of the advantages of this model is that supplementary VaR measures can be obtained, such as component VaR, which measures the contribution of each risk factor and product to total risk exposure. Accordingly, information can be obtained on risk concentration, by factor, and on the contribution made to total risk by each product in the portfolio.

THE CONFEDERACIÓN HAS A LOW MARKET RISK PROFILE

In 2007, the Confederación created and implemented a methodology for the measurement of specific risk, and therefore, the potential impact on a portfolio's value of the changes in that risk factor for each specific issue. This methodology, denominated "Spread VaR", is homogenous with current market VaR, and this allows a measurement of global risk to be obtained which incorporates market risk factors such as credit risk.

As with credit risk, the Confederación generally has a low market risk profile because, in general, it has back-to-back positions with respect to complex customer transactions in the market (transactions with the same terms but opposite signs which eliminate market risk).

As an important part of improvements to be performed, the historical simulation methodology for the calculation of VaR is expected to be implemented during the first quarter of 2008. This will give rise to another qualitative advance in the measurement and control of this type of risk.

Supplementary measures

In order to ascertain the accuracy of the VaR measure, the actual results obtained on the various portfolios are checked daily and the causes of any possible excess are analysed (back-testing). In 2007 a supplementary back-test based on the comparison of VaR with the results obtained considering the daily portfolio (without new transactions or commissions and fees) was developed and implemented.

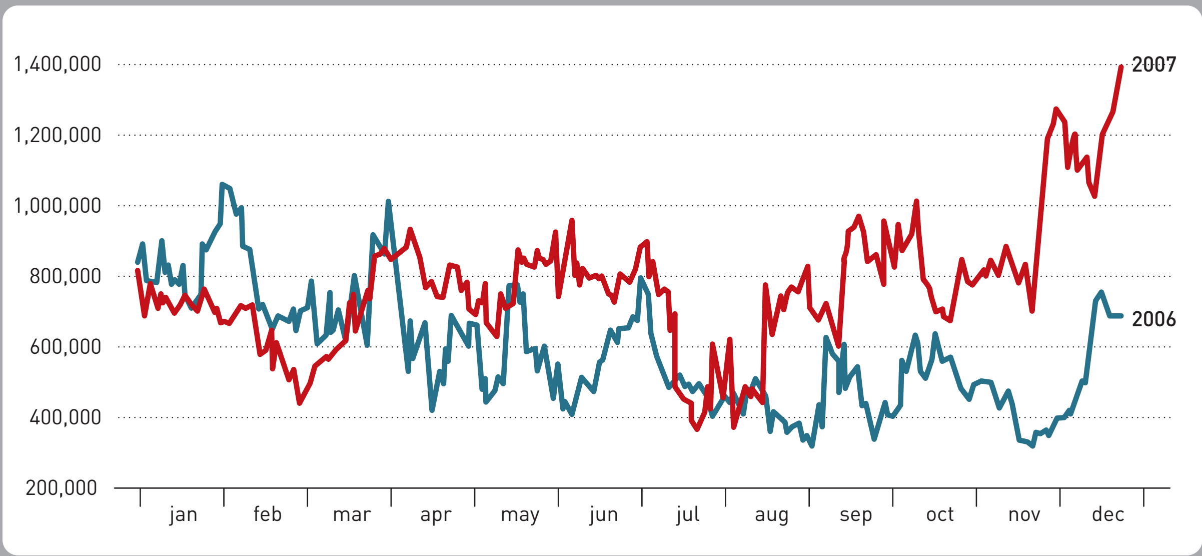
With the aim of trying to quantify the impact of extreme changes in the risk factors which affect the portfolio value, a daily analysis is performed for critical scenarios (stress-test). In 2007 more precise crisis scenarios were defined, approved by ALCO, and will be applied for 2008 calculations.

In addition, CECA conducts calculations of risk/return measures, specifically return on VaR (RoVaR), with a view to using them as a support tool for the efficient allocation of capital and as additional evidence of the accuracy of the model.

The performance of market risk figures in 2007

The performance of the market VaR in 2007 indicates how the risk figure remained relatively stable in line with the average levels for most of the year. The upward trend at the end of the year reflects the volatility of the various markets.

In 2007 the VaR fluctuated between a high of EUR 1.39 million and a low of EUR 0.36 million, giving an average VaR for the year of EUR 0.76 million. At 2007 year end, the VaR was EUR 1.39 million, which was the same as the high for the year.



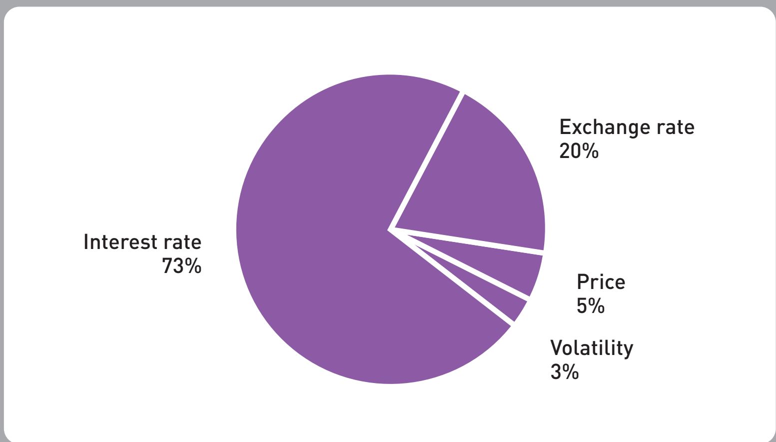
The distribution of the VaR of the trading portfolio by business area was fairly balanced, as indicated in the following table:

euros	Average	High	Low
Long Term Trading	411,211	845,192	174,068
Short Term Trading *	508,160	1,300,696	198,373

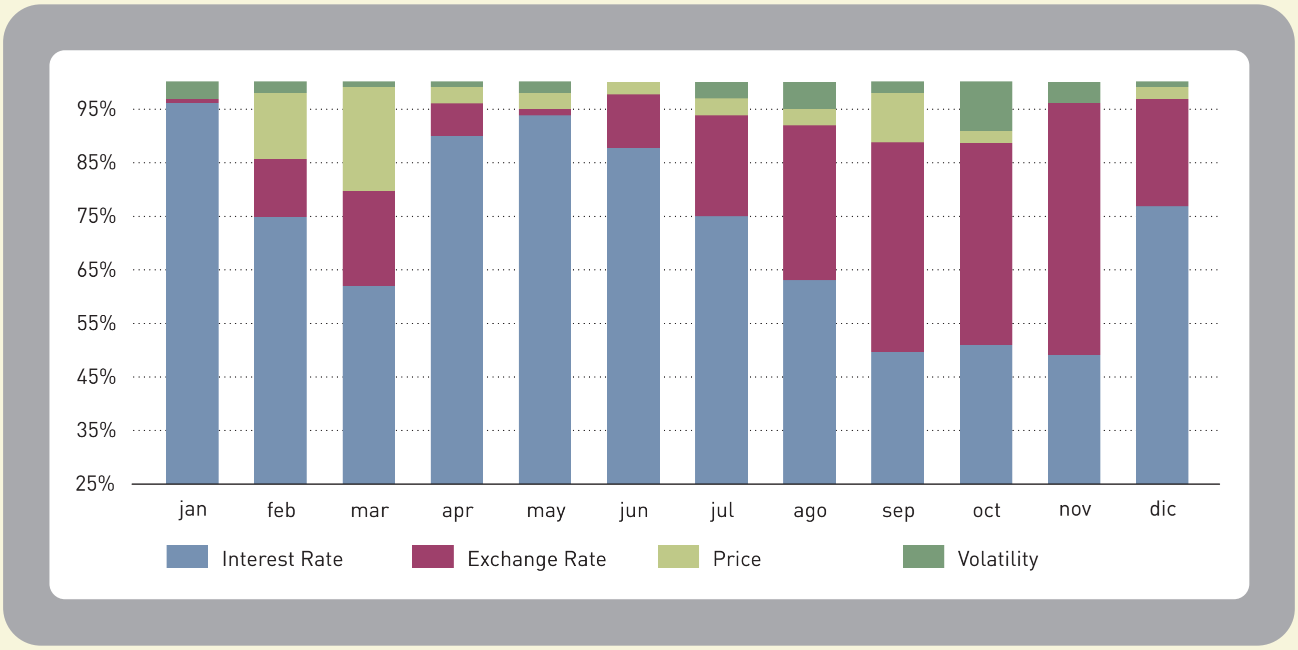
* Including foreign currency

The average distribution of the VaR of the trading portfolio, by risk factor and taking into consideration the correlations in the portfolio (Component VaR), was as follows:

euros	
Interest rate risk	551,341
Foreign currency risk	152,029
Equito Risk	36,894
Volatily risk	20,991
Total VaR	**761,255**



The following chart illustrates how the portfolio has become more diversified during the year in response to the increase in the volatility of the markets.



This enabled the profit on diversification between portfolios to increase to an annual average figure of 30.3% and as a result, the use of market risk limits fell in 2007 in general terms.

As a supplement to these measures, on a daily basis an estimate is performed of the potential losses in duly defined crisis scenarios (stress-tests), which are reviewed by Internal Audit and approved by the ALCO.

THE INTEGRAL OVERVIEW OF ALL THE ENTITY'S RISKS IS THE RESPONSIBILITY OF INTEGRAL RISK MANAGEMENT

Integral Risk Management

The integral overview of all the Entity's risks is the responsibility of the Integral Risk Management Division of the Risk Unit.

Its main actions in 2007 were characterised by the ongoing projects for the adaptation of risk control systems, methodologies and procedures to best market practices as part of the plan for adaptation to BIS II.

This strategic project was backed and monitored by the Executive Committee and gave rise to the concentration in one single framework of all the actions that CECA is implementing in relation to risk control and management. The main actions carried out in 2007 can be summarised as:

- Improvements in the applications and the methodologies for the measurement and control of the various risks and, as a result, the adaptation of all the management procedures.

- To improve the risk information systems which whilst fulfilling the new regulatory reporting requirements for capital, allows a new internal reporting framework to be used for risk control, monitoring and decision making.

- To make progress regarding the integration of the various risks and the measurement of risk adjusted returns.

- To disseminate throughout the organisation a risk culture based on prudence and responsibility criteria and the risk tolerance levels defined by the governing bodies.

TECHNICAL AND METHODOLOGICAL ADVANCES ARE TO BE USED TO OBTAIN BETTER AND MORE RELIABLE RISK MEASUREMENT

It is worth mentioning that despite of the importance which compliance with the new Solvency Circular entails, the Confederación considered it to be an opportunity for improving the management of the Entity's capital through integrated risk management. In short, the ultimate aim of all the technological and methodological advances is not only compliance with the new regulatory requirements but also to have better, more reliable risk measures so that the business can be managed more proactively and to ensure that all the prudence and responsibility criteria are used effectively in the natural development of the business.

Internal Capital Adequacy Assessment Process

During 2007, apart from the modifications introduced by Basel II in the establishment of the minimum capital requirements, a fundamental new matter in the solvency regulatory framework took the spotlight: the so-called Second Pillar or Internal Capital Adequacy Assessment Process (ICAAP).

For compliance purposes, since October 2007, the Confederación has been developing changes which will allow it to make an internal self-assessment of the processes and procedures related to the risk function, which will conclude with preparation and presentation to the Bank of Spain of the Capital Adequacy Report, which will include the results of this internal review.

Structural Risk

Structural risk is defined as the risk that a change in interest rates can have an adverse effect on the income statement or on the market value of the on-balance-sheet assets and liabilities as a result of differences between the maturity or repricing dates of assets, liabilities and derivatives.

STRUCTURAL RISK IS THE RISK THAT A CHANGE IN INTEREST RATES MAY HAVE AN ADVERSE EFFECT ON THE INCOME STATEMENT OR THE MARKET VALUE OF ON-BALANCE-SHEET ASSETS AND LIABILITIES

The ALCO, which is responsible for analysing and monitoring CECA's balance sheet, assesses the risk inherent to its structure and evaluates the impact of this risk on the financial margin; to this end, various data are prepared, including most notably a classification, by maturity or repricing dates, of the assets, liabilities and derivatives, an analysis of the terms to maturity of the financial instruments, and a simulation of changes in the financial margin, using interest rate volatility in the currencies in which the investments, liabilities and derivatives are denominated.

In 2007, within the framework established by the Master Plan for the Adaptation to Basel II, improvements were made to the procedures for the measurement and control of interest rate risk and balance sheet liquidity (ALM); the work performed focused on the implementation of a new management tool, the inclusion of the monitoring and control function in the Risk Unit, the definition of new procedures adapted to the new application, the development and implementation of advanced methodologies which respond to the new regulatory requirements and market best practices and the definition of new reporting lines to ALCO.

IN 2007 THE IMPROVEMENTS WERE MADE TO THE MEASUREMENT AND CONTROL OF INTEREST RATE RISK AND BALANCE SHEET LIQUIDITY

IN ORDER TO PREVENT LIQUIDITY RISK BILATERAL CREDIT FACILITIES ARE MAINTAINED WITH CREDIT INSTITUTIONS PROVIDING A MUTUAL COMMITMENT TO LEND WHEN NECESSARY

Liquidity Risk

Liquidity risk is defined as the difficulty in obtaining sufficient funds to cater for timing mismatches between cash inflows and outflows, as a result of the repayment or redemption of financial instruments, and to meet transaction settlement commitments.

Liquidity risk is analysed using simulations of liability flow behaviour and of the potential realisation of on-balance-sheet assets. The ALCO can set limits for the maturity mismatches of these flows.

With the aim of preventing liquidity risk, CECA has entered into bilateral credit facility agreements with other credit institutions under which the parties mutually undertake to provide loans in order to solve temporary liquidity problems.

Operational Risk

The Operational Risk Unit was created in 2007 and implemented procedures for the identification, analysis, monitoring, control and reporting of operational risk, and also established a functional and organisational design to guarantee the effective management of this type of risk.

As part of this functional structure, a Committee for the Identification of Operational Risk (CIOR) was created as a permanent working group whose main responsibility is the detection of the operational risk inherent to the Entity's processes, products and systems. During the year, the Committee initiated and performed all the actions which had been programmed in the schedule approved by the Operational Risk Committee.

A COMMITTEE FOR THE IDENTIFICATION OF OPERATIONAL RISKS WAS CREATED TO DETECT THE OPERATIONAL RISKS UNDERLYING THE ENTITY'S PROCESSES, PRODUCTS AND SYSTEMS

Pursuant to the guidelines contained in the Control Framework, in order to boost awareness in the various levels of the Organisation, two training sessions on operational risk were given to executive personnel and all the individuals more directly involved in the management of this type of risk.

In 2007, the Operational Risk Committee met on two occasions, when it approved operational risk management procedures, supervised compliance with the control framework, examined the operational losses for the period, proposed operational risk mitigation procedures through process improvements and approved the work plan for 2008 presented by the Operational Risk Unit.

Significant events subsequent to year-end 4.5

No significant events have occurred subsequent to year-end.

Research and development 4.6

The following research and development projects, coordinated by COAS's Technological Architecture and Innovation Committee, were conducted in 2007, some of which relate to the implementation of 2006 projects over more than one year and others specific to 2007.

AMONGST THE PROJECTS INITIATED IN 2006, RESEARCH ACTIVITIES FOCUSED ON THE ARIES FINANCIAL REPORTING SYSTEM , THE NOTARY CONNECTION SYSTEM AND STANDARDISATION OF SELF-SERVICE BANKING

Of the projects initiated in 2006, the research and development activities for 2007 centred on:

- The ARIES Financial Reporting System: the functionality implemented in 2006 was extended to incorporate the requirements for capital calculations for own funds returns and their presentation to the Regulator.
- Notary Connection system: once the start-up phase for personal loans was successfully finished an identical process was initiated for mortgage loans.
- Standardisation of self-service banking: after completing the 2006 phase for the redefinition of the standard at European Committee for Standardisation level, in 2007 the Standardisation Tool was launched amongst the main suppliers of the savings banks industry.

As part of the specific objectives established for 2007, the **Business Continuity Plan** project was implemented: the opportunity arose to deal with certain internal requirements, such as the risk of asset and business losses, the need to minimize possible interruptions of the service (operational availability), and to progress beyond a classic contingency plan usually centred on guaranteeing the recovery of data and information systems. In addition to all the above the **Business Continuity Plan** establishes a model which addresses all the critical components of the Organisation: including people, business processes, procedures, property and support infrastructure, that may prove vital in guaranteeing the ability to continue normal activity in the event that all or some of them were seriously affected.

THE BUSINESS CONTINUITY PLAN ADDRESSES ALL THE CRITICAL COMPONENTS OF THE ORGANISATION THAT ARE ESSENTIAL TO ENSURING THE CONTINUITY OF BUSINESS ACTIVITY IN THE EVENT THAT ANY OF THEM WERE AFFECTED

Spanish and community regulatory bodies, are becoming more demanding with the financial institutions that handle and keep customer information, and have published recommendations (Basel High-Level Principles and BS 25999) and new regulatory requirements, some of which are obligatory (such as MiFID, which entered into force on 1 November 2007).

Against this backdrop, COAS, as part of its function to seek of opportunities for savings banks to improve, implemented an industry-wide project which resulted in a **Common Reference Model** of what has to be addressed within the Business Continuity Plan and a **Practical Implementation Guide** which, based on a common methodology, will assist the savings banks in each entity's specific start-up processes.

The Reference Model was accompanied by:

- **An industry-wide analysis** of the current situation of the savings banks' business continuity plans (benchmarking).
- **A customised action plan** for each savings bank, with specific recommendations based on benchmarking data.
- A basic **IT tool** to support the continuity plan.

As a specific innovation objective, an analysis is being performed of the development of a tool adapted to the requirements and characteristics specific to the savings banks industry which will facilitate the management of the Continuity Plan in relation both to its risk analysis methodology and the definition of policies and procedures and implementing the plan in the event of a disaster.

This project has provided the savings bank with the tools required to respond to concerns such as:

- Is there any guarantee that the organisation or specific area or department could continue its processes and services in the event of a catastrophe?
- Have all the entity's critical elements (individuals, processes, services) been inventoried?
- Are the Entity's employees conscious of the procedures or steps to take in these cases?
- Have the procedures been documented?

As part of CECA's innovation policy, it is worth highlighting the creation of the Innovation Committee, whose members represent all the areas, and which has the objective of promoting company innovation.

Worthy of note among the actions carried out by the Committee, is the award of prizes for the most innovative ideas presented on an individual basis to the Committee. In 2006, 38 ideas were submitted, of which the Committee selected four and the prizes were presented in 2007. In addition, a special prize was awarded for the most innovative idea, which the Committee propose be awarded to electronic billing and its start-up, which was led at CECA by the New Channels Department of the Technological Area. Ideas continued to be presented to the Committee in 2007 and the latter is considering whether to award a prize to any of the ideas presented.

AN INNOVATION COMMITTEE WAS CREATED WITH THE AIM OF PROMOTING THESE TYPES OF ACTIVITIES AT THE CONFEDERACIÓN

The Innovation Committee has set up a blog to which all Confederación personnel have access and can contribute their own ideas and comments, news, etc. in relation to the world of innovation. In addition, as a kind of summary and inventory of all the ideas, the Committee published CECA's innovation memorandum for 2006, and will publish the 2007 edition in the first few months of 2008.

Noteworthy among the ideas specially promoted by the Committee is the "paperless" concept which the Innovation Committee tried to promote throughout the organisation in 2007 by rewarding initiatives for substituting the use of paper for an electronic format and the efficiency acquired due mainly to the saving in document handling and filing. In fact the special prize for the year awarded to electronic billing is also a long-term development which aims to replace the use of paper in billings between companies.

Business outlook 4.7

The targets set by CECA for 2008 focus on the ongoing strategic lines of action that represent the cornerstones of the balanced scorecard implemented in all units of the organisation. In order to meet these targets, CECA defined a series of action plans which were approved by the 96th General Assembly on 19 December 2007. The content of these plans can be outlined as follows:

Institutional representation and development. Savings banks' initiatives in the tax, technological, legislative and operational fields will continue to be channelled through Spanish and international discussion forums. In the project development area, assistance will foreseeably continue to be given to the savings banks in the analysis of the requirements arising from the Basel II legislation and the anti-money laundering directive, in the improvement of the report summarising corporate governance reports, the participation in the WSBI's IRCA framework programme, and the participation, through COAS, in projects aimed at increasing savings banks' efficiency and effectiveness.

IN INSTITUTIONAL REPRESENTATION AND DEVELOPMENT, THE CECA CONTINUES TO CHANNEL THE SAVINGS BANKS INITIATIVES IN THE TAX, TECHNOLOGY, REGULATORY AND OPERATIONAL AREAS

Other objectives in this area will be related to the fostering social responsibility through innovation in social welfare and communication and an increase in savings banks' human and reputational capital through the dissemination of the savings banks' economic, financial and social model, the promotion of the OBS Brand and the holding of the 2nd Strategic Forum.

Efficiency. CECA will review and rationalise some of the procedures and processes of its operational services and Dealing Rooms, and to reduce the unit costs of technology services, focusing its actions on payment methods, new channels and IT production costs.

IN ORDER TO IMPROVE EFFICIENCY, VARIOUS OPERATIONAL SERVICES AND DEALING ROOM PROCEDURES WILL BE REVIEWED AND UNIT TECHNOLOGY COSTS WILL BE REDUCED

Growth. Financial services transactions such as options, purchase sale of notes, securities lending and the volume traded by the Commercial Distribution desk will foreseeably increase; in operational services external development and capital markets business and the number of product users are expected to increase, while a road show will be held to attract investors.

Also, growth is expected in technology services such as payment methods, new channels, computer systems, outsourcing income and the capture of new clients; likewise, we expect increases in the risk control-related services for both new customers for services already provided and those arising from product launches.

Effectiveness. Quality improvement plans will continue to be implemented in operational, financial, technology and audit and control services in which quantitative objectives were set regarding the valuations of internal and external quality surveys and improvements in the availability of IT systems; in 2008 the Risk Area will start to prepare surveys giving feedback on the degree of quality perceived. As regards its services for federated savings banks, the effectiveness objectives are focused on improving the regulatory database, the implementation of a new financial data application, the creation of a working group in relation to savings banks' historical documentation and the presentation of the savings banks' image in the media.

IN 2008, CECA WILL CONTINUE TO DEVELOP PLANS TO IMPROVE THE QUALITY OF OPERATIONAL, FINANCIAL, TECHNOLOGY AND AUDIT AND CONTROL SERVICES

Innovation. The objectives are aimed at the launch of new operational and financial products such as the coverage of SEPA transactions, discounted documents handled, securities transactions, processing of documentary credits for America and financial products which facilitate enhanced management of short-and-long term transactions and obtaining finance in euros and foreign currency.

THE INNOVATION OBJECTIVES RELATE TO THE LAUNCH OF NEW PRODUCTS AND OPERATIONAL SERVICES

In technology, the objectives are focused on continued improvement in the support services for the Euro 6000 network, the launch of EMV cards and the new acquisition services and technology and the implementation of the mobile telephony channel and interactive customer services; an increase in telephone and electronic banking services and in the promotion of management support and business intelligence services.

Skills development. Lastly, CECA's targets in this strategic area include: plans to improve federated savings banks reporting systems and internal mechanisms for regulatory compliance; the fostering of a culture with respect to the legislation on competition law; the start-up of a collateral management centre; the optimisation of financial transaction management applications; the implementation of the new functionalities on the management web; the improvement of financial, and, operational risk management and control systems; the adaptation to the requirements of the new solvency regulations; the optimisation of the management structure in the financial and transactions area; the improvement in technological capabilities and the entry into service of the Risk Control Unit as part of the Afianza project.

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, 2007, and the auditor's report prepared by Deloitte, S.L. resolved unanimously at its meeting today to inform the General Assembly that it has approved the aforementioned financial statements and also propose that they be approved by the General Assembly.

March 26, 2008

CONFEDERACION ESPAÑOLA DE CAJAS DE AHORROS
SECRETARIA GENERAL

The Secretary,

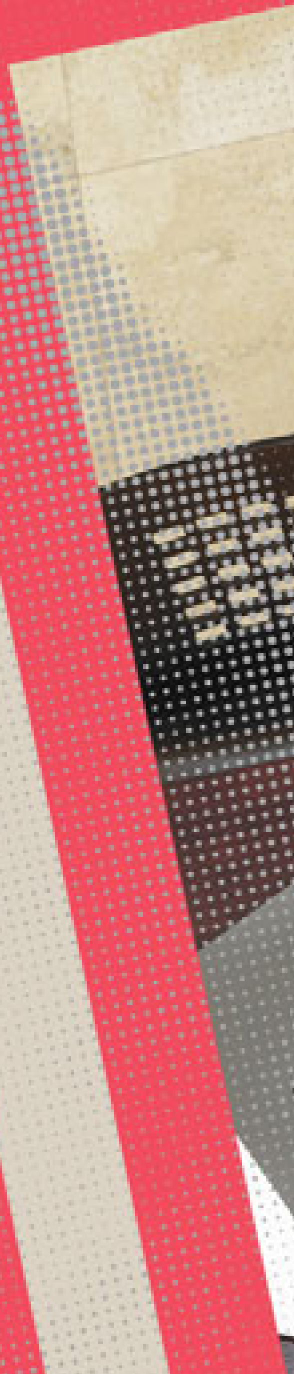
Signed: Antonio María Claret García García

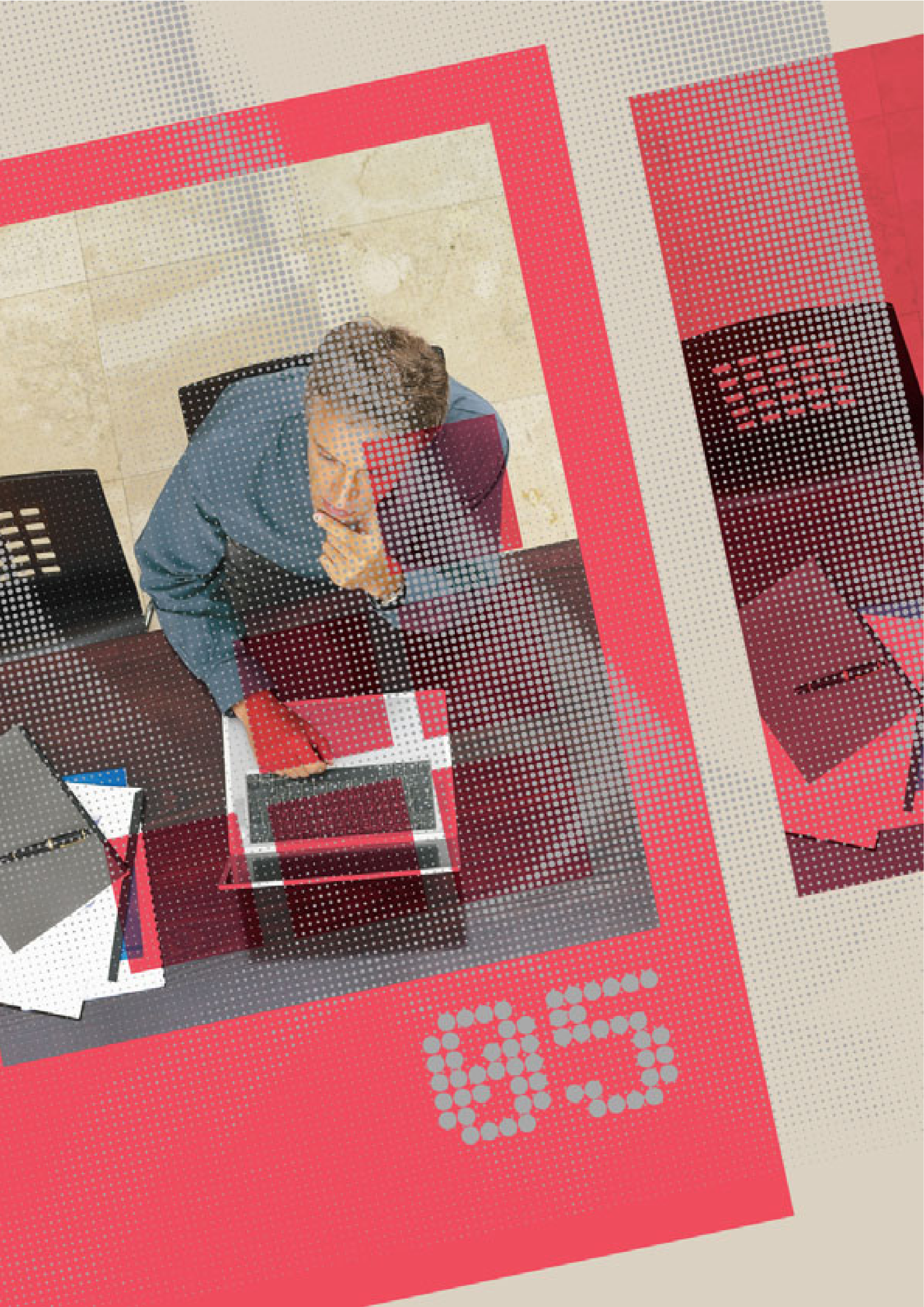
Approved
The Chairman

Signed: Rafael Jené Villagrasa

Consolidated Financial Statements

Balance sheet and statements
Auditor's report

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Confederación Española de Cajas de Ahorros and Companies Composing the Confederación Española de Cajas de Ahorros Group

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006 (NOTES 1 to 5)

ASSETS
(Thousands of Euros)

	2007	2006 (*)
1 Cash and balances with central banks (Note 7)	**640,201**	**53,333**
2 Financial assets held for trading (Note 8)	**3,182,346**	**4,044,754**
2.1 Loans and advances to credit institutions	-	-
2.2 Money market operations through counterparties	-	-
2.3 Loans and advances to customers	-	-
2.4 Debt instruments	1,528,008	3,190,133
2.5 Other equity instruments	118,641	6,369
2.6 Trading derivatives	1,535,697	848,252
Memorandum item: Loaned or advanced as collateral	1,143,579	2,211,331
3 Other financial assets at fair value through profit or loss	-	-
3.1 Loans and advances to credit institutions	-	-
3.2 Money market operations through counterparties	-	-
3.3 Loans and advances to customers	-	-
3.4 Debt instruments	-	-
3.5 Other equity instruments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
4 Available-for-sale financial assets (Note 9)	**490,142**	**406,648**
4.1 Debt instruments	341,620	282,269
4.2 Other equity instruments	148,522	124,379
Memorandum item: Loaned or advanced as collateral	152,297	168,972
5 Loans and receivables (Note 10)	**9,956,910**	**9,227,039**
5.1 Loans and advances to credit institutions	9,409,343	8,798,095
5.2 Money market operations through counterparties	-	-
5.3 Loans and advances to customers	185,108	107,809
5.4 Debt instruments	-	5,144
5.5 Other financial assets	362,459	315,991
Memorandum item: Loaned or advanced as collateral	2,961,761	1,313,403
6 Held-to-maturity investments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
9 Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
10 Hedging derivatives	-	-
11 Non-current assets held for sale (Note 12)	**161**	**161**
11.1 Loans and advances to credit institutions	-	-
11.2 Loans and advances to customers	-	-
11.3 Debt instruments	-	-
11.4 Equity instruments	-	-
11.5 Tangible assets	161	161
11.6 Other assets	-	-

Continued

LIABILITIES AND EQUITY

(Thousands of Euros)

	2007	2006 (*)
LIABILITIES		
1 Financial liabilities held for trading (Note 8)	**1,856,279**	**2,509,646**
1.1 Deposits from credit institutions	-	-
1.2 Money market operations through counterparties	-	-
1.3 Customer deposits	-	-
1.4 Marketable debt securities	-	-
1.5 Trading derivatives	1,544,184	849,361
1.6 Short positions	312,095	1,660,285
2 Other financial liabilities at fair value through profit or loss	-	-
2.1 Deposits from credit institutions	-	-
2.2 Customer deposits	-	-
2.3 Marketable debt securities	-	-
3 Financial liabilities at fair value through equity	-	-
3.1 Deposits from credit institutions	-	-
3.2 Customer deposits	-	-
3.3 Marketable debt securities	-	-
4 Financial liabilities at amortised cost (Note 18)	**11,845,995**	**10,573,448**
4.1 Deposits from central banks	1,028,533	198,969
4.2 Deposits from credit institutions	5,431,911	6,034,412
4.3 Money market operations through counterparties	-	-
4.4 Customer deposits	4,482,611	3,412,216
4.5 Marketable debt securities	-	-
4.6 Subordinated liabilities	-	-
4.7 Other financial liabilities	902,940	927,851
10 Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
11 Hedging derivatives (Note 11)	**3,996**	-
12 Liabilities associated with non-current assets held for sale	-	-
13 Liabilities under insurance contracts	-	-
14 Provisions (Note 19)	**22,458**	**30,147**
14.1 Provisions for pensions and similar obligations	5,829	12,728
14.2 Provisions for taxes	-	-
14.3 Provisions for contingent liabilities and commitments	6	16
14.4 Other provisions	16,623	17,403
15 Tax liabilities (Note 24)	**59,029**	**60,311**
15.1 Current	767	6,875
15.2 Deferred	58,262	53,436

Continued

Confederación Española de Cajas de Ahorros and Companies Composing the Confederación Española de Cajas de Ahorros Group

CONSOLIDATED BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006 (NOTES 1 to 5)

ASSETS
(Thousands of Euros)

Continued

	2007	2006 (*)
12 Investments	-	-
12.1 Associates (Note 13)	-	-
12.2 Jointly controlled entities	-	-
13 Insurance contracts linked to pensions	-	-
14 Reinsurance assets	-	-
15 Tangible assets (Note 14)	**111,790**	**113,040**
15.1 Property, plant and equipment for own use	110,514	111,650
15.2 Investment property	1,276	1,390
15.3 Other assets leased out under an operating lease	-	-
15.4 Assigned to welfare projects	-	-
Memorandum item: Acquired under a finance lease	-	-
16 Intangible assets (Note 15)	**8,093**	**10,724**
16.1 Goodwill	-	-
16.2 Other intangible assets	8,093	10,724
17 Tax assets	**27,506**	**27,446**
17.1 Current	508	89
17.2 Deferred (Note 24)	26,998	27,357
18 Prepayments and accrued income (Note 16)	**9,008**	**6,375**
19 Other assets (Note 17)	**67,849**	**18,806**
TOTAL ASSETS	**14,494,006**	**13,908,326**
MEMORANDUM ITEMS		
1 Contingent liabilities (Note 28)	**232,305**	**174,200**
1.1 Financial guarantees	232,305	174,200
1.2 Assets earmarked for third-party obligations	-	-
1.3 Other contingent liabilities	-	-
2 Contingent commitments (Note 28)	**818,630**	**2,637,351**
2.1 Drawable by third parties	612,228	533,406
2.2 Other commitments	206,402	2,103,945

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I to III are an integral part of the consolidated balance sheet at 31 December 2007.

LIABILITIES AND EQUITY

(Thousands of Euros)

Continued

	2007	2006 (*)
16 Accrued expenses and deferred income (Note 16)	**31,986**	**33,789**
17 Other liabilities (Note 17)	**7,698**	**78,646**
17.1 Welfare fund (Note 27)	480	480
17.2 Other	7,218	78,166
18 Equity having the substance of a financial liability	-	-
TOTAL LIABILITIES	**13,827,441**	**13,285,987**
EQUITY (Nota 20)		
1 Minority interests	-	-
2 Valuation adjustments	**77,186**	**65,467**
2.1 Available-for-sale financial assets (Note 21)	79,983	65,467
2.2 Financial liabilities at fair value through equity	-	-
2.3 Cash flow hedges (Note 21)	(2,797)	-
2.4 Hedges of net investments in foreign operations	-	-
2.5 Exchange differences	-	-
2.6 Non-current assets held for sale	-	-
3 Own funds	**589,379**	**556,872**
3.1 Capital or endowment fund (Note 22)	30,051	30,051
3.1.1 Issued	30,051	30,051
3.1.2 Unpaid and uncalled (-)	-	-
3.2 Share premium	-	-
3.3 Reserves (Note 23)	519,046	472,568
3.3.1 Accumulated reserves (losses)	519,098	472,611
3.3.2 Retained earnings	-	-
3.3.3 Reserves (losses) of entities accounted for using the equity method	(52)	(43)
3.4 Other equity instruments	-	-
3.4.1 Equity component of compound financial instruments	-	-
3.4.2 Other	-	-
3.5 Less: Treasury shares	-	-
3.6 Non-voting equity units and associated funds (savings banks)	-	-
3.6.1 Non-voting equity units	-	-
3.6.2 Reserve of holders of non-voting equity units	-	-
3.6.3 Stabilisation fund	-	-
3.7 Profit attributable to the Group	40,282	54,253
3.8 Less: Dividends and remuneration	-	-
TOTAL EQUITY	**666,565**	**622,339**
TOTAL LIABILITIES AND EQUITY	**14,494,006**	**13,908,326**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I to III are an integral part of the consolidated balance sheet at 31 December 2007.

Confederación Española de Cajas de Ahorros and Companies Composing the Confederación Española de Cajas de Ahorros Group

CONSOLIDATED INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006 (NOTES 1 to 5)

(Thousands of Euros)

	Income / (Expenses) 2007	Income / (Expenses) 2006 (*)
1 **Interest and similar income** (Note 29)	**716,552**	**347,252**
2 **Interest expense and similar charges** (Note 30)	**(675,686)**	**(305,922)**
2.1 Return on equity having the substance of a financial liability	-	-
2.2 Other	(675,686)	(305,922)
3 **Income from equity instruments** (Note 31)	**29,898**	**10,412**
A NET INTEREST INCOME	**70,764**	**51,742**
4 **Share of results of entities accounted for using the equity method** (Note 32)	-	**(9)**
4.1 Associates	-	(9)
4.2 Jointly controlled entities	-	-
5 **Fee and commission income** (Note 33)	**108,786**	**95,488**
6 **Fee and commission expense** (Note 34)	**(27,596)**	**(20,473)**
7 **Insurance activity income**	-	-
7.1 Insurance and reinsurance premium income	-	-
7.2 Reinsurance premiums paid	-	-
7.3 Claims paid and other insurance-related expenses	-	-
7.4 Reinsurance income	-	-
7.5 Net provisions for insurance contract liabilities	-	-
7.6 Finance income	-	-
7.7 Finance expense	-	-
8 **Gains/losses on financial assets and liabilities** (net) (Note 35)	**(39,975)**	**18,716**
8.1 Held for trading	(58,697)	9,711
8.2 Other financial instruments at fair value through profit or loss	-	-
8.3 Available-for-sale financial assets	18,722	9,005
8.4 Loans and receivables	-	-
8.5 Other	-	-
9 **Exchange differences** (net)	**14,313**	**21,345**
B GROSS INCOME	**126,292**	**166,809**
10 **Sales and income from the provision of non-financial services**	-	-
11 **Cost of sales**	-	-
12 **Other operating income** (Note 36)	**81,572**	**80,206**
13 **Personnel expenses** (Note 37)	**(71,084)**	**(68,870)**
14 **Other general administrative expenses** (Note 38)	**(85,229)**	**(83,441)**
15 **Depreciation and amortisation**	**(11,682)**	**(12,629)**
15.1 Tangible assets (Note 14)	(6,141)	(6,794)
15.2 Intangible assets (Note 15)	(5,541)	(5,835)
16 **Other operating expenses** (Note 39)	**(956)**	**(1,094)**

Continued

(Thousands of Euros)

Continued

	2007	2006 (*)
C NET OPERATING INCOME	**38.913**	**80.981**
17 Impairment losses (net) (Note 40)	**695**	**1,403**
17.1 Available-for-sale financial assets	(513)	87
17.2 Loans and receivables	1,208	1,487
17.3 Held-to-maturity investments	-	-
17.4 Non-current assets held for sale	-	(171)
17.5 Investments	-	-
17.6 Tangible assets	-	-
17.7 Goodwill	-	-
17.8 Other intangible assets	-	-
17.9 Other assets	-	-
18 Provisions (net) (Note 19)	**5,588**	**(6,899)**
19 Finance income from non-financial activities	**-**	**-**
20 Finance expenses of non-financial activities	**-**	**-**
21 Other gains (Note 41)	**9,974**	**3,389**
21.1 Gains on disposal of tangible assets	3,705	685
21.2 Gains on disposal of investments	-	-
21.3 Other	6,269	2,704
22 Other losses (Note 41)	**(924)**	**(491)**
22.1 Losses on disposal of tangible assets	-	-
22.2 Losses on disposal of investments	-	-
22.3 Other	(924)	(491)
D PROFIT BEFORE TAX	**54,246**	**78,383**
23 Income tax (Note 24)	**(13,964)**	**(24,130)**
24 Mandatory transfer to other welfare projects and funds	**-**	**-**
E PROFIT FROM ORDINARY ACTIVITIES	**40,282**	**54,253**
25 Profit/Loss from discontinued operations (net)	**-**	**-**
F PROFIT FOR THE YEAR	**40,282**	**54,253**
26 Profit/Loss attributable to minority interests	**-**	**-**
G PROFIT ATTRIBUTABLE TO THE GROUP	**40,282**	**54,253**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I to III are an integral part of the consolidated income statement for 2007.

Confederación Española de Cajas de Ahorros and Companies Composing the Confederación Española de Cajas de Ahorros Group

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006 (NOTES 1 to 5)

(Thousands of Euros)

	2007	2006 (*)
1 NET INCOME RECOGNISED DIRECTLY IN EQUITY:	**11,719**	**13,271**
1.1 Available-for-sale financial assets:	14,516	13,271
1.1.1 Revaluation gains	35,995	25,692
1.1.2 Amounts transferred to income statement	(12,637)	(5,853)
1.1.3 Income tax	(8,842)	(6,568)
1.1.4 Reclassifications	-	-
1.2 Financial liabilities at fair value through equity:	-	-
1.2.1 Revaluation gains/losses	-	-
1.2.2 Amounts transferred to income statement	-	-
1.2.3 Income tax	-	-
1.2.4 Reclassifications	-	-
1.3 Cash flow hedges:	(2,797)	-
1.3.1 Revaluation losses	(3,996)	-
1.3.2 Amounts transferred to income statement	-	-
1.3.3 Amounts transferred to the initial carrying amount of hedged items	-	-
1.3.4 Income tax	1,199	-
1.3.5 Reclassifications	-	-
1.4 Hedges of net investments in foreign operations	-	-
1.4.1 Revaluation gains/losses	-	-
1.4.2 Amounts transferred to income statement	-	-
1.4.3 Income tax	-	-
1.5 Exchange differences:	-	-
1.5.1 Translation gains/losses	-	-
1.5.2 Amounts transferred to income statement	-	-
1.5.3 Income tax	-	-
1.6 Non-current assets held for sale	-	-
1.6.1 Revaluation gains	-	-
1.6.2 Amounts transferred to income statement	-	-
1.6.3 Income tax	-	-
1.6.4 Reclassifications	-	-
2 CONSOLIDATED PROFIT/LOSS FOR THE YEAR:	**40,282**	**54,253**
2.1 Published consolidated profit/loss for the year	40,282	54,253
2.2 Adjustments due to changes in accounting policy	-	-
2.3 Adjustments made to correct errors	-	-
3 TOTAL INCOME AND EXPENSE FOR THE YEAR	**52,001**	**67,524**
3.1 Parent	52,001	67,524
3.2 Minority interests	-	-
MEMORANDUM ITEMS: EQUITY ADJUSTMENTS ALLOCABLE TO PRIOR PERIODS		
Effect of changes in accounting policies	-	-
Own funds	-	-
Valuation adjustments	-	-
Effects of errors	-	-
Own funds	-	-
Valuation adjustments	-	-

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 43 and Appendixes I to III are an integral part of the consolidated statement of changes in equity for 2007.

Confederación Española de Cajas de Ahorros and Companies Composing the Confederación Española de Cajas de Ahorros Group

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006 (NOTES 1 to 5)

(Thousands of Euros)

	2007	2006 (*)
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated profit for the year	**40,282**	**54,253**
Adjustments to profit:	**44,848**	**63,865**
Depreciation of tangible assets (+)	6,141	6,794
Amortisation of intangible assets (+)	5,541	5,835
Impairment losses (net) (+/-)	(695)	(1,403)
Net provisions for insurance contract liabilities (+/-)	-	-
Provisions (net) (+/-)	(5,588)	6,899
Gains/losses on disposal of tangible assets (+/-)	(3,705)	(685)
Share of results (losses) of entities accounted for using the equity method (net of dividends)	-	9
Taxes (+/-)	5,001	6,671
Other non-monetary items (+/-)	38,153	39,745
Adjusted profit for the year	85,130	118,118
Net (increase)/decrease in operating assets:		
Financial assets held for trading:	1,519,077	(562,823)
Loans and advances to credit institutions	-	-
Money market operations through counterparties	-	-
Loans and advances to customers	-	-
Debt instruments	1.635,325	(559,599)
Other equity instruments	(116,248)	(3,224)
Trading derivatives	-	-
Other financial assets at fair value through profit or loss:	-	-
Loans and advances to credit institutions	-	-
Money market operations through counterparties	-	-
Loans and advances to customers	-	-
Debt instruments	-	-
Other equity instruments	-	-
Available-for-sale financial assets:	(66,734)	3,559
Debt instruments	(77,051)	9,027
Other equity instruments	10,317	(5,468)
Loans and receivables:	(729,811)	(1,059,905)
Loans and advances to credit institutions	(611,267)	(1,012,046)
Money market operations through counterparties	-	-
Loans and advances to customers	(77,220)	50,096
Debt instruments	5,144	10,287
Other financial assets	(46,468)	(108,242)
Other operating assets	(47,285)	4,265
	675,247	(1,614,904)

Continued

Confederación Española de Cajas de Ahorros and Companies Composing the Confederación Española de Cajas de Ahorros Group

CONSOLIDATED CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006 (NOTES 1 to 5)

(Thousands of Euros)

Continued

	2007	2006 (*)
Net increase/(decrease) in operating liabilities:		
Financial liabilities held for trading:	(1,348,190)	653,878
Deposits from credit institutions	-	-
Money market operations through counterparties	-	-
Customer deposits	-	-
Marketable debt securities	-	-
Trading derivatives	-	-
Short positions	(1,348,190)	653,878
Other financial liabilities at fair value through profit or loss:	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Marketable debt securities	-	-
Financial liabilities at fair value through equity:	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Marketable debt securities	-	-
Financial liabilities at amortised cost:	1,272,547	823,742
Deposits from central banks	829,564	113,739
Deposits from credit institutions	(602,501)	705,799
Money market operations through counterparties	-	(10,258)
Customer deposits	1,070,395	(76,377)
Marketable debt securities	-	-
Other financial liabilities	(24,911)	90,839
Other operating liabilities	(91,587)	17,001
	(167,230)	1,494,621
Total net cash flows from operating activities (1)	**593,147**	**(2,165)**
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Investments (-):		
Subsidiaries, jointly controlled entities and associates	-	(120)
Tangible assets	(5,771)	(3,706)
Intangible assets	(2,910)	(1,875)
Held-to-maturity investments	-	-
Other financial assets	-	-
Other assets	-	-
	(8,681)	(5,701)
Divestments (+):		
Subsidiaries, jointly controlled entities and associates	-	-
Tangible assets	4,486	685
Intangible assets	-	-
Held-to-maturity investments	-	-
Other financial assets	-	-
Other assets	-	-
	4,486	685
Total net cash flows from investing activities (2)	**(4,195)**	**(5,016)**

Continued

(Thousands of Euros)

Continued

	2007	2006 (*)
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance/Redemption of capital or endowment fund (+/-)	-	-
Acquisition of own equity instruments (-)	-	-
Disposal of own equity instruments (+)	-	-
Issuance/Redemption of non-voting equity units (+/-)	-	-
Issuance/Redemption of other equity instruments (+/-)	-	-
Issuance/Redemption of equity having the substance of a financial liability (+/-)	-	-
Issuance/Redemption of subordinated liabilities (+/-)	-	-
Issuance/Redemption of other long-term liabilities (+/-)	-	-
Dividends/Interest paid (-)	(3.235)	(2.962)
Other items related to financing activities (+/-)	-	-
Total net cash flows from financing activities (3)	**(3.235)**	**(2.962)**
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)	**585.717**	**(10.413)**
Cash and cash equivalents at beginning of year	**54.484**	**64.627**
Cash and cash equivalents at end of year	**640.201**	**54.484**

(*) Presented for comparison purposes only.
The accompanying Notes 1 to 42 and Appendixes I to III are an integral part of the consolidated cash flow statement for 2007.

Introduction, basis of presentation of the consolidated financial statements and other information 01

1.1 Introduction

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

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

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

The Confederación Española de Cajas de Ahorros Group 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-backed bond SPVs and mortgage-backed security SPVs.

The accompanying Appendixes I and II include salient financial information relating to these companies. Also, Note 3 contains the Confederación's summarised financial statements for 2007, including comparative information for 2006, and details the percentage that its assets and profit represent in relation to those of the Group.

The Group's consolidated financial statements for 2006 were approved at the Annual General Assembly on 18 April 2007. The 2007 financial statements of the Group have not yet been approved by the General Assembly; however, the Confederación's Board of Directors considers that they will be approved without any material changes.

1.2 Basis of presentation of the consolidated financial statements

Under Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002, all companies governed by the law of an EU Member State and whose securities are admitted to trading on a regulated market of any Member State must prepare their consolidated financial statements for the years beginning on or after 1 January 2005 in conformity with the International Financial Reporting Standards previously adopted by the European Union ("EU-IFRSs"). The Confederación voluntarily availed itself of the enabling provisions of corporate legislation and prepared the consolidated financial statements for 2005 in accordance with EU-IFRSs. Therefore, the Group is required to prepare its consolidated financial statements for the year ended 31 December 2007 in conformity with EU-IFRSs.

In order to adapt the accounting system of Spanish credit institutions to EU-IFRSs, the Bank of Spain issued Circular 4/2004, of 22 December, on Public and Confidential Financial Reporting Rules and Formats.

The Group's consolidated financial statements for 2007 were prepared by the Confederación's directors (at the Board Meeting on 12 March 2008) in accordance with EU-IFRSs and taking into account Bank of Spain Circular 4/2004, using the basis of consolidation, accounting policies and measurement bases described in Note 2, and, accordingly, they present fairly the Group's equity and financial position at 31 December 2007, and the results of its operations, the changes in consolidated equity and the consolidated cash flows in 2007. These consolidated financial statements were prepared on the basis of the accounting records of the Confederación and of each of the other Group entities and include the adjustments and reclassifications required to unify the accounting policies and measurement bases used by the Group (Note 2).

All accounting policies and measurement bases with a material effect on the consolidated financial statements were applied in their preparation.

1.3 Responsibility for the information and for the estimates made

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

In the preparation of the Group's consolidated financial statements for 2007 estimates were occasionally made by the Confederación's directors in order to quantify certain of the assets, liabilities, income, expenses and obligations reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (Notes 2.7, 7, 9, 10, 12 and 40).
- The assumptions used in the actuarial calculation of the post-employment benefit liabilities and obligations and other long-term obligations to employees (Notes 2.9 and 19);
- The calculation of any provisions required for contingent liabilities (Notes 2.8, 2.13 and 19).
- The useful life of the tangible and intangible assets (Notes 2.11 and 2.12); and
- The fair value of certain unquoted assets (Notes 2.2.3, 8.2, 9.2 and 9.3).

Although these estimates were made on the basis of the best information available at 31 December 2007 on the events analysed, future events might make it necessary to change these estimates (upwards or downwards) in coming years. Any required changes in accounting estimates would be applied prospectively in accordance with the applicable standards, recognising the effects of the change in estimates in the consolidated income statements for the years in question.

1.4. Information relating to 2006

As required by the applicable standards, the information relating to 2006 contained in these notes to the consolidated financial statements is presented with the information relating to 2007 for comparison purposes only, and, accordingly, it does not constitute the Group's consolidated financial statements for 2006.

1.5. Agency agreements

Neither at 2007 nor 2006 year-end nor at any other time during those years did the consolidated entities have any agency agreements in force, as defined in Article 22 of Royal Decree 1245/1995, of 14 July.

1.6. Investments in the share capital of credit institutions

At 31 December 2007 and 2006, none of the Group entities had ownership interests of 5% or more in the share capital or voting power of other Spanish or foreign credit institutions.

1.7 Environmental impact

In view of the main business activities carried on by the Group entities, they do not have a significant impact on the environment. Therefore, the Group's consolidated financial statements for 2007 do not contain any disclosures on environmental issues.

1.8 Objectives, policies and processes of capital management

Law 13/1992, of 1 June, and Bank of Spain Circular 5/1993, of 26 March, 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 such capital.

The strategic objectives established by Group management in relation to the management of its capital are as follows:

- To comply, at all times, to applicable regulations in relation to minimum capital requirements.

- To strive for maximum efficiency in capital management, so that, together with other profitability and risk variables, the use of capital is considered a fundamental variable in analyses relating to investments decisions taken by the Group.

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

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

- In the Group's strategic and operating planning and the analysis and monitoring of transactions, the impact of these policies and processes on the Group's eligible capital and the relationship between use, profitability and risk, is considered a key factor in decision making processes.

Bank of Spain Circular 5/1993, of 23 March, establishes which elements should be recognised as capital vis-à-vis compliance with the minimum requirements established by this regulation.

For the purposes of compliance with said regulation, the Group's capital is classified as core capital (which includes the endowment fund, reserves other than the asset revaluation reserve, retained profit for the year taken to reserves minus the amount of intangible assets and net losses on available-for-sale financial assets recognised as valuation adjustments in equity) and Tier II capital (which includes asset revaluation reserves, the accounting balance of the general-purpose credit loss allowance tied to inherent losses not specifically assigned to assets, with the limits established in current legislation and the gains on available-for-sale financial assets recognised in consolidated equity – in the percentages established in Bank of Spain Circular 5/1993) and differs from capital as calculated in accordance with EU –IFRSs since it considers certain items to be capital and includes the obligation to exclude others which are not envisaged under EU-IFRSs. In accordance with Bank of Spain Circular 5/1993, the management and calculation of capital requirements by the Confederación is performed at consolidated group level.

The Group's management of its capital, as regards conceptual definitions, is in keeping with Bank of Spain Circular 5/1993. In this connection, at 31 December 2007 and 2006, the Confederación considers eligible capital to be that stipulated in Rule 8 of Bank of Spain Circular 5/1993.

The minimum capital requirements established by the aforementioned Circular are calculated by reference to the Confederación Group's exposure to credit risk (on the basis of assets, obligations and other off-balance-sheet items exposed to this risk), to exchange rate risk and gold price risk (on the basis of its global net currency and gold positions), held-for-trading portfolio risk and commodity price risk. Additionally, the Confederación Group must comply with limits on risk concentration and tangible assets established in the aforementioned Circular. With a view to ensuring that these objectives are met, the Group performs integrated management of these risks in accordance with the aforementioned policies.

Following is a detail, classified into core and Tier II capital, of the Confederación Group's capital at 31 December 2007 and 2006, calculated in accordance with Bank of Spain Circular 5/1993, of 26 March, including the portion of the Group's profit for 2007 which the General Assembly will be asked to consider distributing to reserves (Note 4):

Thousands of Euros	2007	2006
Core capital	522,408	483,943
Total tier II capital	79,495	98,993
Total eligible capital	601,903	582,936

At 31 December 2007 and 2006, and throughout these years, the Group's eligible capital and that of the individual entities subject to this obligation exceeded the minimum capital requirements under the aforementioned regulations.

On 16 February 2008, Royal Decree 216/2008, of 15 February, on capital of financial institutions was published. Also, a series of amendments were introduced to Law 13/1985, of 25 May, on investment ratios, capital and reporting requirements of financial intermediaries. The main objective of these new regulations is to transpose into Spanish law Directives 2006/48/CE and 2006/49/CE, which in turn transpose into Community law the New Basel Capital Accord (Basel II).

Accordingly, in 2008, the Confederación and the Group must calculate capital requirements as stipulated in these regulations, which change the way entities must calculate their minimum capital, include new risks which require the use of capital, such as operational risk, and introduce new methodologies and calculation models to be applied by the entities, and new requirements in the form of validation mechanisms and public information to be disclosed to the market.

The Confederación and the Group are making the necessary adjustments to their policies and processes in order to meet the requirements of the aforementioned regulations. For this reason, at the date of preparation of these financial statements it was not yet possible to fully and reliably estimate the potential impact of the aforementioned new regulations.

1.9 Minimum reserve ratio

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

At 31 December 2007 and 2006, and throughout 2007 and 2006, the consolidated companies to which the ratio is applicable met the minimum reserve ratio required by the applicable Spanish legislation.

1.10 Deposit Guarantee Fund

The Confederación is the only Group entity that participates in the Deposit Guarantee Fund. The contributions made to this scheme amounted to approximately EUR 47 thousand in 2007 (2006: EUR 387 thousand), and the related expense was recorded under "Other Operating Expenses" in the accompanying consolidated income statement (Note 39).

1.11 Events after the balance sheet date

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

Accounting policies and measurement bases 02

The accounting policies and measurement bases applied in preparing the Group's consolidated financial statements for 2007 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 2007, the Confederación considered Caja Activa, S.A., in which it held a 99.99% ownership interest (31 December 2006: 99.99% ownership interest), and CEA Trade Services Limited, all of whose share capital was owned by it (31 December 2006: 100% ownership interest), 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 and effects of the transactions between consolidated entities are eliminated on consolidation.

2.1.2. Jointly controlled entities

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

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

At 31 December 2007 and 2006, only Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A., in which the Confederación owned a 50% holding (31 December 2006: 50% holding), was considered to be a jointly controlled entity. Appendix II to these notes to the consolidated financial statements contains significant information on this entity.

2.1.3. Associates

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

In general, investments in associates are accounted for using the equity method, as defined in the applicable regulations. However, investments in associates that qualify for classification as non-current assets held for sale are recognised under "Non-Current Assets Held for Sale - Equity Instruments" in the consolidated balance sheet and are measured in accordance with the policies applicable to these assets (Note 2.15).

At 31 December 2007 and 2006 the only investment in associates held by the company was that in Europa y España, S.L., which, as explained previously, was classified and valued as a "non-current asset held for sale" (Note 2.15).

At 31 December 2007, the Group owned 20% and 20.49% of the share capital of Euro-Tevea, S.A. and Eufiserv, S.C.R.L., respectively. Neither of these two holdings were classified as associates, as although the Group owns more than 20% of their voting rights, it does not exercise significant influence over them. As a result, these investments are recognised under "Available-for-Sale Financial Assets - Other Equity Instruments" in the consolidated balance sheet at 31 December 2007 and are measured at cost, in accordance with the criteria explained in Note 2.2.4.

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 traded in these markets are recognised on the settlement date.

2.2.2. Derecognition of financial instruments

A financial asset is derecognised when:

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

Also, a financial liability is derecognised when the obligations it generates have expired or when it is repurchased by the Group, either to re-sell it or to cancel it.

2.2.3. Fair value and amortised cost of financial instruments

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

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, of valuation techniques commonly used by the 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 which are traded in organised, transparent and deep markets is deemed to be their daily quoted price and if, for exceptional reasons, the quoted price at a given date cannot be determined, these financial derivatives are measured using methods similar to those used to measure OTC derivatives.

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

Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal and interest repayments and the cumulative amortisation (taken to the 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 or uncollectibility.

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

2.2.4. Classification and measurement of financial assets and liabilities

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

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

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

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

- **Other financial assets and liabilities at fair value through profit or loss** include hybrid financial instruments that simultaneously include an embedded derivative and a host contract, that are not held for trading and that comply with the requirements of the applicable standards to record the embedded derivative and the host contract separately although it is not possible to perform such separation.

  The category "Other financial assets at fair value through profit or loss" also includes financial assets not held for trading that are managed jointly with liabilities under insurance contracts measured at fair value or with derivative financial instruments whose purpose and effect is to significantly reduce exposure to variations in fair value; and those that are managed jointly with financial liabilities and derivatives for the purpose of significantly reducing overall exposure to interest rate risk.

The category "Other financial liabilities at fair value through profit or loss" also includes life insurance liabilities, if any, linked to certain investment funds, when the financial assets to which they are linked are also measured at fair value through profit or loss. At 31 December 2007 and 2006, and throughout those years, the Group did not have any financial instruments classified in this category.

This category will only include financial instruments from the date of their initial recognition.

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

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

- **Loans and receivables:** pursuant to current legislation, this category includes unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the 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 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 assets, which is calculated using the effective interest method, 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 2.4. Any impairment losses on these securities are recognised as explained in Note 2.7.

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

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

  However, equity instruments whose fair value cannot be determined in a sufficiently objective manner are measured in these consolidated financial statements at cost, net of any impairment loss, calculated as detailed in Note 2.7.

  Changes in the fair value of available-for-sale financial assets relating to accrued interest or dividends are recognised under "Interest and Similar Income" (calculated using the effective interest method) and "Income from Equity Instruments" in the consolidated income statement, respectively. Any impairment losses on these instruments are recognised as described in Note 2.7. Exchange differences on financial assets denominated in currencies other than the euro are recognised as explained in Note 2.4.

  Other changes in the fair value of available-for-sale financial assets from the acquisition date are recognised in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet until the financial asset is derecognised, when the balance recorded under this item is recognised under "Gains/Losses on Financial Assets and Liabilities (Net) - Available-for-Sale Financial Assets" in the consolidated income statement.

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

  Debt instruments included in this category are initially measured at fair value adjusted by the transaction costs that are directly attributable to the acquisition of the financial asset, which are recognised in the consolidated income statement by the effective interest method. Subsequent to acquisition, these debt instruments are measured at amortised cost calculated using the effective interest method.

  The interest accrued on these securities, which is calculated using the effective interest method, is recognised under "Interest and Similar Income" in the consolidated income statement. Exchange differences on securities included in this portfolio denominated in currencies other than the euro are recorded as explained in Note 2.4. Any impairment losses on these securities are recognised as explained in Note 2.7.

  At 31 December 2007 and 2006 and throughout those years the Group did not have any financial instruments classified in this category.

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

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

  The interest accrued on these securities, which is calculated using the effective interest method, is recognised under "Interest Expense and Similar Charges" in the consolidated income statement. Exchange differences on liabilities included in this portfolio denominated in currencies other than the euro are recorded as explained in Note 2.4.

No transfers of financial instruments between the various portfolio categories described in this Note were made in 2007 or 2006.

2.3 Hedge accounting and mitigation of risk

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

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

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

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

Throughout 2007 and at 31 December 2007 only two of the Group's transactions qualified for hedge accounting, and these, pursuant to current regulations, are classified cash flow hedges, as their objective is to hedge the exposure to changes in the future cash flows of certain financial assets exposed to interest rate risk arising from highly probable future transactions affecting the consolidated income statement (Note 11). In 2006, none of the Group's transactions qualified for hedge accounting.

Given that, as indicated in the preceding paragraph, the hedges arranged by the Group in 2007 are cash flow hedges, the gains or losses attributable to the portion of the hedging instruments qualifying as an effective hedge are recognised temporarily in equity under "Valuation Adjustments - Cash Flow Hedges" in the consolidated balance sheet and will be recognised in the income statements for years in which the hedged instruments affect it. Financial instruments hedged in this type of transaction are recognised as explained in Note 2.2, with no change being made in the recognition criteria due to their consideration as hedged instruments.

The ineffective portion of the gains and losses on the hedging instruments of cash flow hedges is recognised directly under "Gains/Losses on Financial Assets and Liabilities (net)" in the consolidated income statement.

The Group discontinues hedge accounting when the hedging instrument expires or is sold, when the hedge no longer meets the requirements for hedge accounting or the designation as a hedge is revoked. In 2007 and 2006 hedge accounting was not discontinued for any hedging instruments.

When, in accordance with the above, a cash flow hedge is discontinued, the cumulative gain or loss on the hedging instrument recognised in equity under "Valuation Adjustments" in the consolidated balance sheet shall remain recognised under that heading until the forecast transaction occurs, when it will be reclassified into the consolidated income statement; or will correct the acquisition cost of the asset or liability to be recorded, if the hedged item is a forecast transaction that results in the recognition of a non-financial asset or liability.

2.4 Foreign currency transactions

2.4.1. Functional currency

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

The detail, by currency and item, of the equivalent euro value of the main asset and liability balances in the consolidated balance sheet denominated in foreign currency at 31 December 2007 and 2006 is as follows (in thousands of euros):

Nature of Foreign Currency Balances	Equivalent Value in Thousands of Euros			
	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Balances in US dollars-				
Cash and balances with central banks	3,869	-	26,711	-
Held for trading	170,505	211,533	92,186	123,483
Loans and receivables	791,465	-	992,298	-
Financial liabilities at amortised cost	-	1,120,940	-	949,231
Other items	12	11	13	-
	965,851	**1,332,484**	**1,111,208**	**1,072,714**
Balances in Japanese yen-				
Cash and balances with central banks	208	-	-	-
Loans and receivables	197,368	-	194,036	-
Financial liabilities at amortised cost	-	44,527	-	68,840
	197,576	**44,527**	**194,036**	**68,840**
Balances in pounds sterling-				
Cash and balances with central banks	9,545	-	10,913	-
Held for trading	26,695	1,183	1,468	866
Available-for-sale financial assets	-	-	1,612	-
Loans and receivables	259,095	-	467,464	-
Financial liabilities at amortised cost	-	364,730	-	454,890
Other items	2,734	940	1,256	187
	298,069	**366,853**	**482,713**	**455,943**
Balances in Swiss francs-				
Cash and balances with central banks	542	-	854	-
Loans and receivables	144,264	-	189,872	-
Financial liabilities at amortised cost	-	13,847	-	47,453
Tangible assets	1	-	2	-
	144,807	**13,847**	**190,728**	**47,453**
Balances in Norwegian krone-				
Cash and balances with central banks	632	-	648	-
Loans and receivables	61,444	-	24,869	-
Financial liabilities at amortised cost	-	11,868	-	3,799
	62,076	**11,868**	**25,517**	**3,799**
Balances in other currencies-				
Cash and balances with central banks	4,002	-	3,671	-
Loans and receivables	71,179	-	130,999	-
Financial liabilities at amortised cost	-	15,179	-	57,549
Other	-	57	-	-
	75,181	**15,236**	**134,670**	**57,549**
Total balances denominated in foreign currencies	**1,743,560**	**1,784,815**	**2,138,872**	**1,706,298**

2.4.2 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.

2.4.3 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.

2.4.4 Recognition of exchange differences

The exchange differences arising on the translation of foreign currency balances (using the aforementioned translation methods) to the functional currency of the 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 recognised under "Gains/Losses on Financial Assets and Liabilities (net)".

However, exchange differences arising on non-monetary items measured at fair value through equity are recognised in consolidated equity under "Valuation Adjustments - Exchange Differences" in the consolidated balance sheet until they are realised, at which time they are recognised in the consolidated income statement.

2.5 Recognition of income and expenses

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

2.5.1 Interest income, interest expenses, dividends and similar items

Interest income, interest expenses and similar items are generally recognised on an accrual basis using the effective interest method. Dividends received from other companies are recognised as income when the consolidated entities' right to receive them arises.

2.5.2 Commissions, fees and similar items

Fee and commission income and expenses that 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 as at fair value through profit or loss are recognised in the consolidated income statement using criteria that vary according to their nature. The main criteria are as follows:

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

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

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

2.5.3 Non-finance income and expenses

These are recognised for accounting purposes on an accrual basis.

2.5.4 Deferred collections and payments

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

2.6. 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.

2.7 Impairment of financial assets

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

- In the case of debt instruments (loans and debt securities), give rise to an adverse impact on the future cash flows that were estimated at the transaction date.

- In the case of equity instruments, mean that their carrying amount may not be fully recovered.

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

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

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

2.7.1 Debt instruments carried at amortised cost

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

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

- All the amounts that are expected to be obtained over the remaining life of the instrument; including, where appropriate, those which may result from the collateral provided for the instrument (less the costs for obtaining and subsequently selling the collateral). The 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.

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

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

- When there is evidence of a deterioration of the obligor's ability to pay, either because it is in arrears or for other reasons, and/or;
- When country risk materialises: country risk is defined as the risk that is associated with debtors resident in a given country due to circumstances other than normal commercial risk.

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 receivable, etc.
- Collectively: the Group classifies transactions on the basis of the nature of the obligors, the conditions of the countries in which they reside, transaction status and type of collateral or guarantee, age of past-due amounts, etc. For each risk group it establishes the impairment losses ("identified losses") 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.

The amount of impairment losses on debt instruments classified as loans and receivables or of any subsequent reversal of impairment losses, which are estimated as described above, is recognised under "Impairment Losses (Net) - Loans and Receivables" in the consolidated income statement (Note 2.2.4).

2.7.2 Debt instruments classified as available for sale

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

In the case of impairment losses arising due to the insolvency of the issuer of the debt instruments classified as available for sale, the procedure followed by the Group for calculating such losses is the same as the method used for debt instruments carried at amortised cost explained in section 2.7.1 above.

When there is objective evidence that the negative differences arising on measurement of these assets are due to impairment, they are removed from the equity item "Valuation Adjustments - Available-for-Sale Financial Assets" and are recognised, for their cumulative amount, in the consolidated income statement under "Impairment Losses (Net) - Available-for-Sale Financial Assets". If all or part of the impairment losses already accounted for are subsequently reversed, the reversed amount would be recognised in the consolidated income statement for the period in which the reversal occurred under "Impairment Losses (Net) - Available-for-Sale Financial Assets".

Similarly, the impairment 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".

2.7.3 Equity instruments classified as available for sale

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

The criteria for recognising impairment losses on equity instruments classified as available for sale are similar to those for debt instruments classified as available for sale (as explained in Note 2.7.2), with the exception that any reversal of these losses is recognised in the Group's equity under "Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet.

2.7.4 Equity instruments measured at cost

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

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

2.8 Financial guarantees and provisions for financial guarantees

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

Financial guarantees, regardless of the guarantor, instrumentation or other circumstances, are reviewed periodically so as to determine the credit risk to which they are exposed and, if appropriate, to consider whether a provision is required. The credit risk is determined by application of criteria similar to those established for quantifying impairment losses on debt instruments carried at amortised cost (described in Note 2.7.1 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 19). These provisions are recognised and reversed with a charge or credit, respectively, to "Provisions (Net)" in the consolidated income statement.

2.9 Personnel expenses

2.9.1 Pension obligations

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

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

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

The Confederación has set up an external fund known as the "CECA Employees' Pension Plan" and has taken out insurance policies to cover all its pension obligations to its former and current 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 pension benefits into defined contribution benefits, as indicated below, 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 current employees for whom this possibility was envisaged in the Collective Company Agreement on Early Retirement and Supplementary Employee Welfare Benefits ("the Agreement") entered into by the Confederación and representatives of its Workers' Committee and Workplace Trade Union Branch on 2 April 2001.

In 2007 the accrued expense for the contributions to be made to the external pension fund, relating to defined contribution plans, amounted to EUR 5,003 thousand (2006: EUR 5,841 thousand), and this amount was recognised under "Personnel Expenses" in the consolidated income statement (Note 37).

Pursuant to the aforementioned Agreement, in 2003 the Confederación decided to insure contributions to the pension plan in excess of the current legal and tax ceilings by arranging two insurance policies with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser"). In 2004 the Confederación converted one of these policies into a single-premium policy. The premiums on these policies and on other insurance policies covering pension obligations to employees totalled EUR 1,300 thousand in 2007 (2006: EUR 1,359 thousand), and this amount was recognised under "Personnel Expenses" in the consolidated income statement (Note 37).

At 31 December 2007, the total vested and unvested pension obligations of the Group amounted to EUR 199,017 thousand (31 December 2006: EUR 196,588 thousand). Of this amount, EUR 196,295 thousand were covered by the aforementioned external pension fund and insurance policies, and EUR 2,722 thousand by an internal provision recognised under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (Note 19) that had not yet been transferred to the external pension fund at 31 December 2007.

Pursuant to current legislation, defined benefit pension obligations are recognised at their present value under "Provisions - Provisions for Pensions and Similar Obligations" on the liability side of the consolidated balance sheet, net of the fair value of the assets of the external pension plan and of the insurance policies, since they qualify as "plan assets" under the aforementioned legislation.

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; an adjustable pension increase rate of 1.5%; an adjustable salary increase rate of 2.68% (2% for early retirees); an expected rate of return on pension plan assets of 4%; and estimated increase rates ranging from 2.83% to 3.53% for the obligations covered by insurance policies, based on the characteristics thereof.

2.9.2 Other long-term benefits

2.9.2.1. Early retirements

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

At 31 December 2007, the obligations in respect of future salaries, future social security costs and incentives relating to early retirees, as well as the obligations for future contributions to the Pension Plan (all of which were considered as defined benefit obligations) were covered by an internal provision amounting to EUR 3,107 thousand (31 December 2006: EUR 10,767 thousand), which was recognised under "Provisions - Provisions for Pensions and Similar Obligations" in the consolidated balance sheet (Note 19) and which relate to early retirement obligations incurred as a result of the aforementioned Agreement dated 2 April 2001. At 31 December 2007and 2006, this provision covered the full amount of the Group's early retirement obligations at this date.

The obligations covered by this internal provision were calculated by an independent actuary, using a discount rate of 4.53%, PERM-2000-P mortality tables and a 2% increase in adjustable pre-retirement salaries.

2.9.2.2. Death and disability

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

2.9.2.3. Long-service bonuses

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

The amounts paid in this connection at 2007 and 2006 year-end totalled approximately EUR 55 thousand and EUR 3 thousand, respectively.

2.9.3 Termination benefits

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

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

2.9.4 Loans to employees

Under the collective labour agreement in force and the additional agreements entered into in 2004 with the Confederación's employees, employees are entitled to apply for mortgage loans from the Confederación for a maximum period of 30 years at an interest rate of 70% of Euribor (with upper and lower limits for 2007 of 5.25% and 1.50%, respectively).

Under the applicable industry collective labour agreement and pursuant to collective agreements reached by the Confederación implementing it, employees may, in specific cases, apply for interest free advances and other "welfare" loans or loans for the expansion of their residence, with a repayment period of 8 and 5 years, respectively, at the Euribor interest rate.

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

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

2.10 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 the Group's equity, in which case the income tax is also recognised in the Group's equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted by the amount of the changes in the year in the assets and liabilities (deferred taxes) recognised as a result of temporary differences and tax credit and tax loss carryforwards (Note 24).

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

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

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

Deferred tax liabilities are recognised for all taxable temporary differences. However, 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 considered probable that the temporary differences will not reverse in the foreseeable future, provided the temporary differences have, or will in the future have, a tax effect.

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

- If it is considered probable that the 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 at each balance sheet date in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed. On 29 November 2006, the Official State Gazette published Law 35/2006, of 28 November, on Personal Income Tax and partially amending the Corporate Income Tax, Non-Resident Income Tax and Wealth Tax Laws that establishes, inter alia, a reduction in the standard tax rate from 35% to 32.5% for tax years beginning on or after 1 January 2007, and to 30% for tax years beginning on or after 1 January 2008, as follows:

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

Accordingly, pursuant to current legislation, in 2006 the Group re-estimated the deferred tax assets and liabilities and the tax credit and tax loss carryforwards recognised in the consolidated balance sheet on the basis of the aforementioned change in legislation and taking into account the year in which the reversal of the temporary differences giving rise them will foreseeably take place. As a result of the adjustments made, a net charge of EUR 630 thousand was recognised under "Income Tax" in the consolidated income statement for 2006 (Note 24). As a result of the aforementioned change in tax rate and of the adjustments made in 2006 arising from the estimation of the effects of the change in tax rate, in 2007 no adjustment was made in the consolidated income statement in this connection.

Also, in 2007 a net credit of EUR 1,957 thousand was recognised in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet at 31 December 2007 (2006: EUR 2,425 thousand) relating to the impact of the change in the standard tax rate for 2008 on items previously charged or credited to the consolidated equity item "Valuation Adjustments".

2.11 Tangible assets

2.11.1 Property, plant and equipment for own use:

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

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

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

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

The tangible asset depreciation charge is recognised under "Depreciation and Amortisation - 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% a 4%
Furniture and office equipment	6.25% a 10%
Computer hardware	10% a 25%
Fixtures	6.25% a 10%
Transport equipment	10%

At the reporting date, the consolidated entities assess 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). When necessary, the carrying amount of property, plant and equipment 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 a previously 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 the items of property, plant and equipment for own use are reviewed at least once a year with a view to detecting significant changes therein. If changes are detected, the useful lives of the assets are adjusted by correcting the depreciation charge to be recognised in the consolidated income statement in future years on the basis of the new useful lives.

Upkeep and maintenance expenses relating to property, plant and equipment for own use are recognised as an expense under “Other General Administrative Expenses” in the consolidated income statement in the year in which they are incurred. Finance costs incurred in the financing of items of property, plant and equipment for own use are charged to the consolidated income statement on an accrual basis and are not capitalised.

2.11.2 Assigned to welfare projects

“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 property, plant and equipment for own use (Note 2.11.1), 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 17).

At 31 December 2006 and 2007, and throughout 2007, there were no tangible assets assigned to welfare projects.

2.11.3 Investment property

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

The criteria used to recognise the acquisition cost of investment property, to calculate its depreciation and its estimated useful life and to recognise any impairment losses thereon are consistent with those described in relation to property, plant and equipment for own use (Note 2.11.1).

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

2.12.1 Other intangible assets

LIntangible 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 entities - 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 in order to determine whether they continue to be indefinite and, if this is not the case, to take the appropriate steps. At 31 December 2007 and 2006, and throughout these years, there were no intangible assets with indefinite useful lives.

Intangible assets with finite useful life are amortised on a straight-line basis over those useful lives, which range from 3 to 5 years depending on the class of asset. The annual amortisation charge for intangible assets with finite useful lives is recognised under "Depreciation and Amortisation - Intangible Assets" in the consolidated income statement.

For intangible assets other than goodwill with indefinite useful lives and with finite useful lives, the consolidated entities recognise any impairment loss on the carrying amount of these assets, and any reversal of previously recognised impairment losses, with a charge or credit, as appropriate, to "Impairment Losses (Net) - Other Intangible Assets" in the consolidated income statement. The criteria used to recognise the impairment losses on these assets and, where applicable, the reversal of impairment losses recognised in prior years are similar to those used for property, plant and equipment for own use (Note 2.11.1), except that in no circumstances may any impairment recognised for goodwill in the consolidated balance sheet be reversed.

2.13 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 timing; and

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

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

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

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

2.13.1 Litigation and/or claims in process

At the end of 2007 certain litigation and claims were in process against the Group arising from the ordinary course of its operations. The Group's legal advisers and directors consider that the outcome of the litigation and claims will not have a material effect on the consolidated financial statements for the years in which they are settled.

2.14 Consolidated cash flow statement

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 liabilities 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, disregarding any impairment losses, was considered to be "cash and cash equivalents".

2.15 Non-current assets held for sale

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

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

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

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

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

In general, non-current assets held for sale are measured at the lower of their carrying amount calculated 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 classified in this category 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 the assets subsequently increases, the Group recognises a reversal of previously recognised impairment losses by increasing the carrying amount of the assets up to the limit of the carrying amount before any impairment with a credit to "Impairment Losses (Net) - Non-Current Assets Held for Sale" in the consolidated income statement, although in no case shall this revision increase the carrying amount of the assets above their value before impairment.

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

2.16. Welfare fund

The Confederación's welfare fund is recognised 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 consolidated balance sheet as deductions from the welfare fund and in no case may they be recognised in the consolidated income statement. Tangible assets and liabilities assigned to welfare projects, if any, are included in separate asset and liability items in the consolidated balance sheet.

2.17. Consolidated statements of changes in equity

The applicable regulations stipulate that certain assets and liabilities must be recognised at fair value through equity. Changes in fair value are recognised in the Group's consolidated equity under "Valuation Adjustments", net of the related tax effect, which is recognised as deferred tax assets or liabilities, as appropriate.

This statement presents, on the one hand, the changes in net income recognised directly in consolidated equity as “Valuation Adjustments” as well as the consolidated profit for the year and, on the other hand, total income and expenses for the year, calculated as the sum of net income recognised directly in the Group’s equity during the year plus the consolidated profit for the year.

This statement also presents the effects, if any, arising from changes in accounting policies and from the correction of errors.

The amounts transferred to the income statement are presented net of their corresponding tax effect.

Confederación Española de Cajas de Ahorros Group 03

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

The Confederación accounts for approximately 99.95% of the Group's assets and 96.88% of the profit attributed to the Group at 31 December 2007 (31 December 2006: 99.96% and 99.21%, respectively) after the related uniformity adjustments and eliminations on consolidation.

Following are the summarised financial statements of Confederación Española de Cajas de Ahorros at 31 December 2007 and 2006:

Confederación Española de Cajas de Ahorros

BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006

ASSETS
(Thousands of Euros)

	2007	2006
1 Cash and balances with central banks	**640,201**	**53,333**
2 Financial assets held for trading	**3,182,346**	**4,044,754**
2.1 Loans and advances to credit institutions	-	-
2.2 Money market operations through counterparties	-	-
2.3 Loans and advances to customers	-	-
2.4 Debt instruments	1,528,008	3,190,133
2.5 Other equity instruments	118,641	6,369
2.6 Trading derivatives	1,535,697	848,252
Memorandum item: Loaned or advanced as collateral	1,143,579	2,211,331
3 Other financial assets at fair value through profit or loss	-	-
3.1 Loans and advances to credit institutions	-	-
3.2 Money market operations through counterparties	-	-
3.3 Loans and advances to customers	-	-
3.4 Debt instruments	-	-
3.5 Other equity instruments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
4 Available-for-sale financial assets	**490,142**	**406,648**
4.1 Debt instruments	341,620	282,269
4.2 Other equity instruments	148,522	124,379
Memorandum item: Loaned or advanced as collateral	152,297	168,972
5 Loans and receivables	**9,950,718**	**9,220,889**
5.1 Loans and advances to credit institutions	9,409,312	8,798,053
5.2 Money market operations through counterparties	-	-
5.3 Loans and advances to customers	178,961	101,723
5.4 Debt instruments	-	5,144
5.5 Other financial assets	362,445	315,969
Memorandum item: Loaned or advanced as collateral	2,961,761	1,313,403
6 Held-to-maturity investments	-	-
Memorandum item: Loaned or advanced as collateral	-	-
9 Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
10 Hedging derivatives	-	-
11 Non-current assets held for sale	**161**	**161**
11.1 Loans and advances to credit institutions	-	-
11.2 Loans and advances to customers	-	-
11.3 Debt instruments	-	-
11.4 Equity instruments	-	-
11.5 Tangible assets	161	161
11.6 Other assets	-	-

Continued

LIABILITIES AND EQUITY
(Thousands of Euros)

	2007	2006
LIABILITIES		
1 Financial liabilities held for trading	**1,856,279**	**2,509,646**
1.1 Deposits from credit institutions	-	-
1.2 Money market operations through counterparties	-	-
1.3 Customer deposits	-	-
1.4 Marketable debt securities	-	-
1.5 Trading derivatives	1,544,184	849,361
1.6 Short positions	312,095	1,660,285
2 Other financial liabilities at fair value through profit or loss	-	-
2.1 Deposits from credit institutions	-	-
2.2 Customer deposits	-	-
2.3 Marketable debt securities	-	-
3 Financial liabilities at fair value through equity	-	-
3.1 Deposits from credit institutions	-	-
3.2 Customer deposits	-	-
3.3 Marketable debt securities	-	-
4 Financial liabilities at amortised cost	**11,843,201**	**10,572,214**
4.1 Deposits from central banks	1,028,533	198,969
4.2 Deposits from credit institutions	5,431,911	6,034,412
4.3 Money market operations through counterparties	-	-
4.4 Customer deposits	4,483,009	3,413,213
4.5 Marketable debt securities	-	-
4.6 Subordinated liabilities	-	-
4.7 Other financial liabilities	899,748	925,620
10 Changes in the fair value of hedged items in portfolio hedges of interest rate risk	-	-
11 Hedging derivatives	**3,996**	-
12 Liabilities associated with non-current assets held for sale	-	-
14 Provisions	**22,458**	**30,147**
14.1 Provisions for pensions and similar obligations	5,829	12,728
14.2 Provisions for taxes	-	-
14.3 Provisions for contingent liabilities and commitments	6	16
14.4 Other provisions	16,623	17,403
15 Tax liabilities	**59,029**	**60,311**
15.1 Current	767	6,875
15.2 Deferred	58,262	53,436
16 Accrued expenses and deferred income	**29,710**	**31,710**
17 Other liabilities	**7,698**	**78,646**
17.1 Welfare fund	480	480
17.2 Other	7,218	78,166
18 Equity having the substance of a financial liability	-	-
TOTAL LIABILITIES	**13,822,371**	**13,282,674**

Continued

Confederación Española de Cajas de Ahorros

BALANCE SHEETS AT 31 DECEMBER 2007 AND 2006

(Thousands of Euros)

Continued

	2007	2006 (*)
12 Investments	**515**	**515**
12.1 Associates	-	-
12.2 Jointly controlled entities	451	451
12.3 Subsidiaries	64	64
13 Insurance contracts linked to pensions	-	-
15 Tangible assets	**111,585**	**112,801**
15.1 For own use	110,309	111,411
15.2 Investment property	1,276	1,390
15.3 Other assets leased out under an operating lease	-	-
15.4 Assigned to welfare projects	-	-
Memorandum item: Acquired under a finance lease	-	-
16 Intangible assets	**7,867**	**10,687**
16.1 Goodwill	-	-
16.2 Other intangible assets	7,867	10,687
17 Tax assets	**27,161**	**27,411**
17.1 Current	163	54
17.2 Deferred	26,998	27,357
18 Prepayments and accrued income	**9,008**	**6,375**
19 Other assets	**67,849**	**18,806**
TOTAL ASSETS	**14,487,553**	**13,902,380**
MEMORANDUM ITEMS		
1 Contingent liabilities	**174,450**	**121.655**
1.1 Financial guarantees	174,450	121.655
1.2 Assets earmarked for third-party obligations	-	-
1.3 Other contingent liabilities	-	-
2 Contingent commitments	**818,630**	**2.637.351**
2.1 Drawable by third parties	612,229	533.406
2.2 Other commitments	206,401	2.103.945

(Thousands of Euros)

Continued

	2007	2006
EQUITY		
2 Valuation adjustments	**77,186**	**65,467**
2.1 Available-for-sale financial assets	79,983	65,467
2.2 Financial liabilities at fair value through equity	-	-
2.3 Cash flow hedges	(2,797)	-
2.4 Hedges of net investments in foreign operations	-	-
2.5 Exchange differences	-	-
2.6 Non-current assets held for sale	-	-
3 Own funds	**587,996**	**554,239**
3.1 Capital or endowment fund	30,051	30,051
3.1.1Issued	30,051	30,051
3.1.2 Unpaid and uncalled (-)	-	-
3.2 Share premium	-	-
3.3 Reserves	516,466	470,366
3.3.1 Accumulated reserves (losses)	516,466	470,366
3.3.2 Retained earnings	-	-
3.4 Other equity instruments	-	-
3.4.1 Equity component of compound financial instruments	-	-
3.4.2 Other	-	-
3.5 Less: Treasury shares	-	-
3.6 Non-voting equity units and associated funds	-	-
3.6.1 Non-voting equity units	-	-
3.6.2 Reserve of holders of non-voting equity units	-	-
3.6.3 Stabilisation fund	-	-
3.7 Profit for the year	41,479	53,822
3.8 Less: dividends and remuneration	-	-
TOTAL EQUITY	**665,182**	**619,706**
TOTAL LIABILITIES AND EQUITY	**14,487,553**	**13,902,380**

Confederación Española de Cajas de Ahorros

INCOME STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Thousands of Euros)	Income/(Expenses) 2007	Income/(Expenses) 2006
1 Interest and similar income	**716,337**	**347,110**
2 Interest expense and similar charges	**(675,718)**	**(305,945)**
3 Income from equity instruments	**32,348**	**11,062**
3.1 Investments in associates	-	-
3.2 Investments in jointly controlled entities	1,650	650
3.3 Investments in subsidiaries	800	-
3.4 Other equity instruments	29,898	10,412
A NET INTEREST INCOME	**72,967**	**52,227**
5 Fee and commission income	**108,262**	**94,917**
6 Fee and commission expense	**(27,076)**	**(20,075)**
8 Gains/Losses on financial assets and liabilities (net)	**(39,975)**	**18,716**
8.1 Held for trading	(58,697)	9,711
8.2 Other financial instruments at fair value through profit or loss	-	-
8.3 Available-for-sale financial assets	18,722	9,005
8.4 Loans and receivables	-	-
8.5 Other	-	-
9 Exchange differences (net)	**14,313**	**21,345**
B GROSS INCOME	**128,491**	**167,130**
12 Other operating income	**74,875**	**73,701**
13 Personnel expenses	**(70,110)**	**(68,005)**
14 Other general administrative expenses	**(81,210)**	**(79,055)**
15 Depreciation and amortisation	**(11,594)**	**(12,550)**
15.1 Tangible assets	(6,088)	(6,737)
15.2 Intangible assets	(5,506)	(5,813)
16 Other operating expenses	**(956)**	**(1,094)**
C NET OPERATING INCOME	**39,496**	**80,127**
17 Impairment losses (net)	**697**	**1,351**
17.1 Available-for-sale financial assets	(513)	87
17.2 Loans and receivables	1,210	1,488
17.3 Held-to-maturity investments	-	-
17.4 Non-current assets held for sale	-	(224)
17.5 Investments	-	-
17.6 Tangible assets	-	-
17.7 Goodwill	-	-
17.8 Other intangible assets	-	-
17.9 Other assets	-	-
18 Provisions (net)	**5,588**	**(6,899)**
21 Other gains	**9,968**	**3,256**
21.1 Gains on disposal of tangible assets	3,705	685
21.2 Gains on disposal of investments	-	-
21.3 Other	6,263	2,571
22 Other losses	**(911)**	**(455)**
22.1 Losses on disposal of tangible assets	-	-
22.2 Losses on disposal of investments	-	-
22.3 Other	(911)	(455)
D PROFIT BEFORE TAX	**54,838**	**77,380**
23 Income tax	**(13,359)**	**(23,558)**
24 Mandatory transfer to welfare projects and funds	**-**	**-**
E PROFIT FROM ORDINARY ACTIVITIES	**41,479**	**53,822**
25 Profit/Loss from discontinued operations (net)	**-**	**-**
F PROFIT FOR THE YEAR	**41,479**	**53,822**

Confederación Española de Cajas de Ahorros

STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Thousands of Euros)

	2007	2006
1. NET INCOME RECOGNISED DIRECTLY IN EQUITY:	**11,719**	**13,271**
1.1 Available-for-sale financial assets:	**14,516**	**13,271**
1.1.1 Revaluation gains/losses	35,995	25,692
1.1.2 Amounts transferred to income statement	(12,637)	(5,853)
1.1.3 Income tax	(8,842)	(6,568)
1.1.4 Reclassifications	-	-
1.2 Financial liabilities at fair value through equity:	-	-
1.2.1 Revaluation gains/losses	-	-
1.2.2 Amounts transferred to income statement	-	-
1.2.3 Income tax	-	-
1.2.4 Reclassifications	-	-
1.3 Cash flow hedges:	**(2,797)**	-
1.3.1 Revaluation gains/losses	(3,996)	-
1.3.2 Amounts transferred to income statement	-	-
1.3.3 Amounts transferred to the initial carrying amount of hedged items	-	-
1.3.4 Income tax	1,199	-
1.3.5 Reclassifications	-	-
1.4 Hedges of net investments in foreign operations:	-	-
1.4.1 Revaluation gains/losses	-	-
1.4.2 Amounts transferred to income statement	-	-
1.4.3 Income tax	-	-
1.5 Exchange differences:	-	-
1.5.1 Translation gains/losses	-	-
1.5.2 Amounts transferred to income statement	-	-
1.5.3 Income tax	-	-
1.6 Non-current assets held for sale:	-	-
1.6.1 Revaluation gains	-	-
1.6.2 Amounts transferred to income statement	-	-
1.6.3 Income tax	-	-
1.6.4 Reclassifications	-	-
2. PROFIT FOR THE YEAR:	**41,479**	**53,822**
2.1 Published profit for the year	41,479	53,822
2.2 Adjustments due to changes in accounting policy	-	-
2.3 Adjustments made to correct errors	-	-
3. TOTAL INCOME AND EXPENSES FOR THE YEAR	**53,198**	**67,093**
MEMORANDUM ITEMS: EQUITY ADJUSTMENTS ALLOCABLE TO PRIOR PERIODS:		
Effect of changes in accounting policies	-	-
Own funds	-	-
Valuation adjustments	-	-
Effects of errors	-	-
Own funds	-	-
Valuation adjustments	-	-

Confederación Española de Cajas de Ahorros

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Thousands of Euros)

	2007	2006
1. CASH FLOWS FROM OPERATING ACTIVITIES		
Profit for the year	**41,479**	**53,822**
Adjustments to profit:	**44,117**	**63,553**
Depreciation of tangible assets (+)	6,088	6,737
Amortisation of intangible assets (+)	5,506	5,813
Impairment losses (net) (+/-)	(697)	(1,351)
Provisions (net) (+/-)	(5,588)	6,899
Gains/losses on disposal of tangible assets (+/-)	(3,705)	(685)
Gains/losses on disposal of investments (+/-)	-	-
Taxes (+/-)	4,366	6,395
Other non-monetary items (+/-)	38,147	39,745
Adjusted profit	85,596	117,375
Net increase/decrease in operating assets:		
Financial assets held for trading	1,519,077	(562,823)
Loans and advances to credit institutions	-	-
Money market operations through counterparties	-	-
Loans and advances to customers	-	-
Debt instruments	1,635,325	(559,599)
Other equity instruments	(116,248)	(3,224)
Trading derivatives	-	-
Other financial assets at fair value through profit or loss:	-	-
Loans and advances to credit institutions	-	-
Money market operations through counterparties	-	-
Loans and advances to customers	-	-
Debt instruments	-	-
Other equity instruments	-	-
Available-for-sale financial assets:	(66,734)	3,559
Debt instruments	(77,051)	9,027
Other equity instruments	10,317	(5,468)
Loans and receivables:	(729,769)	(1,059,380)
Loans and advances to credit institutions	(611,278)	(1,012,044)
Money market operations through counterparties	-	-
Loans and advances to customers	(77,159)	50,605
Debt instruments	5,144	10,287
Other financial assets	(46,476)	(108,228)
Other operating assets	(46,667)	4,274
	675,907	(1,614,370)

Continued

(Thousands of Euros)

Continued

	2007	2006
1. CASH FLOWS FROM OPERATING ACTIVITIES - Continued		
Net increase/decrease in operating liabilities:		
Financial liabilities held for trading	(1,348,190)	653,878
Deposits from credit institutions	-	-
Money market operations through counterparties	-	-
Customer deposits	-	-
Marketable debt securities	-	-
Trading derivatives	-	-
Short positions	(1,348,190)	653,878
Other financial liabilities at fair value through profit or loss:	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Marketable debt securities	-	-
Financial liabilities at fair value through equity:	-	-
Deposits from credit institutions	-	-
Customer deposits	-	-
Marketable debt securities	-	-
Financial liabilities at amortised cost:	1,270,987	823,819
Deposits from central banks	829,564	113,739
Deposits from credit institutions	(602,501)	705,799
Money market operations through counterparties	-	(10,258)
Customer deposits	1,069,796	(76,337)
Marketable debt securities	-	-
Other financial liabilities	(25,872)	90,876
Other operating liabilities	(91,326)	16,932
	(168,599)	1,494,629
Total net cash flows from operating activities (1)	**592,904**	**(2,366)**
2. CASH FLOWS FROM INVESTING ACTIVITIES		
Investments (-):		
Subsidiaries, jointly controlled entities and associates	-	(120)
Tangible assets	(5,752)	(3,535)
Intangible assets	(2,686)	(1,845)
Held-to-maturity investments	-	-
Other financial assets	-	-
Other assets	-	-
	(8,438)	(5,500)
Divestments (+):		
Subsidiaries, jointly controlled entities and associates	-	-
Tangible assets	4,486	685
Intangible assets	-	-
Held-to-maturity investments	-	-
Other financial assets	-	-
Other assets	-	-
	4,486	685
Total net cash flows from investing activities (2)	**(3,952)**	**(4,815)**

Continued

Confederación Española de Cajas de Ahorros

CASH FLOW STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2007 AND 2006

(Thousands of Euros)

Continued

	2007	2006
3. CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance/Redemption of endowment fund (+/-)	-	-
Acquisition of own equity instruments (-)	-	-
Disposal of own equity instruments (+)	-	-
Issuance/Redemption of non-voting equity units (+/-)	-	-
Issuance/Redemption of other equity instruments (+/-)	-	-
Issuance/Redemption of equity having the substance of a financial liability (+/-)	-	-
Issuance/Redemption of subordinated liabilities (+/-)	-	-
Issuance/Redemption of other long-term liabilities (+/-)	-	-
Dividends/Interest paid (-)	(3,235)	(2,962)
Other items related to financing activities (+/-)	-	-
Total net cash flows from financing activities (3)	**(3,235)**	**(2,962)**
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)	**585,717**	**(10,143)**
Cash and cash equivalents at beginning of year	**54,484**	**64,627**
Cash and cash equivalents at end of year	**640,201**	**54,484**

Distribution of profit 04

The distribution of the Confederación's net profit for 2007 that the Board of Directors will propose for approval by the General Assembly (the figures for 2006 are presented for comparison purposes only) is as follows:

Thousands of Euros	2007	2006
Reserves	32,770	46,100
Transfer to welfare fund (Note 27)	6,428	4,487
Return on participation certificates (Note 22)	2,281	3,235
Net profit for the year	**41,479**	**53,822**

Business segment reporting 05

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

Remuneration of directors and senior executives 06

6.1 Remuneration of directors

The detail of the attendance fees and travel expenses paid to the Confederación's directors in 2007 and 2006, solely in their capacity as Board members of the Confederación, is as follows:

Thousands of Euros	2007	2006		2007	2006
Arvelo Hernández, Álvaro	13	-	Medina Ocaña, Jesús	14	-
Batle Mayol, Pedro	14	13	Méndez López, José Luís	8	2
Beltrán Aparicio, Fernando	13	10	Mestre González, Jordi	4	6
Blesa de la Parra, Miguel	28	22	Navarrete Mora, Luís Pascual	8	10
De Doria Lagunas, Pedro Antonio	8	-	Olivas Martínez, José Luís	25	12
Egea Krauel, Carlos	28	26	Pagés Font, Ricardo	8	-
Fainé Casas, Isidro	16	-	Pulido Gutiérrez, Antonio	4	-
Fermoso García, Julio	-	5	Quintás Seoane, Juan Ramón	28	26
Fernández Gayoso, Julio	1	8	Rifa Pujol, Pere	-	6
Fornesa Ribó, Ricardo	10	24	Rojo García, Gregorio	14	13
Franco Lahoz, Amado	14	12	Ros Maorad, José Luís	10	-
García Falcón, Juan Manuel	-	10	Ruíz Díez, Santiago	9	-
Gimbernat Martí, Aleix	5	13	Sala Belló, Vicente	14	20
Herrero Autet, Didac	5	13	Sánchez Rojas, José Manuel	-	13
Llamas Llamas, Santos	5	5	Sanz Sesma, Miguel	14	12
Loza Xuriach, José María	13	12	Todó Rovira, Adolfo	8	-
Martín Jiménez, Antonio	-	5			
Medel Cámara, Braulio	26	24	**Total**	**367**	**322**

No other remuneration was paid by the Confederación or by the other Group companies to the directors, in their capacity as Board members, in 2007. Note 42 details the Group's other balances with the directors of the Confederación and related entities or individuals.

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

For the purposes of the preparation of these consolidated financial statements, the 16 members of the Confederación's Management Committee were considered to be senior executives of the Group at 31 December 2007 (2006: 17 executives).

The detail of the remuneration earned in 2007 and 2006 by senior executives and by Board members in their capacity as Group executives was as follows (in thousands of euros):

Thousands of Euros	Short-Term Remuneration		Post-Employment Benefits		Total	
	2007	2006	2007	2006	2007	2006
	4,381	4,352	4,388	318	8,769	4,670

No additional remuneration was earned by senior executives in 2007 and 2006 in connection with other long-term benefits, termination benefits or share-based payments as defined by current regulations.

At 31 December 2007, the vested defined benefit pension rights of the senior executives and Board members in their capacity as Confederación executives amounted to EUR 15,774 thousand (31 December 2006: EUR 10,130 thousand).

Also, the post-employment benefits accrued in 2007 by employees who were members of the Confederación's Board of Directors amounted to EUR 37 thousand and their vested rights in this connection totalled EUR 898 thousand at 31 December 2007 (2006: EUR 42 thousand; 31 December 2006: EUR 1,201 thousand).

Cash and balances with central banks 07

7.1 Breakdown

The breakdown of the balance of "Cash and Balances with Central Banks" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Cash	30,762	25,411
Balances with the Bank of Spain	609,372	6,283
Balances with other central banks	-	22,780
	640,134	54,474
Valuation adjustments:		
Of which-		
Impairment losses (*)	-	(1,151)
Other valuation adjustments	67	10
	67	(1,141)
	640,201	**53,333**

(*) At 31 December 2006, this amount related in full to collectively assessed unidentified impairment losses recognised to cover the credit risk of balances with other central banks.

Note 26 provides information on certain risks affecting the financial instruments included in "Cash and Balances with Central Banks" in the consolidated balance sheet.

The amount recognised in "Cash and Balances with Central Banks" represents the maximum exposure to credit risk assumed by the Group in relation to these instruments. The fair value of the assets included in "Cash and Balances with Central Banks" in the consolidated balance sheet at 31 December 2007 and 2006 does not differ significantly from its carrying amount.

7.2 Credit risk coverage

The changes in 2007 and 2006 in the impairment losses recognised to cover credit risk on cash and balances with central banks and the cumulative amount thereof at the beginning and end of each year, broken down by geographical location of risk, counterparty and type of financial instrument, were as follows:

Collectively assessed unidentified impairment losses

Thousands of Euros	Balance at 1 January 2007	Other Changes and Transfers (Note 10)	Balance at 31 December 2007
By geographical location of risk:			
Rest of the world	1,151	(1,151)	-
	1,151	**(1,151)**	**-**
By counterparty:			
Other central banks	1,151	(1,151)	-
	1,151	**(1,151)**	**-**
By type of instrument:			
Balances with other central banks	1,151	(1,151)	-
	1,151	**(1,151)**	**-**

Collectively assessed unidentified impairment losses

Thousands of Euros	Balance at 1 January 2006	Other Changes and Transfers (Note 10)	Balance at 31 December 2006
By geographical location of risk:			
Rest of the world	-	1,151	1,151
	-	**1,151**	**1,151**
By counterparty:			
Other central banks	-	1,151	1,151
	-	**1,151**	**1,151**
By type of instrument:			
Balances with other central banks	-	1,151	1,151
	-	**1,151**	**1,151**

At 31 December 2007 and 2006, there were no assets with uncollected past-due amounts or individually considered to be impaired classified under “Cash and Balances with Central Banks”.

Financial assets and liabilities held for trading 08

8.1 Breakdown

Following is a detail of the balances of “Financial Assets/Liabilities Held for Trading” in the consolidated balance sheets at 31 December 2007 and 2006:

Thousands of Euros	Financial Assets Held for Trading		Financial Liabilities Held for Trading	
	2007	2006	2007	2006
Debt instruments	1,528,008	3,190,133	-	-
Other equity instruments	118,641	6,369	-	-
Derivatives -				
Derivatives traded in organised markets	208	118	7	3
OTC derivatives	1,535,489	848,134	1,544,177	849,358
Short positions	-	-	312,095	1,660,285
	3,182,346	**4,044,754**	**1,856,279**	**2,509,646**

Note 26 provides information on certain risks affecting the financial instruments included in "Financial Assets/Liabilities Held for Trading" in the consolidated balance sheet.

8.2 Financial assets held for trading - Debt instruments

The breakdown of the balance of this item on the asset side of the consolidated balance sheets at 31 December 2007 and 2006, by counterparty and geographical location of risk, is as follows:

Thousands of Euros	2007	2006
Spanish government debt securities	830,149	1,963,755
Foreign government debt securities	51,060	663,567
Issued by official credit institutions	-	-
Issued by other resident credit institutions	110,561	45,585
Issued by other non-resident credit institutions	3,707	90,259
Other resident fixed-income securities	50,966	107,803
Other non-resident fixed-income securities	481,565	319,164
	1,528,008	**3,190,133**

The average effective annual interest rate on the debt instruments included in "Financial Assets Held for Trading" was 4.11% in 2007 (2006: 3.42%).

The fair value of the assets included in the foregoing table does not differ significantly from the maximum credit risk assumed by the Group in connection with these investments.

In order to estimate the fair value of approximately 20% of the securities included in the foregoing table at 31 December 2007, valuation techniques which are generally accepted in the market were used and market inputs applied, since there were no quoted market prices for these securities at that date (Notes 1.3 and 2.2.3). As a result of valuing these securities using the aforementioned techniques, an amount of EUR 28,237 thousand was recognised in the consolidated income statement for 2007 under "Gains/Losses on Financial Assets and Liabilities (net) - Held for Trading" (Note 35).

8.3 Financial assets held for trading - Other equity instruments

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006, by counterparty, geographical location of risk and listing status, is as follows:

Thousands of Euros	2007	2006
Shares of listed Spanish credit institutions	1,707	1,992
Shares of listed foreign credit institutions	1,354	248
Shares of other listed Spanish companies	108,482	2,537
Shares of quoted foreign companies	7,098	1,592
	118,641	**6,369**

8.4 Financial assets and liabilities held for trading - Trading derivatives

Following is a breakdown, by type of risk, of the fair value of the trading derivatives arranged by the Group and of their notional amount (on the basis of which the future payments and collections on these derivatives are calculated) at 31 December 2007 and 2006:

Thousands of Euros	2007			2006		
	Fair Value			Fair Value		
	Asset Balances	Liability Balances	Notional Amount	Asset Balances	Liability Balances	Notional Amount
Interest rate risk	1,304,501	1,297,157	100,020,107	759,046	749,022	95,047,064
Foreign currency risk	174,255	182,241	3,224,302	29,971	41,776	4,193,052
Share price risk	56,695	58,973	756,426	59,179	58,516	664,509
Credit risk	246	5,813	100,000	56	47	66,500
	1,535,697	**1,544,184**	**104,100,835**	**848,252**	**849,361**	**99,971,125**

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

8.5 Financial liabilities held for trading - Short positions

The detail, by type of transaction, of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Classification:		
Borrowed securities-		
Equity instruments	25,230	42,713
Short sales-		
Debt instruments	286,865	1,617,572
	312,095	**1,660,285**

At 31 December 2007 and 2006 the Group had entered into various reverse repurchase agreements (Note 10) and upon maturity of these agreements the Group must return title to the securities used as collateral to the borrower. At 31 December 2007 and 2006 the fair value of the securities received as collateral in these reverse repurchase agreements does not differ significantly from their carrying amount. "Short Positions - Short Sales – Debt Instruments" in the foregoing table includes the fair value of the Group's financial assets purchased under reverse repurchase agreements, as such not recognised on the asset side of the consolidated balance sheet, and which have been sold and will be repurchased by the Group before maturity of the reverse repurchase agreement in which they are used as collateral, in order for the Group to return them at the maturity date.

Available-for-sale financial assets 09

9.1 Breakdown

The detail of balance of "Available-for-Sale Financial Assets" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Debt instruments	341,620	282,269
Equity instruments	148,522	124,379
	490,142	**406,648**

Note 26 provides information on certain risks affecting the financial instruments included in "Available-for-Sale Financial Assets" in the consolidated balance sheets.

9.2 Available-for-sale financial assets - Debt instruments

The breakdown, by issuer and geographical location, of the balances of this item on the asset side of the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Spanish government debt securities	182,532	185,668
Issued by non-resident credit institutions	8,819	1,960
Other resident fixed-income securities	92,386	22,564
Other non-resident fixed-income securities	58,195	69,865
	341,932	280,057
Impairment losses (*)	(1,195)	(682)
Other valuation adjustments (accruals)	883	2,894
	341,620	**282,269**

(*) At 31 December 2007 and 2006, this amount related in full to collectively estimated unidentified impairment losses recognised to cover credit risk.

In order to estimate the fair value of approximately 6% of the securities included in the foregoing table at 31 December 2007, valuation techniques which are generally accepted in the market were used and market inputs applied, since there were no quoted market prices for these securities at that date (Notes 1.3 and 2.2.3). As a result of valuing these securities using the aforementioned techniques, an amount of EUR 3,766 thousand, net of the related tax effect, was recognised in equity under "Valuation Adjustments - Available-for-Sale Financial Assets" in the consolidated balance sheet at that date.

The average effective interest rate on the debt instruments included in "Available-for-Sale Financial Assets" was 5.13% at 31 December 2007 (31 December 2006: 4.90%).

The carrying amount of the debt instruments included in "Available-for-Sale Financial Assets" in the consolidated balance sheets at 31 December 2007 and 2006 does not differ significantly from the maximum credit risk assumed by the Group in connection therewith.

At 31 December 2007 and 2006, there were no assets classified in this category in the consolidated balance sheets with any uncollected past-due amounts or which were individually considered to be impaired.

Following is a detail of the changes in 2007 and 2006 in the collectively assessed impairment losses (all of which related to unidentified losses) recognised to cover credit risk on debt instruments classified as available for sale and of the cumulative amount of these impairment losses at the beginning and end of those years:

Thousands of Euros	2007	2006
Balance at beginning of year	682	769
Net impairment losses/(reversals) for the year charged/(credited) to income (Note 40)	513	(87)
Balance at end of year	**1,195**	**682**

9.3 Available-for-sale financial assets - Other equity instruments

The detail, by counterparty, geographical location and listing status, of the securities included in this item on the asset side of the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Shares of listed foreign credit institutions	-	2,006
Shares of listed Spanish companies	248	19,773
Shares of unlisted Spanish companies	147,388	98,390
Shares of other listed foreign companies	-	3,816
Shares of other unlisted foreign companies	886	394
	148,522	**124,379**

Approximately 99% (2006: 79%) of the fair value of these securities at 31 December 2007 was estimated using valuation techniques based mainly on estimates using market transactions (Note 1.3 and 2.2.3) carried out by independent parties of the same securities owned by the Group. The gains (net of the related tax effect) on these securities valued using these valuation techniques, at that date, were EUR 88,090 thousand (31 Deember 2006: EUR 52,836 thouands), and this amount was recognised in equity under "Valuation Adjustments – Available-For-Sale Financial Assets".

Loans and receivables 10

10.1 Breakdown

The detail of the financial assets included in "Loans and Receivables" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Loans and advances to credit institutions	9,352,688	8,758,148
Loans and advances to customers	184,577	108,604
Debt instruments	-	5,144
Other financial assets	362,459	315,991
	9,899,724	9,187,887
Valuation adjustments:		
Of which-		
Impairment losses	(1,131)	(1,336)
Other valuation adjustments	58,317	40,488
	57,186	39,152
	9,956,910	**9,227,039**

The average effective annual interest rate of assets classified under "Loans and Receivables" in 2007 was approximately 4.18% (2006: approximately 3.67%).

Note 26 provides information on certain risks affecting the financial assets included in "Loans and Receivables" in the consolidated balance sheets.

The carrying amount of the financial assets included in "Loans and Receivables" in the consolidated balance sheets at 31 December 2007 and 2006 represents the maximum exposure to credit risk assumed by the Group in connection with these assets.

10.2 Loans and receivables - Loans and advances to credit institutions

The breakdown, by geographical location of risk and type of instrument, of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
By geographical location of risk:		
Spain	5,990,103	5,133,570
Other EMU countries	1,635,465	2,370,532
Rest of the world	1,727,120	1,254,046
	9,352,688	8,758,148
By type of instrument:		
Time deposits at credit institutions	3,135,371	4,068,441
Other accounts with credit institutions	708,899	769,984
Reverse repurchase agreements	5,508,418	3,919,723
	9,352,688	8,758,148
Valuation adjustments:		
Of which-		
Impairment losses	(55)	(35)
Other valuation adjustments	56,710	39,982
	56,655	39,947
	9,409,343	**8,798,095**

10.3 Loans and receivables - Loans and advances to customers

The breakdown, by geographical location of risk, counterparty and type of instrument, of the financial assets included in this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
By geographical location:		
Spain	183,600	107,503
Other EMU countries	763	615
Rest of the world	214	486
	184,577	108,604
By counterparty:		
Resident public sector	100	110
Non-resident public sector	37	23
Other resident sectors	183,502	107,393
Other non-resident sectors	938	1,078
	184,577	108,604
By type of instrument:		
Reverse repurchase agreements	113,567	38,206
Secured loans	36,925	34,310
Loans with other collateral	22,934	27,414
Other demand accounts and other	10,851	8,552
Commercial credit	300	122
	184,577	108,604
Valuation adjustments:		
Of which-		
Impairment losses	(1,076)	(1,301)
Other valuation adjustments	1,607	506
	531	(795)
	185,108	**107,809**

10.4 Loans and receivables - Other financial assets

The breakdown, by type of asset, of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Cheques drawn on credit institutions	410	1,697
Cash guarantees	128,109	122,080
Unsettled financial transactions	199,233	172,688
Other	34,707	19,526
	362,459	**315,991**

10.5 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 2007 and 2006, 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 2007

Thousands of Euros	More than 18 Months	More than 24 Months	Total
By geographical location:			
Spain	5	9	14
Rest of the world	-	-	-
	5	**9**	**14**
By counterparty:			
Other resident sectors	5	9	14
Other non-resident sectors	-	-	-
	5	**9**	**14**
By type of instrument:			
Loans with other collateral	-	9	9
Other demand accounts and other	5	-	5
	5	**9**	**14**

Impaired assets at 31 December 2006

Thousands of Euros	More than 24 Months	Total
By geographical location:		
Spain	161	161
Rest of the world	10	10
	171	**171**
By counterparty:		
Other resident sectors	161	161
Other non-resident sectors	10	10
	171	**171**
By type of instrument:		
Loans with other collateral	23	23
Other demand accounts and other	148	148
	171	**171**

The changes in 2007 and 2006 in "Written-Off Assets" -impaired Group financial assets that are not recognised in the consolidated balance sheet because their recovery is considered unlikely, even though the Group has not discontinued its efforts to seek collection of the amounts due- were as follows:

Thousands of Euros	2007	2006
Balance at beginning of year	645	645
Additions	148	-
Disposals	(148)	-
Balance at end of year	**645**	**645**

10.6. Credit risk coverage

Following is a detail, by geographical location of risk, counterparty and type of financial instrument, of the changes in 2007 and 2006 in the impairment losses recognised to cover the credit risk on the debt instruments classified as loans and receivables and of the cumulative amount of these impairment losses at the beginning and end of those years:

Individually assessed impairment losses

Thousands of Euros	Balance at 1 January 2007	Net Impairment Losses/ (Reversals) Charged/ (Credited) to Income (Note 40)	Other Changes	Balance at 31 December 2007
By geographical location of risk:				
Spain	161	1	(148)	14
Rest of the world	10	(10)	-	-
	171	**(9)**	**(148)**	**14**
By counterparty:				
Other resident sectors	161	1	(148)	14
Other non-resident sectors	10	(10)	-	-
	171	**(9)**	**(148)**	**14**
By type of instrument:				
Loans with other collateral	23	(14)	-	9
Other demand accounts and other	148	5	(148)	5
	171	**(9)**	**(148)**	**14**

Collectively assessed unidentified impairment losses

Thousands of Euros	Balance at 1 January 2007	Net Impairment Losses/ (Reversals) Charged/ (Credited) to Income (Note 40)	Transfers (Note 7)	Balance at 31 December 2007
By geographical location of risk:				
Spain	1,129	(67)	-	1,062
Rest of the world	36	(1,132)	1,151	55
	1,165	**(1,199)**	**1,151**	**1,117**
By counterparty:				
Foreign credit institutions	1,186	(1,131)	-	55
Other central banks	(1,151)	-	1,151	-
Other resident sectors	1,129	(67)	-	1,062
Other non-resident sectors	1	(1)	-	-
	1,165	**(1,199)**	**1,151**	**1,117**
By type of instrument:				
Loans with other collateral	617	(100)	-	517
Other demand accounts and other	186	79	-	265
Time deposits at credit institutions	1,186	(1,131)	-	55
Balances with other central banks	(1,151)	-	1,151	-
Reverse repurchase agreements	69	(69)	-	-
Commercial credit	1	2	-	3
Secured loans	257	20	-	277
	1,165	**(1,199)**	**1,151**	**1,117**

Individually assessed impairment losses

Thousands of Euros	Balance at 1 January 2006	Net Impairment Losses/ (Reversals) Charged/ (Credited) to Income (Note 40)	Other Changes	Balance at 31 December 2006
By geographical location of risk:				
Spain	161	-	-	161
Rest of the world	15	(3)	(2)	10
	176	**(3)**	**(2)**	**171**
By counterparty:				
Other resident sectors	161	-	-	161
Other non-resident sectors	15	(3)	(2)	10
	176	**(3)**	**(2)**	**171**
By type of instrument:				
Loans with other collateral	28	(3)	(2)	23
Other demand accounts and other	148	-	-	148
	176	**(3)**	**(2)**	**171**

Collectively assessed unidentified impairment losses

Thousands of Euros	Balance at 1 January 2006	Net Impairment Losses/ (Reversals) Charged/ (Credited) to Income (Note 40)	Transfers (Note 7)	Balance at 31 December 2006
By geographical location of risk:				
Spain	1,137	(8)	-	1,129
Rest of the world	2,663	(1,476)	(1,151)	36
	3,800	**(1,484)**	**(1,151)**	**1,165**
By counterparty:				
Foreign credit institutions	1,313	(127)	-	1,186
Other central banks	-	-	(1,151)	(1,151)
Other resident sectors	1,137	(8)	-	1,129
Other non-resident sectors	1,350	(1,349)	-	1
	3,800	**(1,484)**	**(1,151)**	**1,165**
By type of instrument:				
Loans with other collateral	521	96	-	617
Other demand accounts and other	392	(206)	-	186
Time deposits at credit institutions	1,313	(127)	-	1,186
Balances with other central banks	-	-	(1,151)	(1,151)
Reverse repurchase agreements	1,350	(1,281)	-	69
Commercial credit	-	1	-	1
Secured loans	224	33	-	257
	3,800	**(1,484)**	**(1,151)**	**1,165**

Hedging derivatives (assets and liabilities) 11

11.1 Cash flow hedges

The detail, by type of product, of the fair value and the notional amount of the derivatives designated as hedging instruments in cash flow hedges at 31 December 2007 and 2006, is as follows:

Thousands of Euros	2007			2006		
	Fair Value			Fair Value		
	Asset Balances	Liability Balances	Notional Amount	Asset Balances	Liability Balances	Notional Amount
Interest rate risk	-	3,996	80,000	-	-	-
Foreign currency risk	-	-	-	-	-	-
Share price risk	-	-	-	-	-	-
Credit risk	-	-	-	-	-	-
	-	**3,996**	**80,000**	**-**	**-**	**-**

The notional amounts of the contracts entered into do not reflect the actual risk assumed by the Group with respect to these instruments.

At 31 December 2007, the Group had arranged forward debt security purchase and sale transactions for a notional amount at that date of EUR 80,000 thousand. These transactions were designated as cash flow hedging of futures transactions to be performed in 2008 (Note 2.3). It is estimated that the amount recognised as a result of the valuation of these derivatives will have an effect on consolidated income statements for future years in proportion to the accrual of the interest on the futures transactions. In 2007 no amounts for ineffective hedges were recognised in the consolidated income statement.

Non-current assets held for sale 12

The breakdown of the balance of "Non-Current Assets Held for Sale" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Tangible assets -		
Foreclosed residential assets	-	-
Other residential assets	161	161
Equity instruments -		
Investments in associates	171	171
Impairment losses	(171)	(171)
	161	**161**

In 2006 the Group transferred its investment in Europay España, S.C., amounting to EUR 171 thousand, from "Investments - Associates" to "Non-Current Assets Held for Sale" in the consolidated balance sheet (Note 13) since this company met the conditions established under current regulations for inclusion in this balance sheet category. In 2006, in accordance with current regulations, an impairment loss of EUR 171 thousand was recognised for this investment under "Impairment Losses (Net) - Non-Current Assets Held for Sale" in the consolidated income statement for 2006 (Note 40).

At 31 December 2007 this investment continued to be recognised in the Group's consolidated balance sheet, with a provision for the full amount recorded in this connection, and was awaiting its definitive derognition.

Investments 13

13.1 Investments in associates

At 31 December 2007 and 2006 the Group did not have any investments classified as "Investments in Associates". The changes in 2007 and 2006 in the balance of "Investments - Associates" in the accompanying consolidated balance sheets were as follows:

Thousands of Euros	2007	2006
Balances at beginning of year	-	61
Additions	-	120
Effect of valuation using the equity method and consolidation adjustments	-	(10)
Transfers (Note 12)	-	(171)
Balances at end of year	**-**	**-**

The additions in 2006 relate in full to the shares subscribed and paid by the Group, for EUR 120 thousand, in connection with the capital increase carried out at Europay España, S.C. on 21 July 2006.

In 2006 the investment in this company was transferred in full (EUR 171 thousand) to "Non-Current Assets Held for Sale" in the consolidated balance sheet (Note 12).

Tangible assets 14

The changes in 2007 and 2006 in "Tangible Assets" in the consolidated balance sheets were as follows:

Thousands of Euros	Property, Plant and Equipment for Own Use: Land and Buildings	Property, Plant and Equipment for Own Use: Furniture, Fixtures and Vehicles	Property, Plant and Equipment for Own Use: IT Equipment and Fixtures	Investment Property	Assigned to Welfare Projects (Note 27)	Total
Cost:						
Balance at 1 January 2006	125,667	38,630	45,340	-	976	210,613
Additions	-	2,065	1,641	-	-	3,706
Disposals	-	(2,483)	(24,683)	-	-	(27,166)
Transfers	-	-	-	1,555	(976)	579
Exchange differences	17	6	1	-	-	24
Balance at 31 December 2006	**125,684**	**38,218**	**22,299**	**1,555**	-	**187,756**
Additions	-	3,549	2,222	-	-	5,771
Disposals	(786)	(101)	(55)	(222)	-	(1,164)
Transfers and other changes	-	(1)	1	-	-	-
Exchange differences	(73)	(37)	(8)	-	-	(118)
Balance at 31 December 2007	**124,825**	**41,628**	**24,459**	**1,333**	-	**192,245**
Accumulated depreciation:						
Balance at 1 January 2006	(22,065)	(31,752)	(41,155)	-	(674)	(95,646)
Additions	(2,712)	(1,631)	(2,425)	(26)	(3)	(6,797)
Disposals	-	2,514	24,681	-	-	27,195
Transfers	-	-	-	(139)	677	538
Exchange differences	(1)	(4)	(1)	-	-	(6)
Balance at 31 December 2006	**(24,778)**	**(30,873)**	**(18,900)**	**(165)**	-	**(74,716)**
Additions	(2,550)	(1,774)	(1,779)	(38)	-	(6,141)
Disposals	81	100	45	146	-	372
Transfers and other changes	-	1	(1)	-	-	-
Exchange differences	7	19	4	-	-	30
Balance at 31 December 2007	**(27,240)**	**(32,527)**	**(20,631)**	**(57)**	-	**(80,455)**
Tangible assets, net:						
Net balance at 31 December 2006	**100,906**	**7,345**	**3,399**	**1,390**	-	**113,040**
Net balance at 31 December 2007	**97,585**	**9,101**	**3,828**	**1,276**	-	**111,790**

At 31 December 2007, property, plant and equipment for own use totalling (gross) approximately EUR 46,894 thousand (EUR 41,460 thousand at 31 December 2006) had been depreciated in full.

At 31 December 2007 and 2006, the tangible assets owned by the Group entities were not impaired and there were no changes in this connection in those years.

Intangible assets 15

15.1 Other intangible assets

The balance of "Other Intangible Assets" in the consolidated balance sheet relates in full to computer software, developed mainly by the Group, which is amortised by the straight-line method on the basis of its estimated useful life over a period of three to five years. The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Intangible assets with finite useful life	25,983	23,073
Less:		
Accumulated amortisation	(17,890)	(12,349)
Net total	**8,093**	**10,724**

At 31 December 2007 and 2006, the intangible assets owned by the Group entities were not impaired and there were no changes in this connection in those years.

At 31 December 2007 the balance of fully amortised intangible assets in use was EUR 669 thousand.

The changes in 2007 and 2006 in this item in the consolidated balance sheets were as follows:

Thousands of Euros	
Cost:	
Balance at 1 January 2006	21,198
Other additions	1,875
Balance at 31 December 2006	**23,073**
Other additions	2,910
Balance at 31 December 2007	**25,983**
Accumulated amortisation:	
Balance at 1 January 2006	(6,514)
Charge for the year	(5,835)
Balance at 31 December 2006	**(12,349)**
Charge for the year	(5,541)
Balance at 31 December 2007	**(17,890)**
Intangible assets, net:	
Net balance at 31 December 2006	**10,724**
Net balance at 31 December 2007	**8,093**

Prepayments and accrued income and Accrued expenses and deferred income 16

The breakdown of the balances of "Prepayments and Accrued Income" and "Accrued Expenses and Deferred Income" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Prepayments and accrued income:		
Fees and commissions receivable	6,805	5,334
Prepayments	194	183
Other prepayments and accrued income	2,009	858
	9,008	**6,375**
Accrued expenses and deferred income:		
Accrued expenses	29,363	31,258
Other accrued expenses and deferred income	2,623	2,531
	31,986	**33,789**

Other assets and Other liabilities 17

The breakdown of the balances of "Other Assets" and "Other Liabilities" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Other assets:		
Transactions in transit	17,278	6,422
Other items	50,571	12,384
	67,849	**18,806**
Other liabilities:		
Transactions in transit	7,171	77,553
Welfare fund (Note 27)	480	480
Other items	47	613
	7,698	**78,646**

At 31 December 2007, the balance of "Transactions in Transit" in the foregoing detail includes balances amounting to EUR 227 thousand (31 December 2006: EUR 1,776 thousand) relating to remittances of cheques received and not yet charged and balances of EUR 1,925 thousand (31 December 2006: EUR 73,476 thousand) relating to items arising from returns, sales, coupons and tax refunds from non-Spanish tax agencies in connection with securities settled through international payment systems (Euroclear and Citibank), which certain federated savings banks centralise through the Confederación. The related balances are transitory and are settled on the first business day following the date on which they arose.

Financial liabilities at amortised cost 18

18.1 Breakdown

The detail of the items composing the balance of "Financial Liabilities at Amortised Cost" in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Deposits from central banks	1,026,523	198,581
Deposits from credit institutions	5,420,731	6,012,791
Customer deposits	4,468,590	3,403,179
Other financial liabilities	902,940	927,851
	11,818,784	10,542,402
Valuation adjustments	27,211	31,046
	11,845,995	**10,573,448**

The average effective annual interest rate on the liabilities classified under "Financial Liabilities at Amortised Cost" in 2007 was approximately 4.17% (2006: approximately 3.49%).

18.2 Financial liabilities at amortised cost - Deposits from central banks

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Balances with the Bank of Spain		
Repurchase agreements	712,974	-
Deposits taken	3,464	-
Balances with other central banks	310,085	198,581
	1,026,523	198,581
Valuation adjustments	2,010	388
	1,028,533	**198,969**

18.3 Financial liabilities at amortised cost - Deposits from credit institutions

The breakdown, by geographical area and type of instrument, of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
By geographical location:		
Spain	4,264,707	4,498,188
Other EMU countries	577,563	863,429
Rest of the world	578,461	651,174
	5,420,731	6,012,791
By type of instrument:		
Demand deposits-		
Other accounts	1,661,527	1,508,417
Time deposits-		
Time deposits	2,263,748	2,103,001
Repurchase agreements	1,495,456	2,401,373
	5,420,731	6,012,791
Valuation adjustments	11,180	21,621
	5,431,911	**6,034,412**

18.4 Financial liabilities at amortised cost - Customer deposits

The breakdown, by geographical area, type of instrument and counterparty, of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
By geographical location:		
Spain	4,023,674	2,871,149
Other EMU countries	145,658	104,615
Rest of the world	299,258	427,415
	4,468,590	3,403,179
By counterparty:		
Resident public sector	1,649,351	445,176
Non-resident public sector	2,431	2,693
Other resident sectors	2,374,545	2,425,972
Other non-resident sectors	442,263	529,338
	4,468,590	3,403,179
By type of instrument:		
Current accounts	1,368,343	1,150,980
Other demand deposits	47,496	16,801
Fixed-term deposits	1,003,544	943,891
Repurchase agreements	2,049,207	1,291,507
	4,468,590	3,403,179
Valuation adjustments	14,021	9,037
	4,482,611	**3,412,216**

18.5 Financial liabilities at amortised cost - Other financial liabilities

The breakdown of the balance of this item in the consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Payment obligations	6,736	10,602
Collateral received	58,618	23,796
Tax collection accounts	22,270	8,867
Special accounts	138,229	91,356
Other	677,087	793,230
	902,940	**927,851**

The balance of “Special Accounts” in the foregoing table includes, among other items, unsettled securities underwriting transactions and other unsettled transactions in organised markets totalling EUR 137,347 thousand (2006: EUR 90,665 thousand).

At 31 December 2007 the balance of "Other" in the foregoing table includes EUR 563,392 thousand (31 December 2006: EUR 551,058 thousand) relating to items arising from interbank transfer operations settled through the Spanish National Electronic Clearing System, which certain federated savings banks centralise through the Confederación. The related balances are transitory and are settled on the first business day following the date on which they arose.

Provisions 19

The changes in 2007 and 2006 in the balance of "Provisions" in the consolidated balance sheets at 31 December 2007 and 2006 and the purpose of the related provisions were as follows:

19.1 Provisions for pensions and similar obligations

The changes in 2007 and 2006 in the balance of this item in the consolidated balance sheets were as follows:

Thousands of Euros	Pension Obligations (Note 2.9.1)	Other Long-Term Benefits (Note 2.9.2.1)	Total
Balances at 1 January 2006	7,000	13,949	20,949
Payments to early retirees and contributions to the external pension plan	(5,039)	(3,681)	(8,720)
Finance cost (Note 30)	-	499	499
Balances at 31 December 2006	**1,961**	**10,767**	**12,728**
Net additions/(reversals) charged/ (credited) to income	(263)	(5,192)	(5,455)
Payments to early retirees and contributions to the external pension plan	-	(2,662)	(2,662)
Current service cost (Note 37)	964	-	964
Finance cost (Note 30)	60	194	254
Balances at 31 December 2007	**2,722**	**3,107**	**5,829**

19.2 Provisions for contingent liabilities and commitments and other provisions

The changes in 2007 and 2006 in the balances of these items in the consolidated balance sheets were as follows:

Thousands of Euros	Provisions for Contingent Liabilities and Commitments (Note 2.8 and 28.1)	Other Provisions	Total
Balances at 1 January 2006	7	10,514	10,521
Net additions/(reversals) charged/ (credited) to income	9	6,890	6,899
Other	-	(1)	(1)
Balances at 31 December 2006	**16**	**17,403**	**17,419**
Net additions/(reversals) charged/ (credited) to income	(10)	(123)	(133)
Amounts used	-	(657)	(657)
Balances at 31 December 2007	**6**	**16,623**	**16,629**

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

Changes in equity 20

Appendix III to the consolidated financial statements contains a reconciliation of the carrying amount of the items composing the Group's equity at the beginning and at the end of 2007 and 2006, prepared in accordance with current regulations.

Valuation adjustments 21

21.1 Available-for-sale financial assets

This item in the consolidated balance sheets at 31 December 2007 and 2006 includes the net amount, adjusted by the corresponding tax effect, of changes in the fair value of assets classified as available-for-sale assets (Note 9) which, as stated in Note 2, should be recognised in the Group's consolidated equity; these changes are recognised in the consolidated income statements when the assets which gave rise to them are sold or when these investments become impaired. The consolidated statement of changes in equity included in Appendix III shows the changes in 2007 and 2006 in this item in the accompanying consolidated balance sheets.

21.2 Cash flow hedges

This item in the consolidated balance sheets at 31 December 2007 and 2006 includes the amount (net of the related tax effect) of the changes in the value of financial derivatives designated as hedging instruments in cash flow hedges, in respect to the portion of these changes considered to be "effective hedges" (Notes 2.3 and 11).

The consolidated statement of changes in equity included in Appendix III shows the changes in 2007 and 2006 in this item in the accompanying consolidated balance sheets.

Endowment fund 22

At 31 December 2007 and 2006, 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 confederate savings banks.

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

Reserves 23

23.1 Accumulated reserves

The breakdown of the balance of "Accumulated Reserves" in the accompanying consolidated balance sheets at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Asset revaluation reserve	41,912	54,060
Other reserves	477,186	418,551
Accumulated reserves (losses)	**519,098**	**472,611**

Reserves (losses) of fully and proportionately consolidated entities

The detail, by entity, of the balances of "Accumulated Reserves (Losses)" relating to fully and proportionately consolidated entities at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Confederación	**518,118**	**471,016**
Caja Activa, S.A.	57	839
CEA Trade Services Limited	-	-
Reserves at subsidiaries	**57**	**839**
Ahorro y Titulización, Sociedad Gestora de Fondos de Titulización, S.A.	923	756
Reserves at jointly controlled entities	**923**	**756**
Accumulated reserves (losses)	**519,098**	**472,611**

Asset revaluation reserve

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 were credited, after deducting the single 3% tax of EUR 354 thousand, to “Accumulated Reserves (Losses)” in the balance sheet.

Since the period for review by the tax authorities under current legislation expired in 2007, the balance of this reserve, which arose from the revaluation of the Confederación’s tangible assets pursuant to Royal Decree-Law 7/1996, totalling EUR 11,444 thousand, was transferred to unrestricted voluntary reserves in 2007.

Accordingly, at 31 December 2007 the balance of “Revaluation Reserves” includes only the net reserves that arose on the revaluation of certain tangible assets on the date of entry into force of EU-IFRSs (1 January 2004), which amounted to EUR 41,912 thousand at 31 December 2007 (31 December 2006: EUR 42,616 thousand). The difference in the amount recognised in this connection at 31 December 2007 and 2006 relates to the amount transferred to unrestricted voluntary reserves in proportion to the depreciated amount of the assets revalued in 2007 on the basis of their useful lives.

23.2 Reserves (losses) of entities accounted for using the equity method

The detail, by company, of the balance of "Reserves (Losses) of Entities Accounted for Using the Equity Method" in the accompanying consolidated balance sheets is as follows:

Thousands of Euros	2007	2006
Europay España, S.C.	(52)	(43)
Reserves (losses) of entities accounted for using the equity method	**(52)**	**(43)**

At 31 December 2007 and 2006 the Group does not have any investments in companies classified as associates. At 31 December 2007 and 2006, Europay España, S.C. was classified under "Non-Current Assets Held for Sale" in the accompanying consolidated balance sheet (Note 12). This company contributed reserves to the Group at 31 December 2007 and 2006 because at 31 December 2005 it was classified as an associate under "Investments" in the accompanying consolidated balance sheet. The reserves contributed by this investment were classified as "Non-Current Assets Held for Sale" and recognised as reserves of companies accounted for using the equity method until such time as this investment is derecognised.

Tax matters 24

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

24.1 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 the last four years open for review by the tax authorities for all the taxes to which their business activities are subject. In this connection, in 2007, the Spanish Tax Agency began a review of the tax returns relating to the main taxes applicable to the Confederación from 2003 to 2005, except in relation to income tax, for which the corresponding tax return for 2002 is also being reviewed.

Because of the varying interpretations that can be made of the tax legislation, the outcome of any reviews of the open years by the tax authorities might give rise to tax liabilities which cannot be objectively quantified at the present time. However, the Confederación's tax advisers and its directors consider that the possibility of material liabilities arising in this connection in addition to those already recognised is remote.

24.2 Income tax

The detail of "Income Tax" in the consolidated income statements for 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Income tax expense	13,994	22,893
Effect of change in tax rate (Note 2.10)	-	630
Other adjustments	(30)	607
	13,964	**24,130**

24.3 Reconciliation of the accounting profit to the taxable profit

The reconciliation of the income tax expense recognised for 2007 and 2006 to the consolidated accounting profit before tax multiplied by the tax rate applicable to the Confederación is as follows:

Thousands of Euros	2007	2006
Accounting profit before tax	54,246	78,383
Tax rate	32.50%	35%
	17,630	27,434
Permanent differences:		
Increases	849	268
Decreases	(2,256)	(1,496)
Total	**16,223**	**26,206**
(Tax credits)/(Tax relief)	(2,229)	(3,313)
Income tax expense for the year	**13,994**	**22,893**
Temporary differences:		
Increases	1,391	8,220
Decreases	(5,625)	(7,682)
Instalment payments	(8,993)	(16,556)
Income tax charge for the year (1)	**767**	**6,875**

(1) This amount is recognised under "Tax Liabilities - Current" in the consolidated balance sheets at 31 December 2007 and 2006.

The permanent decreases in the taxable profit in the foregoing table include, among other items, the deduction of EUR 6,428 thousand relating to the amounts the Confederación assigned to welfare projects in 2007 (2006: EUR 4,487 thousand) (Note 4).

"Tax Credits" in the foregoing table includes, inter alia, tax credits for double taxation of dividends regulated by the Consolidated Spanish Corporation Tax Law.

In 2007 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 2,033 thousand (2006: EUR 601 thousand) and the tax credit amounted to EUR 295 thousand (2006: EUR 120 thousand).

24.4. Tax recognised in equity

The income tax expense recognised directly in the Group's equity in 2007 gave rise to a net charge of EUR 1,559 thousand to consolidated equity (2006: EUR 6,568 thousand).

24.5. Deferred taxes

Pursuant to the tax legislation in force, in 2007 and 2006 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 2007 and 2006 were as follows:

Thousands of Euros	2007	2006
Deferred tax assets arising from:		
Additions and contributions to pension provisions and funds	14,407	19,229
Additions to provisions	4,677	4,914
Impairment losses	1,365	1,221
Available-for-sale equity instruments	-	73
Available-for-sale debt instruments	3,541	8
Cash flow hedges	1,199	-
Other	1,809	1,912
	26,998	**27,357**

Thousands of Euros	2007	2006
Deferred tax liabilities:		
Revaluation of property	19,344	19,700
Capitalisation of intangible assets	1,098	2,134
Available-for-sale equity instruments	37,820	29,845
Available-for-sale debt instruments	-	1,757
	58,262	**53,436**

Fair value 25

25.1 Fair value of financial assets and liabilities recognised at other than fair value

Since the Group's financial assets and liabilities recognised at other than fair value basically 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.

25.2 Fair value of tangible assets

Since most of the Group's tangible assets were revalued on first-time application of EU-IFRS at 1 January 2004, the carrying amount does not differ significantly from their fair value.

Risk management 26

Set forth below are the various risks assumed in relation to the financial instrument business activity carried on by the Confederación which, given the characteristics of the Group and the size and activity of the entities composing it, account for substantially all of the risks of this type assumed by the Group.

Pursuant to current legislation, the Confederación's Board of Directors designated the Asset-Liability Committee (ALCO) as the body responsible for reporting to the competent bodies, managing, monitoring and controlling the Confederación's risk exposure, which, as indicated previously, account for substantially all of the risks of this type assumed by the Group.

The ALCO is responsible for implementing the policies established by the Board of Directors regarding both products and activities, for directing the reporting to the competent bodies, management, monitoring and control of the Confederación'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 Confederación's Risk Committee, Financial Committee and New Products Committee as support units.

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

26.1 Credit risk

Credit risk is the risk of loss as a result of non-compliance by the counterparty with its contractual obligations.

Credit risk management focuses on the analysis, monitoring and control of customers and transactions involving any category of this risk, be it principal risk, replacement or counterparty risk, issuer risk, liquidation or delivery risk and country risk.

Rating is the key element in credit risk analysis and is used to strategically define the level of risk to be assumed. By taking into account these ratings, the guarantees, the borrower's equity position and the product, the Confederación is able to classify the transaction and adopt the appropriate decisions in the relevant decision-making bodies.

In order to classify counterparty risk, the Confederación uses internal models to assign weighted ceilings to all of its counterparties on the basis of financial variables relating to profitability, size, country, etc.

To achieve a more effective use of risk limits, substantially all the risk assumed in operations involving derivative instruments, repos, sell/buy backs and securities lending agreements is covered through the use of standard ISDA/CMOF, GMRA and GMSLA agreements, respectively, the terms of which envisage the possibility of offsetting outstanding collection and payment flows between the parties for all transactions covered by the agreements.

The methodology applied in calculating credit risk exposure is the sum of current exposure or market value (mark to market) plus an add-on to reflect potential future exposure.

Credit risk is monitored through active portfolio management. The main aim is to detect, sufficiently in advance, any counterparties whose creditworthiness might be deteriorating. Systematic monitoring allows the whole of the portfolio to be classified into normal risk counterparties and counterparties under special vigilance. The policies regarding the action to be taken in relation to any counterparty belonging to the latter category range from simply reviewing their creditworthiness after a certain period of time, to ceasing all transactions with this counterparty.

Ratings, country and business type, among other variables, are key factors in the risk monitoring process, as they are in the analysis process.

As the Confederación's transactions, and therefore the Group's, are highly focused on the financial services industry, it has a very low credit risk profile as the majority of its exposures possess a high level of creditworthiness. As such, significant importance is attached to permanent control of risk concentration, of both country risk and large exposures.

26.2 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 foreign currency, interest rate, security price and commodity price risk.

VaR measures the maximum probable loss on a portfolio with a given confidence level and a specific time horizon. The Confederación uses general parameters of a one-day time horizon and a 99% confidence level.

The VaR is calculated using the parametric methodology using at least one year's market data observations to calculate volatilities and correlations.

In 2007, the Confederación developed and implemented a calculation methodology for measuring specific risk and, as such, the potential impact on the value of the portfolio of changes in this risk factor for each specific issue. This methodology, known as "Spread VaR", is homogeneous with the current market VaR, which enables a global risk measurement to be obtained that incorporates both market risk and credit risk factors.

As in the case of credit risk, the Group has a low market risk profile as it holds back-to-back positions regarding complex transactions with customers in the market (transactions arranged on the same terms but with opposite signs that offset market risk).

In order to ascertain the accuracy of the VaR measure, the actual results obtained on the various portfolios are checked daily and the causes of any possible excess are analysed (back-test). In 2007 a complementary back-test, based on the comparison of the VaR with the results obtained on the day's portfolio with no new transactions or commissions, was developed and implemented.

In order to try and quantify the impact of extreme changes in the risk factors affecting the value of a portfolio, daily critical scenario analysis (stress-testing) is performed.

In addition, the Confederación calculates risk/return measures, specifically return on VaR (RoVaR), with a view to using them both as a support tool for the efficient allocation of capital and as additional evidence of the accuracy of the model.

The distribution of the VaR of the trading portfolio by desk at 31 December 2007 and 2006 is as follows:

VaR by Desk	31/12/07	31/12/06
Money and currency markets	1,070	577
Fixed-income and equities trading	126	332
Loan trading	158	107
Derivatives and structured products	275	128

The Board of Directors annually approves a maximum level of exposure to market risk which is then distributed among the various Treasury areas. In addition, the ALCO approves the monthly and annual level of maximum loss (stop-loss).

The responsibility for the daily calculation of risk measures and the verification of limits falls upon the Methodology and Treasury Control Division within the Risk Section. This division is also responsible for calculating, every day, the management results of the Treasury and the various desks comprising it, using methodologies, models and price sources which are separate from those of the Treasury room. This plan ensures total independence from the risk generating business areas.

On a monthly basis, the level of risk exposure, monitoring of limits and the management results of the Treasury room are reported to the Risk Committee and the ALCO.

26.3 Structural risk

Structural risk reflects the potential loss or sensitivity of the net interest margin and the market value of equity to interest rate changes. Structural risk management (ALM) can be defined as an ongoing adjustment of the assets and liabilities in the balance sheet with a view to maintaining reasonable returns, minimising interest rate risk, and obtaining adequate liquidity.

The ALCO is responsible for analysing and monitoring the Confederación's balance sheet, assessing the risk inherent in its structure and evaluating the impact of this risk on the financial margin. To this end, various data are prepared, including most notably a classification, by maturity or repricing dates, of the assets, liabilities and derivatives, an analysis of the terms to maturity of the financial instruments, and a simulation of changes in the net interest margin, using interest rate volatility in the currencies in which the investments, liabilities and derivatives are denominated.

Following is the Confederación's sensitivity gap analysis to interest rate risk at 31 December 2007 and 31 December 2006:

GAP analysis of balances sensitive to interest rate changes (31 December 2007)

Thousands of Euros	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	More than 10 Years	Total
Assets	6,182,424	1,793,657	996,517	1,149,011	810,661	349,514	183,923	35,852	11,501,559
Liabilities	(8,968,294)	(638,546)	(89,786)	(190,738)	(663,114)	(278,729)	(144,511)	(6,654)	(10,980,372)
Total balance sheet GAP	(2,785,870)	1,155,112	906,731	958,273	147,547	70,785	39,412	29,197	521,187
Off-balance -sheet GAP	65,772	(347,323)	(199,737)	251,553	178,794	25,728	(131,863)	158,415	1,339
Total GAP	**(2,720,098)**	**807,788**	**706,994**	**1,209,826**	**326,341**	**96,512**	**(92,451)**	**187,613**	**522,525**

GAP analysis of balances sensitive to interest rate changes (31 December 2006)

Thousands of Euros	1 Month	3 Months	6 Months	1 Year	3 Years	5 Years	10 Years	More tham 10 Years	Total
Assets	4,305,063	1,650,597	1,178,569	761,683	1,360,982	697,405	722,314	350,572	11,027,185
Liabilities	6,991,869	662,890	208,993	278,392	1,092,827	340,465	644,028	210,138	10,429,602
Total balance sheet GAP	(2,686,806)	987,707	969,576	483,291	268,155	356,940	78,286	140,434	597,583
Off-balance -sheet GAP	(1,864,243)	2,230,184	(1,901,460)	1,263,478	555,572	2,379	(118,717)	(117,488)	49,705
Total GAP	**(4,551,049)**	**3,217,891**	**(931,884)**	**1,746,769**	**823,727**	**359,319**	**(40,431)**	**22,946**	**647,288**

26.4 Liquidity risk

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

Liquidity risk is analysed using simulations of liability flow behaviour and of the potential realisation of on-balance-sheet asset products. The ALCO can set limits for the maturity mismatches of these flows.

In order to prevent liquidity risk, the Confederación has entered into bilateral credit facility agreements with credit institutions under which the parties mutually undertake to provide loans in order to solve temporary liquidity problems.

Following is a detail at 31 December 2007 and 2006 of the Group's main financial assets and liabilities at those dates, classified by remaining maturity, estimated on the basis of their contractual conditions, including the related valuation adjustments due to factors other than impairment losses:

At 31 December 2007

Thousands of Euros	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Assets:							
Cash and balances with central banks	40,134	600,067	-	-	-	-	640,201
Financial assets held for trading - Debt instruments	-	19,930	39,744	579,523	342,269	546,542	1,528,008
Financial assets held for trading - Other equity instruments	-	-	-	-	-	118,641	118,641
Available-for-sale financial assets - Debt instruments	-	80,615	-	2,521	167,663	92,016	342,815
Available-for-sale financial assets - Other equity instruments	-	-	-	-	-	148,522	148,522
Loans and receivables - Loans and advances to credit institutions	712,830	5,085,714	1,234,644	1,599,781	774,731	1,698	9,409,398
Loans and receivables - Loans and advances to customers	4,841	83,900	21,065	35,189	8,791	32,398	186,184
Total at 31 December 2007	**757,805**	**5,870,226**	**1,295,453**	**2,217,014**	**1,293,454**	**939,817**	**12,373,769**
Liabilities:							
Financial liabilities held for trading - Short positions	25,230	278,506	-	8,359	-	-	312,095
Financial liabilities at amortised cost- Deposits from central banks	2,010	872,525	153,998	-	-	-	1,028,533
Financial liabilities at amortised cost - Deposits from credit institutions	1,664,955	3,390,412	197,730	161,475	926	16,413	5,431,911
Financial liabilities at amortised cost- Customer deposits	1,420,680	2,093,066	31,663	157,683	774,929	4,590	4,482,611
Total at 31 December 2007	**3,112,875**	**6,634,509**	**383,391**	**327,517**	**775,855**	**21,003**	**11,255,150**
Assets minus liabilities at 31 December 2007	**(2,355,070)**	**(764,283)**	**912,062**	**1,889,497**	**517,599**	**918,814**	**1,118,619**

At 31 December 2006

Thousands of Euros	On Demand	Less than 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	More than 5 Years	Total
Assets:							
Cash and balances with central banks	31,694	22,790	-	-	-	-	54,484
Financial assets held for trading - Debt instruments	-	24,497	317,684	293,627	1,119,716	1,434,609	3,190,133
Financial assets held for trading - Other equity instruments	-	-	-	-	-	6,369	6,369
Available-for-sale financial assets - Debt instruments	-	1,955	-	18,840	258,950	3,206	282,951
Available-for-sale financial assets - Other equity instruments	-	-	-	-	-	124,379	124,379
Loans and receivables - Loans and advances to credit institutions	769,833	4,751,784	1,024,394	1,564,928	685,295	1,896	8,798,130
Loans and receivables - Loans and advances to customers	2,702	17,279	20,945	29,550	9,508	29,126	109,110
Loans and receivables - Debt instruments	-	-	2,572	2,572	-	-	5,144
Total at 31 December 2006	**804,229**	**4,818,305**	**1,365,595**	**1,909,517**	**2,073,469**	**1,599,585**	**12,570,700**
Liabilities:							
Financial liabilities held for trading - Short positions	42,713	-	-	1,617,572	-	-	1,660,285
Financial liabilities at amortised cost- Deposits from central banks	-	195,569	3,400	-	-	-	198,969
Financial liabilities at amortised cost- Deposits from credit institutions	1,508,417	3,729,250	452,508	325,701	2,157	16,379	6,034,412
Financial liabilities at amortised cost - Customer deposits	1,167,952	1,365,767	6,023	194,884	672,432	5,158	3,412,216
Total at 31 December 2006	**2,719,082**	**5,290,586**	**461,931**	**2,138,157**	**674,589**	**21,537**	**11,305,882**
Assets minus liabilities at 31 December 2006	**(1,914,853)**	**(472,281)**	**903,664**	**(228,640)**	**1,398,880**	**1,578,048**	**1,264,818**

In connection with the information provided in the foregoing tables, it should be noted that even though the customer current accounts and demand deposits from credit institutions recognised on the liability side of the consolidated balance sheet were classified as "on demand", the Group's experience with these liabilities shows that they are more stable. Also, although the debt instruments classified as held for trading were classified in the foregoing tables on the basis of their contractual conditions, because of the nature of this portfolio, the related instruments will generally be realised earlier than shown in these tables. In this connection, the Confederacion's equity instruments, regardless of the portfolio to which they belong, were classified as "more than 5 years". The balances of short positions relating to floating-rate securities are presented in the foregoing table as "on demand", while those relating to the remaining securities are presented by maturity of the related transactions.

26.5 Operational risk

The Group's operational risk policies are detailed in the risk management section of the directors' report.

Welfare fund and projects 27

Confederación Española de Cajas de Ahorros, within the framework of its welfare projects, finances Fundación de las Cajas de Ahorros (FUNCAS), a private not-for-profit organisation that engages in activities that benefit Spanish society, promote saving, and contribute to the raising of public awareness of savings banks by facilitating the service provided by them to society.

In particular, the objectives of the Fundación are:

- the promotion of economic and social studies and research
- the organisation of public events, and
- cultural dissemination in the broadest sense of the term and the fostering of all activities leading to a heightened awareness of the Spanish economy and society, thus encouraging useful recommendations regarding economic and social policy.

At 31 December 2007 and 2006 and throughout 2007, the Confederación's Welfare fund did not have any tangible or intangible assets.

The changes in 2007 and 2006 in the balance of "Other Liabilities - Welfare Fund" on the liability side of the consolidated balance sheets are as follows:

Thousands of Euros	2007	2006
Beginning balance before distribution of profit	480	693
Transfer charged to prior period profit (Note 4)	4,487	4,190
Maintenance expenses for the year:		
Depreciation/amortisation of assets assigned to welfare projects	-	(3)
Budgeted current expenses for the year	(4,487)	(4,180)
Other changes (*)	-	(220)
Ending balance before distribution of profit (Note 17)	**480**	**480**

(*) This amount at 31 December 2006 relates in full to the transfer in 2006 of the revaluation reserves relating to tangible assets assigned to welfare projects existing at 31 December 2005 (Note 23) to the Confederación's tangible assets in 2005.

These financial statements were authorised for issue subsequent to the FUNCAS Board of Trustees meeting held on 20 February 2008, at which the budget settlement for 2007 was approved.

Other significant disclosures 28

28.1 Contingent liabilities - Financial guarantees

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 2007 and 2006, based on the maximum risk assumed by the Group in this connection, is as follows:

Thousands of Euros	2007	2006
Financial bank guarantees	26,325	27,359
Other bank guarantees and indemnities	78,125	94,296
Credit derivatives sold	70,000	-
Irrevocable documentary credits	57,855	52,545
	232,305	**174,200**

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

Income from guarantee instruments is recognised, net of financial effect, under "Fee and Commission Income" in the consolidated income statement (Note 33).

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 19).

28.2 Assets delivered as security

At 31 December 2007 and 2006, 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 2007 and 2006, of the financial assets delivered as security for these liabilities, contingent liabilities and similar items was as follows:

Thousands of Euros	2007	2006
Spanish government debt securities classified as financial assets held for trading	-	13,000
Spanish government debt securities classified as available-for-sale financial assets	28,775	1,000
Other securities classified as available-for-sale financial assets	82,500	42,308
Other securities classified as loans and receivables	-	5,239
	111,275	**61,547**

At 31 December 2007, the Confederación had securities with a face value of EUR 111,257 thousand (31 December 2006: EUR 56,308 thousand) tied up at Iberclear, S.A. as security for the performance of the Confederación's obligations relating to transactions with the clearing and settlement services.

In addition, at 31 December 2007, the Group had entered into repurchase agreements for securities in its portfolio and reverse repurchase agreements for securities, totalling EUR 4,257,637 thousand (31 December 2006: EUR 3,692,880 thousand).

28.3 Contingent commitments

The breakdown of the balance of "Contingent Commitments" at 31 December 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Drawable by third parties:		
Credit institutions	142,952	184,519
Other resident sectors	468,976	348,587
Non-resident sector	300	300
Regular way financial asset purchase contracts	11,413	383,772
Other contingent commitments	194,989	1,720,173
	818,630	**2,637,351**

28.4 Transactions for the account of third parties

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

Thousands of Euros	2007	2006
Financial instruments entrusted by third parties	139,114,496	130,046,524
Conditional bills and other securities received for collection	1,317,270	1,335,407
Borrowed securities	180,705	720,477
	140,612,471	**132,102,408**

28.5 Financial assets lent and borrowed

Pursuant to current legislation, the securities received by the consolidated entities in securities lending transactions are not recognised in the consolidated balance sheet unless the entities sell these securities in short sales transactions, in which case they are recognised as financial liabilities under "Financial Liabilities Held For Trading - Short Positions" on the liability side of the consolidated balance sheet (Note 8.5).

Similarly, securities lending transactions in which the consolidated entities lend securities to third parties are not recognised in the consolidated balance sheet. The securities lent can be securities previously lent to the consolidated companies or securities owned by them, and in the latter case these are not derecognised.

Following is a detail of the fair value of the financial assets borrowed and lent by Group entities in securities lending transactions at 31 December 2007:

Thousands of Euros	2007
Securities lent by the Group	
Equity instruments	
Issued by credit institutions-	878
Issued by other resident sectors	152,489
Issued by other non-resident sectors	-
	153,367
Securities borrowed by the Group	
Equity instruments	
Issued by credit institutions	1,617
Issued by other resident sectors	178,049
Issued by other non-resident sectors	1,039
	180,705

Finance income recognised by the Group in 2007 in relation to securities lent totalled EUR 117,735 thousand (Note 29) and is recognised under "Interest and Similar Income" in the consolidated income statement for 2007. In addition, "Income from Equity Instruments - Other Equity Instruments" in the consolidated income statement for 2007 includes EUR 25,357 thousand in relation to dividends accrued on securities lent to the Group which, were not lent out by the Group in securities lending transactions (Note 31).

In 2007, finance costs relating to securities borrowed amounted to EUR 143,551 thousand and were recognised under "Interest Expense and Similar Charges" in the 2007 consolidated income statement (Note 30).

28.6. The Confederación's Customer Care Service

Following is a summary of the complaints and claims received by the Confederación's Customer Care Service in 2007, the Confederación being the only Group entity providing this service:

	2007
Number of complaints and claims received	6
Number of complaints and claims admitted for consideration	1
Number of complaints and claims resolved	1
Number of complaints and claims resolved in favour of the complainant	0
Number of complaints and claims resolved against the claimant	1
Compensation payed to claimants	0
Number of complaints and claims outstanding	0

Claims made to the service which were not admitted for consideration in 2007 relate to claims affecting entities other than the Confederación.

The only claim admitted for consideration in 2007 relates to the interest rate in a claimant's contract, and was resolved against the claimant with no compensation being paid in this connection.

Interest and similar income 29

The breakdown of interest and similar income earned by the Group in 2007 and 2006, by type of instrument giving rise to it, is as follows:

Thousands of Euros	2007	2006
Balances with central banks	2,396	1,075
Loans and advances to credit institutions	419,516	221,309
Loans and advances to customers		
Resident public sector	-	9
Non-resident public sector	135	68
Other resident sectors	13,675	28,721
Other non-resident sectors	5,193	2,435
Debt instruments	156,549	93,266
Finance income from securities lending transactions (Note 28.5)	117,735	-
Other interest	1,353	369
	716,552	**347,252**

Additionally, the breakdown of the amounts recognised under "Interest and Similar Income" in the consolidated income statements for 2007 and 2006, by type of financial instrument portfolio giving rise to them, is as follows:

Thousands of Euros	2007	2006
Balances with central banks	2,396	1,075
Financial assets held for trading	139,468	79,676
Available-for-sale financial assets	16,993	13,372
Loans and receivables	439,960	253,129
Securities lending transactions (Note 28.5)	117,735	-
	716,552	**347,252**

Interest expense and similar charges 30

The detail of the balance of "Interest Expense and Similar Charges" in the consolidated income statements for 2007 and 2006, by type of instrument giving rise to them, is as follows:

Thousands of Euros	2007	2006
Deposits from the Bank of Spain	2,809	-
Deposits from other central banks	16,315	7,108
Deposits from credit institutions	311,216	184,938
Customer deposits	199,424	111,845
Money market operations	1,170	1,372
Cost attributable to pension funds (Note 19)	254	499
Finance costs attributable to securities lending transactions (Note 28.5)	143,551	-
Other interest	947	160
	675,686	**305,922**

Additionally, the breakdown of the amounts recognised under "Interest Expense and Similar Charges" in the consolidated income statements for 2007 and 2006, by type of financial instrument portfolio giving rise to them, is as follows:

Thousands of Euros	2007	2006
Financial liabilities at amortised cost	530,934	305,263
Securities lending (Note 28.5)	143,551	-
Other liabilities	1,201	659
	675,686	**305,922**

Income from equity instruments 31

The amount recognised under “Income from Equity Instruments” in the consolidated income statement for 2007 relates in full to dividends on other shares and equity instruments totalling EUR 29,898 thousand (2006: EUR 10,412 thousand) EUR 25,537 thousand of which corresponds to securities borrowed by the Group and not lent to third parties.

Share of results of entities accounted for using the equity method 32

The breakdown, by entity, of the balance of this item in the consolidated income statements for 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Associates		
Europa y España, S.C.	-	(9)

At 31 December 2007 and 2006 the Group did not have any investments in associates. At 31 December 2007, Europay España, S.C. was classified under "Non-Current Assets Held for Sale" in the accompanying consolidated balance sheet (Note 12). The result for 2006 in the foregoing table relates to the entities contribution to the result until it was classified as a non-current asset held for sale.

Fee and commission income 33

Following is a detail of the fee and commission income earned in 2007 and 2006, classified on the basis of the main items giving rise thereto:

Thousands of Euros	2007	2006
Fees and commissions income -		
Fees and commissions arising from contingent liabilities (Note 28.1)	1.117	1,159
Fees and commissions arising from contingent commitments	74	38
Fees and commissions arising from collection and payment services	66,061	56,469
Fees and commissions arising from securities services (*)	31,716	30,432
Fees and commissions arising from foreign currency and foreign banknote exchange	328	301
Other fees and commissions	9,490	7,089
	108,786	**95,488**

(*) In 2007, this item included, inter alia, EUR 21,359 thousand relating to custody services of securities of third parties deposited with the Group (2006: EUR 20,044 thousand).

Fee and commission expense 34

Following is a detail of the fee and commission expense incurred in 2007 and 2006, classified on the basis of the main items giving rise thereto:

Thousands of Euros	2007	2006
Fee and commission expense -		
Fees and commissions assigned to other entities and correspondents	18,492	11,523
Fee and commission expenses on securities transactions	9,104	8,950
	27,596	**20,473**

Gains/losses on financial assets and liabilities 35

The breakdown of the balance of "Gains/Losses on Financial Assets and Liabilities" in the consolidated income statements for 2007 and 2006, by type of financial instrument portfolio giving rise to them, is as follows:

Thousands of Euros	2007	2006
Financial assets and liabilities held for trading	(58,697)	9,711
Available-for-sale financial assets	18,722	9,005
	(39,975)	**18,716**

The balance of "Financial Assets and Liabilities Held for Trading" in the foregoing table includes EUR 28,237 thousand relating to held-for-trading debt instruments measured at fair value using generally accepted valuation techniques, as there was no market price for these instruments at 31 December 2007 (Note 8.2).

Other operating income 36

The breakdown of the balance of "Other Operating Income" in the consolidated income statements for 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Rental income	1,058	942
Costs recovered through their inclusion in the cost of intangible assets	1,900	941
Income from Confederación membership dues	18,251	19,331
Other income	60,363	58,992
	81,572	**80,206**

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 various Confederación projects. In 2007 the Confederación's auditor invoiced EUR 566 thousand for professional services provided in these projects for the savings banks through the Confederación (2006: EUR 425 thousand).

Personnel expenses 37

The detail of "Personnel Expenses" in the consolidated income statements for 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Wages and salaries	53,229	50,626
Social security costs	9,635	8,977
Insurance premiums (Note 2.9.1)	1,300	1,359
Contributions to defined contribution plans (Note 2.9.1)	5,003	5,841
Normal cost for the year of defined benefit obligations (Note 19)	964	-
Training expenses	412	420
Other personnel expenses	541	1,647
	71,084	**68,870**

The average number of employees at the Group in 2007 and 2006, by professional category, including the personnel at the London branch, was as follows:

Number of Employees	2007	2006
Senior and middle management	229	224
Clerical staff	600	580
Assistants and sundry personnel	24	25
	853	**829**

Other general administrative expenses 38

The breakdown of the balance of "Other General Administrative Expenses" in the consolidated income statements for 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Property, fixtures and supplies	5,328	5,025
Information technology	36,698	35,795
Communications	4,605	5,348
Advertising and publicity	425	3,448
Technical reports	782	649
Surveillance and cash courier services	4,775	920
Insurance and self-insurance premiums	218	182
Governing and control bodies	1,095	1,136
Outsourced administrative services	8,804	5,873
Levies and taxes	1,269	1,118
Entertainment and travel expenses	2,646	2,349
Association membership fees	1,648	1,882
External personnel	5,000	4,019
Subscriptions and publications	4,329	4,228
Other administrative expenses	7,607	11,469
	85,229	**83,441**

The balance of "External Personnel" in 2007 include the fees paid for the audit of the financial statements of the various Group and jointly controlled entities amounting to EUR 131 thousand (2006: EUR 124 thousand), of which EUR 6 thousand were billed by auditors other than the Confederación's auditors (2006: EUR 7 thousand). Additionally, EUR 238 thousand were paid to the Confederación's auditors mainly for services related to regulatory compliance (2006: EUR 149 thousand).

Other operating expenses 39

The breakdown of the balance of "Other Operating Expenses" in the consolidated income statements for 2007 and 2006 is as follows:

Thousands of Euros	2007	2006
Contribution to the Deposit Guarantee Fund (Note 1.10)	47	387
Other	909	707
	956	**1,094**

Impairment losses 40

The breakdown of the balance of "Impairment Losses" in the consolidated income statements for 2007 and 2006 is as follows:

Thousands of Euros	Net Impairment Losses/(Reversals) Charged/(Credited) to Income 2007	2006
Available-for-sale financial assets (Note 9)	513	(87)
Loans and receivables (Note 10)	(1,208)	(1,487)
Non-current assets held for sale (Note 12)	-	171
	(695)	**(1,403)**

Other gains and Other losses 41

The breakdown of the balances of these items in the consolidated income statements for 2007 and 2006 is as follows:

Thousands of Euros	2007		2006	
	Gains	Losses	Gains	Losses
On disposal of tangible assets	3,705	-	685	-
Other	6,269	924	2,704	491
	9,974	**924**	**3,389**	**491**

Related party transactions 42

At 31 December 2007, the demand deposits held by the Confederación's senior executives, the members of its Board of Directors and related entities and individuals totalled EUR 1,460 thousand (2006: EUR 1,028 thousand), and the loans granted to them amounted to EUR 708 thousand (2006: EUR 772 thousand). These amounts bore interest of EUR 26 thousand (2006: EUR 23 thousand) and EUR 32 thousand (2006: EUR 11 thousand), which were recognised under "Interest and Similar Income" and "Interest Expense and Similar Charges", respectively, in the consolidated income statement for the 2007. At 31 December 2007 the Confederación had not provided any guarantees for related parties, as defined under current regulations.

The breakdown of the balances arising from transactions with Group entities recognised in the consolidated balance sheets at 31 December 2007 and 2006 and in the consolidated income statements for 2007 and 2006 is as follows (Note 2.1):

Thousands of Euros	2007	2006
Liabilities:		
Financial liabilities at amortised cost	245	113
Income statement:		
Interest expense and similar charges	3	2

Appendix I

Subsidiaries included in the Group
at 31 December 2007

Entity	Location	Line of Business	Percentage of Ownership: Direct	Indirect	Total	Thousands of Euros — Entity Data at 31 December 2007 (*): Assets	Liabilities	Equity	Profit for the Year
Caja Activa, S.A.	Madrid	IT	99.9	-	100	218	38	180	63
CEA Trade Services Limited	Hong Kong	Foreign trade	100	-	100	20	16	4	-

(*) These companies' financial statements at 31 December 2007 have not yet been approved by the respective Annual General Meetings.

Subsidiaries included in the Group
at 31 December 2006

Entity	Location	Line of Business	Percentage of Ownership: Direct	Indirect	Total	Thousands of Euros — Entity Data at 31 December 2006: Assets	Liabilities	Equity	Profit for the Year
Caja Activa, S.A.	Madrid	IT	99.9	-	99.99	997	80	917	17
CEA Trade Services Limited	Hong Kong	Foreign trade	100	-	100	11	7	4	-

Appendix II

Jointly controlled entities
at 31 December 2007

			Percentage of Ownership			Thousands of Euros Entity Data at 31 December 2007 (*)			
Entity	Location	Line of Business	Direct	Indirect	Total	Assets	Liabilities	Equity	Profit for the Year
Ahorro y Titulización, sociedad gestora de fondos de titulización, S.A.	Madrid	Securitisation fund management	50	-	50	14.259	10.826	3.433	2.387

(*) The company's financial statements at 31 December 2007 have not yet been approved by its shareholders at the Annual General Meeting.

Jointly controlled entities
at 31 December 2006

			Percentage of Ownership			Thousands of Euros Entity Data at 31 December 2006			
Entity	Location	Line of Business	Direct	Indirect	Total	Assets	Liabilities	Equity	Profit for the Year
Ahorro y Titulización, sociedad gestora de fondos de titulización, S.A.	Madrid	Securitisation fund management	50	-	50	13.189	8.842	4.347	1.934

Appendix III

The 2007 statement of changes in consolidated equity is as follows
(figures in thousands of euros)

	OWN FUNDS							
			Accumulated Reserves/(Losses)					
	Capital or Endowment Fund	Share Premium	Revaluation Reserves	Other Reserves	Retained Earnings	Reserves (Losses) of Entities Accounted for Using the Equity Method	Other Equity Instruments	Treasury Shares
BALANCE SHEET AT 1 JANUARY 2007	30,051	-	54,060	418,551	-	(43)	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-
Adjustments made to correct errors	-	-	-	-	-	-	-	-
Adjusted balance sheet	30,051	-	54,060	418,551	-	(43)	-	-
CHANGES IN EQUITY	-	-	(12,148)	58,635	-	(9)	-	-
Revaluation gains/(losses)	-	-	-	-	-	-	-	-
Transferred to income statement	-	-	-	-	-	-	-	-
Transferred at carrying amount of hedged items	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-
Income tax	-	-	-	-	-	-	-	-
Total valuation adjustments (Net)	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-
Adjustments made to correct errors	-	-	-	-	-	-	-	-
Adjusted profit for the year	-	-	-	-	-	-	-	-
Total changes in the year	-	-	-	-	-	-	-	-
Dividends/remuneration	-	-	-	-	-	-	-	-
Transfer to welfare fund	-	-	-	-	-	-	-	-
Issuance/(Reduction) of equity instruments	-	-	-	-	-	-	-	-
Own instruments purchased/sold	-	-	-	-	-	-	-	-
Equity-instrument based payments	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-
Transfers between items	-	-	(12,148)	58,635	-	(9)	-	-
Other changes in the year	-	-	(12,148)	58,635	-	(9)	-	-
BALANCE SHEET AT 31 DECEMBER 2007	30,051	-	41,912	477,186	-	(52)	-	-
Parent	30,051	-	41,912	476,206	-	-	-	-
Subsidiaries	-	-	-	57	-	-	-	-
Jointly controlled entities	-	-	-	923	-	-	-	-
Associates	-	-	-	-	-	(52)	-	-

EQUITY ATTRIBUTABLE TO THE GROUP													
					VALUATION ADJUSTEMENT								
Non-Voting Equity Units	Reserves of Holders of Non-Voting Equity Units	Stabilisation Fund	Uncommitted Profit	Total	Available-for-Sale Financial Assets	Financial Liabilities at Fair Value through Equity	Cash Flow Hedges	Hedges of Net Investments in Foreign Operations	Exchange Differences	Non-Current Assets Held for Sale	Total	MINORITY INTERESTS	TOTAL
-	-	-	54,253	556,872	65,467	-	-	-	-	-	65,467	-	622,339
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	54,253	556,872	65,467	-	-	-	-	-	65,467	-	622,339
-	-	-	(13,971)	32,507	14,516	-	(2,797)	-	-	-	11,719	-	44,226
-	-	-	-	-	35,995	-	(3,996)	-	-	-	31,999	-	31,999
-	-	-	-	-	(12,637)	-	-	-	-	-	(12,637)	-	(12,637)
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	(8,842)	-	1,199	-	-	-	(7,643)	-	(7,643)
-	-	-	-	-	14,516	-	(2,797)	-	-	-	11,719	-	11,719
-	-	-	40,282	40,282	-	-	-	-	-	-	-	-	40,282
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	40,282	40,282	-	-	-	-	-	-	-	-	40,282
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	(3,288)	(3,288)	-	-	-	-	-	-	-	-	(3,288)
-	-	-	(4,487)	(4,487)	-	-	-	-	-	-	-	-	(4,487)
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	(46,478)	-	-	-	-	-	-	-	-	-	-
-	-	-	(54,253)	(7,775)	-	-	-	-	-	-	-	-	(7,775)
-	-	-	40,282	589,379	79,983	-	(2.797)	-	-	-	77,186	-	666,565
-	-	-	39,027	587,196	79,983	-	(2.797)	-	-	-	77,186	-	664,382
-	-	-	62	119	-	-	-	-	-	-	-	-	119
-	-	-	1,193	2,116	-	-	-	-	-	-	-	-	2,116
-	-	-	-	(52)	-	-	-	-	-	-	-	-	(52)

Appendix III

The 2006 statement of changes in consolidated equity is presented below for comparison purposes only
(figures in thousands of euros)

	OWN FUNDS							
			Accumulated Reserves/(Losses)					
	Capital or Endowment Fund	Share Premium	Revaluation Reserves	Other Reserves	Retained Earnings	Reserves (Losses) of Entities Accounted for Using the Equity Method	Other Equity Instruments	Treasury Shares
BALANCE SHEET AT 1 JANUARY 2006	30,051	-	54,631	378,876	-	(39)	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-
Adjustments made to correct errors	-	-	-	-	-	-	-	-
Adjusted balance sheet	30,051	-	54,631	378,876	-	(39)	-	-
CHANGES IN EQUITY	-	-	(571)	39,675	-	(4)	-	-
Revaluation gains/(losses)	-	-	-	-	-	-	-	-
Transferred to income statement	-	-	-	-	-	-	-	-
Transferred at carrying amount of hedged items	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-
Income tax	-	-	-	-	-	-	-	-
Total valuation adjustments (Net)	-	-	-	-	-	-	-	-
Profit for the year	-	-	-	-	-	-	-	-
Adjustments due to changes in accounting policies	-	-	-	-	-	-	-	-
Adjustments made to correct errors	-	-	-	-	-	-	-	-
Adjusted profit for the year	-	-	-	-	-	-	-	-
Total changes in the year	-	-	-	-	-	-	-	-
Dividends/remuneration	-	-	-	-	-	-	-	-
Transfer to welfare fund	-	-	-	-	-	-	-	-
Issuance/(Reduction) of equity instruments	-	-	-	-	-	-	-	-
Own instruments purchased/sold	-	-	-	-	-	-	-	-
Equity-instrument based payments	-	-	-	-	-	-	-	-
Issue expenses	-	-	-	-	-	-	-	-
Transfers between items	-	-	(571)	39,675	-	(4)	-	-
Other changes in the year	-	-	(571)	39,675	-	(4)	-	-
BALANCE SHEET AT 31 DECEMBER 2006	30,051	-	54,060	418,551	-	(43)	-	-
Parent	30,051	-	54,060	416,956	-	-	-	-
Subsidiaries	-	-	-	839	-	-	-	-
Jointly controlled entities	-	-	-	756	-	-	-	-
Associates	-	-	-	-	-	(43)	-	-

EQUITY ATTRIBUTABLE TO THE GROUP													
					VALUATION ADJUSTEMENT								
Non-Voting Equity Units	Reserves of Holders of Non-Voting Equity Units	Stabilisation Fund	Uncommitted Profit	Total	Available-for-Sale Financial Assets	Financial Liabilities at Fair Value through Equity	Cash Flow Hedges	Hedges of Net Investments in Foreign Operations	Exchange Differences	Non-Current Assets Held for Sale	Total	MINORITY INTERESTS	TOTAL
-	-	-	46,040	509,559	52,196	-	-	-	-	-	52,196	-	561,755
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	46,040	509,559	52,196	-	-	-	-	-	52,196	-	561,755
-	-	-	8,213	47,313	13,271	-	-	-	-	-	13,271	-	60,584
-	-	-	-	-	25,692	-	-	-	-	-	25,692	-	25,692
-	-	-	-	-	(5,853)	-	-	-	-	-	(5,853)	-	(5,853)
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	(6,568)	-	-	-	-	-	(6,568)	-	(6,568)
-	-	-	-	-	13,271	-	-	-	-	-	13,271	-	13,271
-	-	-	54,253	54,253		-	-	-	-	-	-	-	54,253
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	54,253	54,253	-	-	-	-	-	-	-	-	54,253
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	(2,970)	(2,970)	-	-	-	-	-	-	-	-	(2,970)
-	-	-	(4,190)	(4,190)	-	-	-	-	-	-	-	-	(4,190)
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	(38,880)	220	-	-	-	-	-	-	-	-	220
-	-	-	(46,040)	(6,940)	-	-	-	-	-	-	-	-	(6,940)
-	-	-	54,253	556,872	65,467	-	-	-	-	-	65,467	-	622,339
-	-	-	53,224	554,291	65,467	-	-	-	-	-	65,467	-	619,758
-	-	-	17	856	-	-	-	-	-	-	-	-	856
-	-	-	1,021	1,777	-	-	-	-	-	-	-	-	1,777
-	-	-	(9)	(52)	-	-	-	-	-	-	-	-	(52)

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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 (Notes 1.2 and 43). 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 2007 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 Board of Directors. Our responsibility is to express an opinion on the consolidated financial statements taken as a whole based on our audit work performed in accordance with generally accepted auditing standards in Spain, which require examination, by means of selective tests, of the evidence supporting the consolidated financial statements and evaluation of their presentation, of the accounting policies applied and of the estimates made.

2. As required by Spanish corporate and commercial law, for comparison purposes the Confederación's directors present, in addition to the 2007 figures 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 2006. Our opinion refers only to the consolidated financial statements for 2007. On 22 March 2007, we issued our auditors' report on the 2006 consolidated financial statements, in which we expressed an unqualified opinion.

3. In our opinion, the accompanying consolidated financial statements for 2007 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 2007 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 of the preceding year.

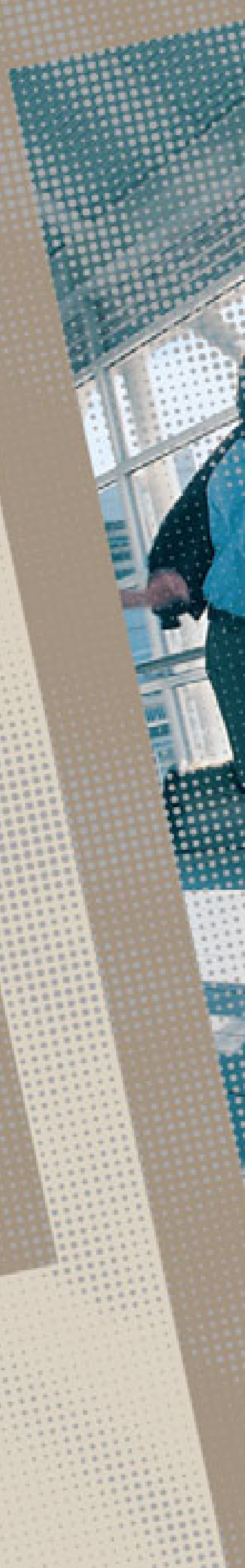
4. The accompanying consolidated directors' report for 2007 contains the explanations which the Confederación's directors consider appropriate about the Group's situation, the evolution of its business and other matters, but is not an integral part of the consolidated financial statements. We have checked that the accounting information in the consolidated directors' report is consistent with that contained in the consolidated financial statements for 2007. Our work as auditors was confined to checking the consolidated directors' report with the aforementioned scope, and did not include a review of any information other than that drawn from the consolidated entities' accounting records.

DELOITTE, S.L.
Registered in ROAC under no. S0692

Miguel Ángel Bailón
14 March de 2008

Profile

International
National




06

International profile 6.1

The progressive internationalisation of decision making centres has resulted in CECA, as the body which represents Spanish savings banks, being responsible for defending their interests with a range of international bodies.

In order to perform this role, CECA is a member of the WSBI (the World Savings Bank Institute) and the ESBG (Agrupación Europea de Cajas de Ahorros - the European Savings Banks Group). In the first year of the mandate of CECA's Deputy General Manager of the Financial Operations-Department as chairman of the WSBI a strategy was established for the institution based on three main points: increasing the visibility of the World Institute, through greater dialogue with domestic, regional and international institutions; the development of business opportunities among members and the deepening of relations with every member of the Institute.

CECA IS A MEMBER OF THE WORLD SAVINGS BANK INSTITUTE AND THE EUROPEAN SAVINGS BANKS GROUP

In the European sphere, the work carried out by CECA has ensured that Spanish savings banks have maintained their position of influence in the debates which are taking place within community institutions and that they are at the forefront of the processes of change in the financial sector. In order to achieve this, CECA holds the vice-presidency of the ESBG and takes an active role in its committees and working groups; CECA is also a member of other sectoral bodies, such as the EBIC (European Banking Industry Committee). It is also a member of the Consultative Panel of the Committee of European Banking Supervisors.

THE CONFEDERATION IS A MEMBER OF SEVERAL EUROPEAN CENTRAL BANK WORKING GROUPS

Furthermore, it takes part in the European Central Bank's working groups with important representatives of the market on issues such as transactions and payments, money markets, legal issues and so on.

The important international issues during the last year were:

CECA HAS WORKED WITH THE EUROPEAN COMMISSION TO HELP IT TO UNDERSTAND THE RETAIL BANKING SECTOR IN DETAIL

6.1.1 Retail financial services

The retail financial sector was the focus of great EU interest in 2007. In January, the Commission published its *Inquiry under Article 17 of Regulation (EC) 1/2003 on retail banking*, which analysed barriers to competition in retail financial services between community countries. CECA worked with the Commission on this issue to help it gain in-depth knowledge of the real nature of the sector in Spain.

In May the European Commission published its Green Paper on *Retail Financial Services* for consultation. This document reviewed all the actions which are being carried out by community authorities in this area from the point of view of the consumer. CECA was directly involved in this consultation process, and also contributed through the ESBG and the EBIC.

THE WHITE PAPER ON FINANCIAL SERVICES POLICY HIGHLIGHTS THE ROLE PLAYED BY THE SAVINGS BANKS TO THE BENEFIT OF THE CONSUMER

The European Commission also published a *White* Paper on *Financial Services Policy* in which it highlighted the benefits to the European Financial System of open and multiple structures in the banking market, clearly supporting the role played by Savings Banks, as they are able to satisfy the varied and evolving needs of consumers.

6.1.2 Payment systems:

One of the objectives established for the effective integration of the financial market focuses on payments. CECA analyses and then communicates the European initiatives on payment systems to the Spanish savings banks. To this end, CECA established its **Scheme Management Committee**, which is responsible for interpreting and implementing standards related to operating processes for SEPA.

THE CONFEDERATION HAS JOINED THE SEPA MIGRATION OBSERVATORY, WHICH COORDINATES THE GROUPS INVOLVED IN ESTABLISHING THE SINGLE PAYMENTS AREA

In addition, it has also joined SEPA's Migration Observatory, other members of which include the Bank of Spain, representatives of banks, public authorities, companies and consumers. The objective of this is to coordinate every group involved in SEPA.

6.1.3 Regulatory Matters:

In 2007 CECA was actively involved in the consultation processes for a range of regulatory matters, such as the Consumer Credit Directive, the review of the Directive on the Distance Marketing of Consumer Financial Services, the Mortgage Market Directive, Asset Management and the Savings Directive. The MiFID, and its related European Community implementation regulations was of particular interest, and resulted in a specific project being organised to promote its implementation by Spanish savings banks.

The ESBG established a special Committee, the Financial Regulation Committee, which is being chaired by CECA, to analyse the regulatory environment.

A further example of CECA's active participation in the ESBG is its participation in the advisory body on tax matters. One of its tasks was to analyse the economic consequences that would arise from the application of the European Savings Directive in Spain.

Another recent area of interest has been Deposit Guarantee Systems, as demonstrated by the European Parliament's analysis of existing regulations. The Report on Deposit Guarantee Systems revealed the existence of wide disparities among the various national systems in Europe. CECA has drawn attention to the major disparities in finance systems and the amounts of deposits guaranteed in each country.

CECA HAS TAKEN OVER THE CHAIR OF THE ESBG'S FINANCIAL REGULATION COMMITTEE

SPANISH SAVINGS BANKS HAVE RESPONDED POSITIVELY TO THE EUROPEAN COMMISSION'S EUROPEAN ALLIANCE FOR CORPORATE SOCIAL RESPONSIBILITY

6.1.4 Corporate Social Responsibility

Spanish savings banks have responded very positively to the European Alliance for Corporate Social Responsibility launched by the European Commission in 2006. This commitment to Corporate Social Responsibility is reflected in the large number of Reports prepared by the sector following the new Global Reporting Initiative, G3, guidelines, and the financial services sector supplements on social and environmental performance. In addition, CECA, in collaboration with nineteen savings banks, has been taking part in the pilot review process for these supplements, aiming to ensure that the reports reflect the full range of social commitment of savings banks.

For the sixth consecutive year, CECA was the coordinator in Spain for the "*Juego de la Bolsa*" stock market game for European schools. This project is part of the European Savings Bank Group's commitment to financial education. This year, twelve Spanish savings banks, including CECA, took part. Over 250,000 young people from Spain, Germany, France, Latvia, Luxembourg and Austria were involved in the programme.

6.1.5 Other international forums

The Confederation is part of the ESBG History Study Group, the objective of which is to promote interest, in an academic context, in research related to our institutions. This promotional work mainly consists of organising biennial symposia on the History of Savings Banks, and holding competitions for university students to present research on this issue. In 2007 CECA attended two meetings in preparation for the 2008 Symposium, which will be held in Brussels.

In the international arena, in 2007 the Assembly of the International Association of Pledging and Credit Establishments (which groups together pawnbroking institutions from Africa, America and Europe) met in the city of Mérida in Mexico, at the invitation of Nacional Monte de Piedad, the largest pawnbroking institution in the world.

PLEDGING AND SOCIAL CREDIT INSTITUTIONS HAVE REQUESTED THAT ACCESS TO CREDIT SHOULD BE DECLARED AN EMERGING HUMAN RIGHT

The Assembly, which celebrated the 50th anniversary of the Association, released an important declaration, which stated that "the pledging and social credit establishments here present request that access to credit under non-abusive conditions should be declared an emerging human right, given its importance to the economic development of both families and small businesses, particularly in countries with the lowest income levels".

Spanish pawnbrokers continue to hold a significant role in the Association, as the Chairmanship is currently held by Caja Granada; playing an active role in both the Executive Committee and the Assembly's workshops. The pawnbrokers of ten Spanish savings banks and CECA were represented at the Mérida Assembly.

Domestic profile 6.2

CECA is present in various national forums, always in compliance with the statutory objectives set forth in this Report. Only the most important of these organisations and those which played an especially prominent role in 2007 are listed here.

CECA continues to work particularly closely with the **Bank of Spain**. As part of this work, meetings have been held on a range of issues, including regulatory, legal and accounting issues related to the application of risk regulations, and payments and operations related to transparency and complaints regulations.

THE CONFEDERATION CONTINUES TO WORK CLOSELY WITH THE BANK OF SPAIN ON REGULATORY AND LEGAL ISSUES, ACCOUNTING AND PAYMENT RISKS

CECA is a member of the **Spanish XRBL 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, the aim of which is to compile first-hand knowledge of the benefits and drawbacks of the various technologies involved in XBRL financial reporting. The association seeks to promote the introduction, adoption and development in Spain and internationally of XBRL (Extensible Business Reporting Language).

With regard to money laundering, CECA has undertaken important work with the Bank of Spain's **Executive Branch for the Prevention of Money Laundering** (*Servicio Ejecutivo de Prevención de Blanqueo de Capitales -SEPBLAC*), particularly in relation to the new declaration of cash movements (S1) and the development of new transaction monitoring software applications.

The Confederation maintained a regular dialogue with the National Securities Commission (CNMV) was a regular interlocutor in 2007. Its Advisory Committee, in which CECA is represented, continued to perform its duties as the main forum for the exchange of opinions between the regulator and the financial industry, both in relation to market supervision and the various administrative sanctions processed by this body. In addition, through the Expert Group on Financial Intermediation, CECA took an active role in the implementation process for the Markets in Financial Instruments Directive, which has been in effect throughout the European Economic Area (EEA) since 1 November 2007.

CECA TOOK AN ACTIVE ROLE IN THE IMPLEMENTATION OF THE MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE

CECA is also permanently in contact with the Spanish Banking Association **(Asociación Española de Banca - AEB)**, as well as UNACC, ASNEF, INVERCO and other financial market associations, in which matters of common interest are raised, analysed and debated. Prominent among these are the **Public Bodies Committee** (with a remit to liaise and collaborate with national, autonomous community, and local public authorities as well as Social Security institutions on tax collection and operational issues) and the **Settlement, Standardisation and Foreign Transactions Committee** (which basically deals with standardisation and settlement systems).

In addition, CECA is involved in the working groups of the Sociedad Española de Sistemas de Pago (IBERPAY).

The Confederation is also a member of the **Spanish Mortgage Association** and attends its statutory sessions and meetings of its working groups in both its own name and in representation of the savings banks which are not direct members of it. In 2007 there was constant contact and an uninterrupted exchange of ideas between the two bodies with regard to the Spanish and European mortgage market, particularly in relation to the reform process which culminated in November with parliamentary approval of the laws modifying mortgage market regulations and other aspects of the mortgage and finance systems) these included such aspects as the law on regulation and control of credit institutions; the law on subrogation and modification of loans; the mortgage law; the code of civil procedure; regulations relating to the adoption of the second banking coordination directive; and the law on mortgages and security without transfer of possession), and regulations on reverse mortgages and dependency insurance.

CECA HAS BEEN WORKING WITH THE SPANISH MORTGAGE ASSOCIATION ON THE REFORM OF THE MORTGAGE MARKET AND THE REGULATION OF REVERSE MORTGAGES AND DEPENDENCY INSURANCE

Common-interest projects are undertaken with the **Centre for Interbank Cooperation** where all Spanish banks are represented. In 2007 the Centre was particularly active in issues such as the RAI (Register of Unpaid Acceptances), handling of cash, network security, electronic billing and common software CECA participates in the Board of Directors and in various working groups linked to these projects.

CECA is also represented at the Spanish Payments System Company (*Sociedad Española de Sistemas de Pagos - SESP*), set up to manage and administer Spain's National Electronic Clearing System, taking over this role from the Bank of Spain, and sits on the Board of Directors and the Technical Advisory Committee.

ON TAX ISSUES, CECA HAS BEEN ACTIVE IN THE TREATMENT OF RELATED-PARTY TRANSACTIONS, THE NEW VAT REGIME FOR GROUPS OF COMPANIES AND THE SCOPE OF THE REGIME FOR INCOME FROM SAVINGS FOR INCOME TAX PURPOSES

The **Tax Commission**, which includes representatives of the Tax Authority, CECA, the AEB and the four largest financial institutions in Spain (banks and savings banks), held a number of meetings in 2007 at which proposals for the financial sector were formulated relating to draft tax regulations which had been approved, or which were awaiting approval at the time, including: reform of Corporate Income Tax (including Law 16/2007), new Income Tax Regulations (approved by Royal Decree 439/2007), the new Management Regulation (approved by Royal Decree 1065/2007), the new VAT Regulations, etc. Some of the most important issues discussed at these meetings include the treatment of related-party transactions, the financial goodwill of non-resident institutions, modification of tax credits for reinvestment, requirements for information relating to transactions involving 500 euro notes, the new VAT regime for groups of companies and the scope of the regime for income from savings for income tax purposes.

The confederation was involved in many activities with the **Central Tax Agency** (AEAT), including: simplification of the information to be provided by savings banks through the Statement Ledger (interbank standard ledger 43) for the purposes of the AEAT, avoiding the need for manual information; the launch of a file exchange procedure to make it easier for savings banks to verify whether Tax Identity Numbers are valid as a result of revocation by the Tax Agency, resulting in the corresponding accounts no longer functioning; a review and improvements in the procedure for centralised garnishments and updating of the corresponding ledger, expanding the scope and improving information for the tax payer (thus reducing the number of administrative tasks to be performed in person, and reducing the number of questions from tax payers affected as clients of the savings banks). In addition, work was undertaken to develop new tax payment systems for savings bank branches, and a new operating process was in development for channelling Government aid for promoting independence and renting.

WORK IS UNDERWAY TO DESIGN NEW TAX PAYMENT SYSTEMS FOR SAVINGS BANK BRANCHES WITH THE AIM OF REDUCING THEIR NUMBER AND THE IMPACT ON OPERATIONS

In October the **Working Group on VAT Reform for Financial Transactions within the Ministry of Economy and Finance was formed**. This Group was created under the Sixth Additional Provision of Law 36/2006, on measures for the prevention of tax evasion. The Group's members include representatives of the central Tax Agency, CECA, the AEB and the largest financial institutions; its objective is to study the VAT regime for financial services and the functioning of regulations relating to tax deductions for this sector, in order to enable the preparation of a draft law containing new regulations for this area in accordance with community regulations. The importance of the work of this Group for savings banks is obvious as it will produce legislative proposals which will have a substantial effect on the payment of VAT for its services. Initial work will be divided into four main groups of issues: Active operations, the Tax deduction regime, and Consolidation and Recognition of the social nature of savings banks for the purposes of VAT.

A WORKING GROUP ON VAT REFORM FOR FINANCIAL OPERATIONS HAS BEEN SET UP IN THE MINISTRY OF ECONOMY AND FINANCE

In 2007, the **Commission for Monitoring Garnishment Proceedings**, on which the Tax Authorities, CECA, the AEB and UNACC are all represented, analysed the garnishments implemented, whether centrally or individually, by the Tax Authorities on savings bank accounts held by people owing money to the tax authorities. In addition, the conflicts which arise in such procedures were debated and proposals were produced relating to changes to be made to centralised electronic garnishment procedures.

A ROYAL DECREE HAS BEEN APPROVED TO PROMOTE THE RENTED ACCOMMODATION MARKET THROUGH A SERIES OF MEASURES WHICH MAKE IT EASIER FOR YOUNG PEOPLE TO RENT ACCOMMODATION

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 2007 it produced reports on a range of issues related to the new 2005-2008 State Housing Plan, the objective of which is to promote availability of housing to the public, and Royal Decree 1472/2007 of 2 November 2007, which created the basic emancipation income for young people. The objective of this Royal Decree is to promote the rented accommodation market through a series of measures which make it easier for young people to rent appropriate accommodation.

The **National Housing Council** (*Consejo Nacional de Vivienda*) was created as a collegiate body responsible to the Housing Ministry to provide advice and consultation services for the Government. Its members include representatives of the main financial entities involved in the 2005-2008 Plan. The Council met in 2007 to analyse and debate the various measures proposed to modify Royal Decree 801/2005 so as to improve financing and so make it easier for the public to have access to housing, whether rented or owned, as established in the *State Housing Programme 2005-2008*.

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 2007 on matters relating to implementation of the Arrangement, such as advance payment of subsidies to savings banks (both with regard to the regulations to be applied and the approval of the new advance payments schedule).

The Confederation attended the plenary session of the Economic and Social Council (CES), in representation of "group 2" (CEOE-CEPYME). CES issues opinions, either under obligation or upon request, depending on the circumstances, concerning matters about which the government submits enquiries, and, at its own initiative, it conducts research and issues reports on the matters which fall within its sphere of competency. In 2007, the CES was involved in a range of issues related to the socio-economic and employment situation in Spain.

CECA WAS CONSULTED BY THE SPANISH DATA PROTECTION AGENCY ON VIGILANCE USING CAMERA SYSTEMS, AND ON INTERNATIONAL DATA TRANSFERS

CECA has maintained contacts with the Spanish Data Protection Agency, with which it has consulted on a range of issues, including the application of Instruction 1/2006 on the treatment of personal data using cameras or video-cameras in relation to international data transfers.

Since its creation, CECA has been involved in the **Experts' Forum on Corporate Social Responsibility (CSR)**, an initiative launched by the Labour and Social Affairs Ministry, involving another 45 public and private bodies and institutions. In 2007 it approved the document Public CSR Training and Development Policies in Spain, which supplements the three earlier reports by the Forum on CSR issues, all of which were brought together in the Report and conclusions of the Experts' Forum on Corporate Social Responsibility. Together with its definition of CSR and its description of the current situation in Spain and the recommendations that the Forum would make to the Government, as a preliminary step to legislation, the document also provided guidelines for the development of social responsibility policies in the Public Authorities.

THE EXPERTS' FORUM ON CSR HAS PROVIDED GUIDELINES FOR THE DEVELOPMENT OF SOCIALLY RESPONSIBLE POLICIES FOR THE PUBLIC AUTHORITIES

In 2007 the Confederation enjoyed a strong relationship with the **Tesorería General de la Seguridad Social** (TGSS - the General Treasury of the Social Security) and the procedures for providing information relating to payments made over the counter have been improved (new forms of information and a move from information on paper to information in an electronic file to improve and facilitate use). In addition, a mechanised procedure was developed for the recovery of unduly paid pensions, reducing the administrative work required and making monitoring and management easier. A process was developed for verifying the source of client deposits, making it easier for savings banks to comply with current regulations relating to money laundering.

THE PROCEDURES FOR PROVIDING INFORMATION RELATING TO PAYMENTS MADE OVER THE COUNTER HAVE BEEN IMPROVED AND A MECHANISED PROCEDURE HAS BEEN DEVELOPED FOR THE RECOVERY OF UNDULY PAID PENSIONS

CECA has been working with the Ministry of Industry, Tourism and Trade's website **Red.es**, which was created to promote the Information Society, in relation to the renewal of the Electronic Payment Service Agreement and to bring in new organisations which might be able to benefit from it.

Together with some savings banks, CECA is a member of the Association of Telecommunications and Information Systems Users (*Asociación de Usuarios de Telecomunicaciones y Sistemas de Información - AUTELsi*) and is part of its **Commission for the Development of Telecommunications** and its specific working groups. The objective of the Association is to develop the Information Society in Spain, promoting study, research and the spreading of knowledge among society in general and users in particular of issues related, directly or indirectly, to telecommunication services and the Information Society. It is also a meeting place for specialists from the user institutions and telecommunication and Information Society service providers. In 2007 CECA was involved in trying to find answers and solutions to the issues identified through its bodies.

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 way of increasing the competitiveness of Spanish companies and organisations. CECA sits on the **Financial Institutions Committee**, the mission of which is to be a dissemination, promotion and information forum for quality and excellence in the management of financial institutions and to promote ongoing improvement and excellence.

The Confederation is also present in the **Spanish Association for Standardisation and Certification** (*Asociación Española de Normalización y Certificación - AENOR*), a private and independent not-for-profit Spanish institution, recognised at domestic, EU and international level, and contributing, through development of standardisation and certification activities, to improving quality at companies, and in their products and services, as well as to protecting the environment and thereby the well-being of society as a whole. The Confederation participates in the CTN - 108 Technical Standardisation Committee and the CTC - 055 Technical Certification Committee for Security Products.

The Confederation is a member of the General Assembly, the Executive Committee and the Managing Trust of the **Spanish Confederation of Employers' Organisations** (*Confederación Española de Organizaciones Empresariales - CEOE*). CECA is represented in a number of CEOE working groups.

PROFESSIONAL QUALIFICATIONS ARE BEING EXAMINED BY THE CEOE EMPLOYERS' FEDERATION

For example, the ESCA training college represents the Confederation on the **CEOE's Educational and Teaching Policy Commission**, whose mission is to analyse changes in the training sector and the immediate implications of these for companies. The Commission is currently comparing professional qualifications relating to the Ministry of Education and Science's National Qualifications Catalogue (INCUAL).

ESCA holds the chairmanship of the **Tripartite Foundation for Employment Training**, a body responsible for a range of initiatives aimed at promoting and spreading professional training activities among institutions. One of the initiatives developed in this forum was to set up a special group, made up of nineteen companies, focusing on the tax credit system. In addition, a contract programme with twenty nine entities was managed and finalised, and a new biennial training assistance programme contract was begun with twenty one companies.

The ESCA is also a member of the **Group of Financial Institutions' Training Managers** (Grupo de Responsables de Formación de Entidades Financieras - GREF), a group which brings together the Training and Human Resources Development Directors of banks, savings banks, and rural and cooperative banks. Its mission focuses on the study of changes which affect the training plans of financial institutions). One of the basic functions of this Group is the exchange of professional development experience between banks and savings banks, at a range of forums scheduled to take place during the year.

Human Capital

CONFEDERACIÓN ESPAÑOLA DE CAJAS DE AHORROS _ ANNUAL REPORT 2007 _

We are in an **age of continuous innovation** which generates constant competition and a need for **differentiation** which obliges us to maximise the **contribution of our people** as the only route to successfully meet the **strategic business challenges we face**.

COMPETITION AND THE NEED TO DIFFERENTIATE MEAN THAT MAXIMISING THE CONTRIBUTION OF OUR EMPLOYEES IS THE ONLY WAY TO SUCCESSFULLY MEET THE CHALLENGES WE FACE

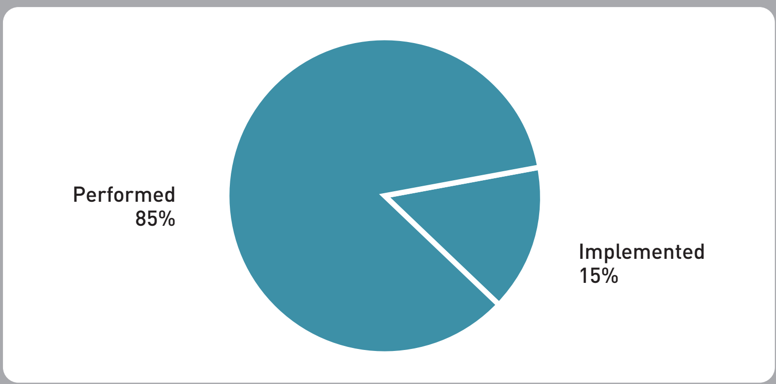
As a result, CECA is committed to new technologies, personalised treatment and the modernisation of remuneration packages. In order to support the effective implementation of this strategy, we must bring our human resources policies into line with the foundations of our **differential model**.

In order to achieve this, CECA has identified the following priority areas for action:

- To redesign and make our organisational structure more dynamic in order to make it adaptable and flexible to the needs of our clients, the market and the human diversity which we manage.
- To make management more professional and responsible.
- To plan our team formation strategically in line with the Confederation's objectives and continuous innovation.
- To ensure the competitiveness of our reward system, bringing our salary policy into line with best practice in the market and ensuring the development of our employees, and making the necessary changes to the variable remuneration system.

CECA IS COMMITTED TO NEW TECHNOLOGIES, PERSONALISED TREATMENT AND THE MODERNISATION OF REMUNERATION PACKAGES

The system for evaluating posts has been established as part of CECA's *Integrated Human Resources Management Project*, which aims to establish appropriate policies and practices for driving forward the process of organisational change and to achieve the optimum allocation of resources. We were able to achieve this with the voluntary cooperation of the workforce:



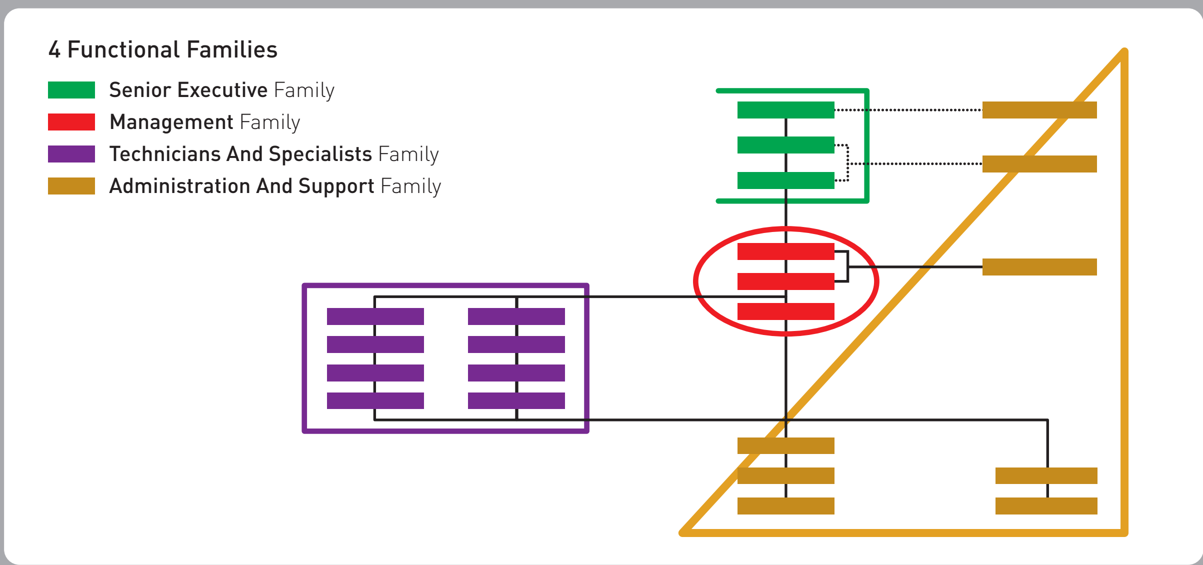
IN ORDER TO DETERMINE THE VALUE OF THE POSTS, EACH POSITION WAS ANALYSED WITH THE VOLUNTARY PARTICIPATION OF OUR EMPLOYEES

By analysing and evaluating the current posts in CECA, we obtained real, objective and systematic data which determined the value of the posts and enabled us to:

- Obtain a real and coherent picture of the workforce, its nature and environment in order to generate and consolidate one standard **management tool** for all of CECA's human resources, enabling us to consolidate an evolving methodology of overall optimisation.
- Consolidate a tool for **organisational analysis** and management which enables us to identify the functional balance of the organisation and the development thereof.
- Clarify and define the allocation of **responsibilities** and hierarchical interre-lations, facilitating internal communication by virtue of the clarification of roles.

THE REMUNERATION SYSTEM ENABLES US TO IMPROVE THE INTERNAL FAIRNESS AND EXTERNAL COMPETITIVENESS OF CECA'S SALARIES

- Obtain real, definitive and systematic data to determine the **relative value of each post**.
- Provide an objective base for refining the organisational structure to guarantee greater flexibility and functional simplification in an up-to-date and dynamic system, thus enabling us to identify the functional families within CECA.



- Provide an optimal management tool for the needs and expectations of both the Confederation itself and the people who comprise it.
- Provide an objective base for establishing **remuneration systems** enabling us to improve internal fairness and external competitiveness in CECA's salaries.

A remuneration study was carried out with the aim of obtaining internal fairness by balancing a combination of elements of both internal and market values, so that any internal adjustment remains in touch with external equality and market realities and does not give rise to any unpleasant future surprises.

This positioning enabled us to achieve an overall management framework which in the longer-term will make it possible to reduce diversity in compensation and plan actions aimed at the challenges of differentiation and competitive remuneration, whilst at the same time facilitating standardised management of all groups.

We want to make the stability which we offer into a differentiating factor from the rest of the sector whilst at the same time requiring reciprocal commitment. Within this framework we have set the major objective of gradual integration of the whole workforce into achieving our objectives, based on their role, responsibilities and area of management, within a homogeneous structure.

THE OBJECTIVE IS TO INVOLVE THE WHOLE WORKFORCE IN ACHIEVING THE COMPANY'S OBJECTIVES IN ACCORDANCE WITH THEIR ROLE, RESPONSIBILITIES AND AREA

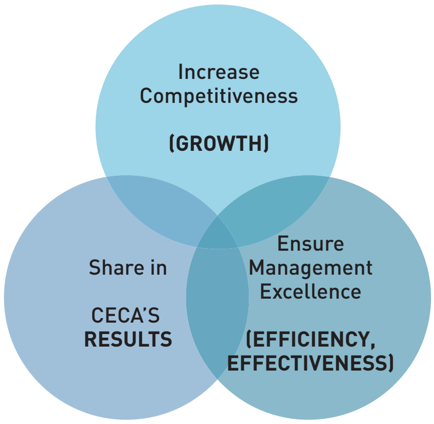
In order to achieve this there must be mutual commitment and reciprocal demands from the start, ie, from the definition of individual objectives based on the strategic objectives of the entity, cascading down to divisions, departments and individuals. As a result variable remuneration becomes of great importance, with receipt of all or part of it being dependent on the extent to which objectives are met, in other words, competitive pay for competitive performance.

Our employees will receive homogeneous, fair and competitive variable remuneration based on the roles they perform (functional families) as part of our general policy, providing that they give a competitive performance, and in line with CECA's overall results.

VARIABLE REMUNERATION IS LINKED TO OBJECTIVES BEING ACHIEVED

The new variable remuneration model, based on indicator measures, will encourage the identification of staff with high potential, as it will encourage individual responsibility, as part of collective responsibility, making it easier to observe the development of the employee.

EXECUTIVE DEVELOPMENT OF OUR EMPLOYEES AIMS TO FACILITATE COMPETITIVENESS FROM THE HIGHEST LEVEL OF ABILITIES, THROUGH THE DEVELOPMENT OF ATTITUDES, VALUES, SKILLS AND KNOWLEDGE



Furthermore, we are continuing to work to consolidate the integrated and integral management of the executive development of our employees, so as to facilitate the maximum level of competitiveness, through a planned and participative development of the attitudes, values, skills and knowledge required to achieve the Confederation's objectives.

We are working to consolidate our integrated and integral management of the executive development of our employees so as to facilitate the maximum level of competitiveness, through a planned and participative development of the attitudes, values, skills and knowledge required to achieve the Confederation's objectives".

31% OF THE TRAINING HAS BEEN IN LANGUAGES, MAINLY ENGLISH

In 2007 we continued to implement the design approved in 2006, and during this period our executives have increased their knowledge of management tools (CMI, quality systems, etc.); at the same time they have reinforced their function as agents in CECA's institutional role.

This year there has been a focus on talent and results. In order to achieve this, there was a focus on the following objectives:

- Giving the training needed for compliance with current legislation on the prevention of risks to health and safety at work and the prevention of money laundering. By the end of the year, the whole workforce had received training in these areas.
- The amount of customer relations training was increased to 256 hours.
- The use of on-line training has increased, and this format now accounts for 27 percent of the training given.
- Language training, mainly English, now accounts for 31% of the total training given.
- Retraining in IT applications through advanced courses in Office and other tools, which accounted for 11% of training.

In order to improve their training and to help achieve a work-life balance, our employees have access to loans at 0% interest to acquire IT equipment (122 employees). In addition, 75% of our employees have taken advantage of broadband connections subsidised by CECA.

The HR Consultancy Department has developed cooperation projects for staff selection with other institutions, and has assessed over 5,000 people.

ZERO INTEREST LOANS ARE AVAILABLE TO EMPLOYEES TO ACQUIRE IT EQUIPMENT

Attracting and retaining talent is becoming a strategic objective in all organisations; CECA took part in a range of external selection processes in 2007, processing a total of 335 candidates (CV filtering, selection tests, interviews and final negotiation of terms and conditions with successful candidates). As a result of these processes, 55 people joined CECA in the year. The total workforce is 843 people (501 men and 342 women).

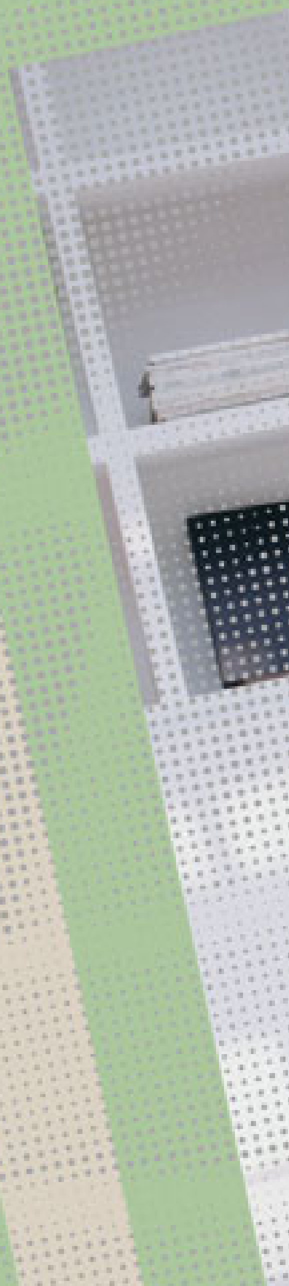
In addition, an internal competition-promotion board was held for levels VII to X, in which 12 positions were offered, thus complying with the collective agreement for the organisation signed in April 2006; as a result of this five employees were promoted to level VII and seven employees were promoted to level VIII.

55 PEOPLE JOINED THE CONFEDERATION IN 2007

This process of matching the profiles of employees with the positions to be filled in the organisation resulted in a total of twenty nine internal movements.

Strategic Forums for Sector Cooperation

Forums set up by Board of Directors' committees
Representative forums



08

The Confederation has set up a number of forums for collaboration within the sectors to provide a general framework for joint analysis of issues of interest to savings banks. The most important of these are the **Savings Banks' Chairmen and Executives** Workshops. In 2007 there was a further meeting of Savings Banks' Chairmen and Executives which concentrated on Welfare Funds; the meeting was held in Palma de Mallorca at the invitation of La Caixa. At the meeting, which took place on 2 March, the Chairmen and executives unanimously supported the latest report by the Commission into Research into Welfare Funds, which was subsequently ratified at the CECA General Assembly in April. The Savings Banks meeting was attended by the managing director and chairman of the IMF, who highlighted the important role played by savings banks in the Spanish financial system.

THE SAVINGS BANKS HAVE “MADE A CONTRACT WITH THE PUBLIC” IN WHICH THEY UNDERTAKE TO CONTRIBUTE THEIR ECONOMIC RESOURCES AND THE PROFESSIONAL SKILLS OF THEIR WELFARE FUNDS TO IMPROVE QUALITY OF LIFE, PARTICULARLY FOR THOSE MOST IN NEED

The document approved by the savings banks could be described as a "contract with the public" in which the savings banks undertake to contribute their economic resources and the professional skills of their Welfare Funds to continue to achieve their functional aims. These aims can be summarised as an on-going undertaking to improve the quality of life, especially for the most disadvantaged in society, whether they are clients of the savings bank or not.

The document also highlighted the savings banks' commitment to a social vision of financial activity, which is one of the most deep-rooted and identifying characteristics of savings banks compared to other credit institutions. The document highlighted that the savings banks are a special case, as they are leaders in both finance and in the creation of social wealth.

Apart from the Chairmen and Executives Workshops, the remaining strategic forums can be classified into two major 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, but which do not report directly to the Board of Directors. All of these include representatives from the savings banks and Confederation representatives.

Most of these forums are structured around a Committee which meets periodically, an annual conference to which all 45 member banks are invited, or seminars or meetings. The most important forums or those that have been most prominent in 2007 are described below.

Forums created by the support committees to the Board of Directors 8.1

Several years ago, CECA's Board created two support committees: the Welfare Projects Study Committee and the Committee for Organisation, Automation and Services (Comisión de Organización, Automación y Servicios - COAS).

The **Welfare Projects Study Committee** was created to investigate and analyse this area and to take forward new Welfare Fund initiatives. The main work of this Committee in 2007 involved the search for areas of focus for future Welfare Fund projects.

In relation to the work done by the Welfare Fund in collaboration with public authorities, a framework cooperation agreement on dependence was signed with the Ministry of Labour and Social Affairs, through CECA, under which the savings banks and the public authorities undertook to exchange information so that the public and private resources employed in this area can be exploited as effectively as possible, avoiding duplication and generating synergies.

THE SAVINGS BANKS HAVE SIGNED A COOPERATION AGREEMENT ON DEPENDENCE WITH THE MINISTRY OF LABOUR AND SOCIAL AFFAIRS

The **Committee for Organisation, Automation and Services** (COAS) is responsible for obtaining, exchanging and distributing knowledge related to best practice and experiences, both domestic and foreign, and for carrying out studies and projects designed to perfect the organisation and operations of the savings banks involved, providing the technical assistance required and evaluating the needs resulting from the development of shared services.

COAS promotes projects which savings banks and other bodies are free to join. These projects are undertaken within the framework of the technical committees. Some of the projects carried out by COAS's technical committees in 2007 are detailed below.

The **Technology, Architecture and Innovation Committee** was involved in a project related to business continuity in disasters; this project stems from the awareness of financial institutions of the importance of having available systems for recovering data and technological infrastructure in the event of serious incidents or disasters. In addition, the recent spate of terrorist attacks and other catastrophes, together with the need to comply with current regulations, has promoted the concept of business continuity, which can be understood as guaranteeing the availability of the organisation's support processes from both a business and a technological perspective.

THE BUSINESS CONTINUITY PROJECT GUARANTEES SYSTEMS FOR DATA AND TECHNOLOGICAL INFRASTRUCTURE RECOVERY IN THE EVENT OF SERIOUS INCIDENTS OR DISASTERS

The objective of COAS's *Business Continuity* project is to provide the savings banks with benchmark models for preparing their own plans, based on the differences between their current condition and the benchmark model. All aspects of international benchmark standards, together with current domestic and community regulations, were taken into account in the building of the model.

The project included a diagnosis to establish the best individual action plans for each organisation based on their particular situation with regard to technology, processes, personnel, installations and assets. These plans enabled the tasks required in the short- and medium-terms to meet minimum business continuity requirements to be defined.

Some of the areas for action resulting from the project include analysis of the viability of business continuity management tools, together with possible common solutions for the physical location and systems to be used in the implementation of the definitive plan.

Some of the other projects which the Committee has also been involved in include:

- *MiFID*: technical support for implementation.
- *ANCERT*: standardisation and automation of procedures for signature of loan agreements through the Notary platform.
- *IAS*: generation and reporting of statements of equity, and consolidation of the Aries tool as the single reporting tool for financial statements.
- *The XFS (WOSA) standardisation tool*: compliance of the XFS standard with proposals from the institutions for the standardisation of ATMs. The tool is available to manufacturers and they are beginning to standardise around it.
- *CMMI*: a model for the improvement and evaluation of systems and software development and maintenance processes.
- In addition, a report was produced on the savings banks' e-banking platforms.

The **Business Systems and Processes Committee** was involved in the following projects in 2007:

- *The Expert Model for Immigrants' Credit Ratings* was finalised with the final documentation being delivered and the models being integrated into the assessment tool.

- The system created for providing the money transfer service for immigrants now covers over ninety percent of the immigrants resident in Spain and the number of money transfers sent has increased by eighty percent, although the average value of each transfer has decreased as a result of exchange rate changes between the euro and the dollar.

- In the first week of July, the final report of the *Sixth Industry Survey on Operating Efficiency at Savings Banks* was submitted, and presentations were made to the Management Committees which requested them.

- There were two conferences in the year on the system established the year before for the continuous improvement of operating efficiency: one of these dealt with reducing the administrative load in branches and the other dealt with correspondence with clients.

- Development of the SIGEPWeb application (a tool for managing the savings banks' investees) was completed and is already installed in five member savings banks, with the remaining installations slated for June 2008.

- The migration plan for the On-line Private Banking System (SBPweb) has been completed, with all member savings banks now having the tool installed and using it as standard.

- In the field of non-current asset management, the savings banks' National Committee for General Services and Building Managers was created.
- In addition, the *Electronic Invoicing* system is based on the e-banking system, which each participating bank now has, and on the exchange of data between different financial institutions' e-banks. This reduces the use of paper and integrates with all ERPs through the Central Tax Agency (AEAT) and Interbank Cooperation Centre (CCI) format.
- In addition, work has been undertaken to improve efficiency in the management and administration of lending transactions.
- A conference was held jointly with the Architecture, and Standardisation and Payment Systems Committees on electronic case files.

The Committee also defined the focus and scope of projects such as *Debt Management* and the *Financial Behaviour of Immigrants in Spain* for 2008.

THE MIGRATION PLAN FOR THE ON-LINE PRIVATE BANKING SYSTEM HAS BEEN COMPLETED, WITH ALL MEMBER SAVINGS BANKS NOW HAVING THE TOOL INSTALLED AND USING IT AS STANDARD

THE DISTRIBUTION CHANNELS COMMITTEE IS RESPONSIBLE FOR INCREASING THE COMMERCIAL PRODUCTIVITY OF BRANCHES

In 2007 the **Distribution Channels Committee** concentrated its efforts on defining the approach and scope of a new strategic project which will have the branch office as its focus. The objective of the project is to improve the commercial productivity of the branches of those banks involved in the project by detecting the main obstacles to optimum multi-channel management/customer relations, and identifying measures to eliminate these, taking into account the range of clients and branches involved, and the changes and trends being seen in this area.

In addition, the Committee is working on two further areas for action in the next year: customer segmentation and m-banking services as an alternative channel for client interaction.

The work of the **Quality and Knowledge Management Committee in 2007** included the development of the savings banks' knowledge management system, Melania, which has developed into a shared common space. The activity of over thirty clubs and workshops, virtual practice communities involving some 7,500 executives and technicians from the Central Service departments of the 45 savings banks and CECA, has resulted in the production and deposit of over 327,000 documents, which have been visited over two million times in the year by Melania members. Even more interestingly, opinion leaders at the savings banks now produce over ten percent of such documentation, and generated around five hundred documents in the various interactive forums which have attracted over 30,000 of the total number of visits. The maturity of this system, which is now used on a daily basis by savings bank executives, has made it possible to move the most important projects and initiatives in the sector, such as the adoption of regulations and Welfare Fund activities in the context of Corporate Social Responsibility, to this virtual environment.

THE ESTABLISHMENT OF MELANIA AS A KNOWLEDGE MANAGEMENT PLATFORM HAS ENABLED THE MOST IMPORTANT PROJECTS IN THE SECTOR TO BE TRANSFERRED TO A VIRTUAL ENVIRONMENT

This Committee has also been involved in the following projects:

- *Neuromante*: the creation of a Security Centre, as a coordinating centre of current specialist environments.
- *Customer satisfaction benchmarking*: branches, Internet and SMEs.
- *Efficiency*: the design and implementation of a system of efficiency indicators.
- *The sectoral EFQM evaluation project*: diagnostics of the management model of each savings banks based on the EFQM European excellence model.

In 2007 the **Standardisation and Payments Systems Committee** was involved in work on the following issues:

- SEPA (Single Euro Payments Area): this is now in its final development and implementation stage for transfers. The specifications for SCT (SEPA Credit Transfer) were finalised and scheduled to come into effect at the beginning of 2008. In order to achieve this, the Committee worked with the savings banks to analyse the specifications and their implementation specifications, and on Iberpay, as a Spanish system, and in adaptation to the new standards. In addition, client interfaces for SCT transfers were adapted; savings bank membership of SCT was coordinated with the European Payments Council; and the impact of Regulation (EC) 1781/2006 of the European Parliament and the Council, on 15 November 2006, relating to the information on originators which accompanies fund transfers in the SNCE (National Electronic Clearing System) transfers subsystem was managed.

IN THE CASH MANAGEMENT FIELD, WORK WAS DONE ON THE IMPLEMENTATION OF THE FRAMEWORK FOR BANK NOTES, TO FACILITATE ADAPTATION AND COMPLIANCE BY SAVINGS BANKS

In addition, it coordinated the SEPA migration plan with the involvement of representatives of banks and other social agents with client relationships.

In the cash management field, work was done on the implementation of the framework for bank notes, to facilitate adaptation and compliance by savings banks. In order to facilitate compliance with the demands of the framework, the Auxiliary Cash Deposits System service continued to be offered in cooperation with the Bank of Spain, and work was done to improve the way it operates and possibly expand it to the Spanish islands.

Representational forums 8.2

CECA promoted the setting up of a network of professional forums to examine all the management and advisory functions involved in 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).

Public profile forums

The **Marketing Commission** is the forum for marketing professionals. One of the most important issues it dealt with during the last year was the new products which have appeared on the market. Similarly, initiatives were put forward to deal with issues such as Internet banking and the use of new tools to monitor access to websites. In addition, during the year a range of workshops were held featuring experts in these matters.

THE MARKETING COMMISSION IS CONSIDERING INITIATIVES TO DEAL WITH ISSUES SUCH AS E-BANKING AND THE USE OF NEW TOOLS TO MONITOR ACCESS TO WEBSITES

The **Communication Committee** brings together senior figures from the savings bank's to discuss aspects which affect the savings banks' information for its various interest groups; this ranges from building the institution's image to the communication of matters of interest, both institutional and financial.

In the last year, this Committee analysed those issues which had the greatest impact in the media and other areas of public opinion, and the best way to convey to the general public the overall viewpoints of savings banks and to ensure that these institutions are valued in accordance with their importance to the Spanish economic and financial system.

THE COMMUNICATION COMMITTEE ANALYSES THE ISSUES WHICH HAVE THE GREATEST IMPACT IN THE MEDIA AND THE BEST WAY OF GETTING THE MESSAGE OF THE SAVINGS BANKS OVER TO THE PUBLIC

The **Advertising Committee** is a forum for advertising professionals working for savings banks to debate the various aspects affecting their work. One of the main issues dealt with in the year was the problems posed for the savings banks of obtaining authorisation, both from the Bank of Spain and autonomous community bodies. Among the projects launched by this Committee was the survey to identify the factors which influence advertising production and the preparation of a confidential and customised handbook for each bank with the practical requirements which apply in the approval of advertising campaigns.

ONE OF THE ISSUES ANALYSED BY THE ADVERTISING COMMITTEE WAS THE DIFFICULTY FOR SAVINGS BANKS OF OBTAINING AUTHORISATIONS FROM THE PUBLIC AUTHORITIES

IN 2007 A NUMBER OF REPORTS WERE ISSUED ABOUT COMPLAINTS AND CLAIMS MADE BY SAVINGS BANKS' CLIENTS

The Savings Bank **Customer Service Commission** focuses on cooperation between savings banks on all matters relating to customer service. In the last year it produced a range of reports for institutions on complaints in the sector. In addition, it was in periodic contact with the Bank of Spain on a range of aspects relating to the information received and issued by this institution concerning the complaints and claims dealt with by the savings banks and their complaints service.

Forums for regulatory guidance

In 2007, the **Legal Advisory Committee** analysed the main regulatory changes related to the sector. In the international field, one of its priorities was the monitoring of the proposed Consumer Credit Directive. Domestically, the initiatives which created most interest were the Mortgage Reform Law and the incorporation of the Markets in Financial Instruments Directive (MIFID) into Spanish law.

2007 coincided almost exactly with the first year of the **Industry Regulatory Compliance Committee**, and the large number of meetings and the high participation in each such meeting (over ninety percent) shows that that there was, and continues to be, a real need among savings banks for such a Committee. The meetings dealt with issues falling within the Committee's competence, such as the prevention of money laundering; the equities market's rules of conduct; personal data protection and corporate governance. Among the different areas in which it was involved, one of the most important was the Committee's participation in COAS's *MiFID Sectoral Project*, which it took part in along with other savings banks' representatives, forming the Compliance Committee for the project and being responsible for its tasks during the whole life of the project. The Committee also played an important role in the preparation of the reference guides used by the savings banks to prepare circulars in response to the Internal Code of Conduct Regulations (RIC). Finally, the Committee has been involved in the discussion of a range of important issues, such as the new Monthly Declaration of Transactions for the prevention of money laundering, with its contribution being of particular importance in the preparation of the sector's response to the public consultations which took place.

THE REGULATORY COMPLIANCE COMMITTEE HAS BEEN WORKING ON THE PREVENTION OF MONEY LAUNDERING, CONDUCT STANDARDS FOR THE SECURITIES MARKET AND CORPORATE GOVERNANCE

In 2007, the Taxation Committee continued to analyse tax matters affecting the sector, at both the individual and collective levels, staying in contact with the whole range of taxation authorities in defence of the interests of savings banks. Activities relating to the new regimes for both corporate income tax and VAT were of particular importance, with proposals being submitted for the documentation procedures for both taxes, and for issues relating to secondary adjustments in corporate income tax. The Committee also worked on the development of the VAT regime for consolidated groups; on the modifications to the tax return forms; and on the new information requirements to be established and those in the new Financial Reporting Standards. In addition, it defended the continuance of the regime for social institutions as established in the VAT Law, and it closely followed and took part in information activities related to transactions involving 500 euros bank notes. The Committee also worked on the treatment of sureties in the IAJD (Tax on Documented Legal Acts), and on withdrawal documents, through the analysis of the arguments presented by the Directorate General for Taxation.

In 2007, our tax experts held the usual two **Savings Banks' Tax Experts Meetings**, meetings 57 and 58, which featured presentations on, among other things, the reform of corporate income tax, linked operations, modifications to the VAT regime, the treatment of withdrawal documents in the Tax on Documented Legal Acts and the reform of mortgages.

Accounting and audit forums

The **State Auditors' Coordinating Committee** proposes and analyses all the actions required to ensure the correct and efficient discharge of internal audit functions at savings banks. The activities carried out in 2007 were aimed at the preparation of audit programmes, and included: audit of the procedures for the preparation of information for third parties (Corporate Governance Report); audit of the adequacy and implementation of the policies, methods and procedures established for credit risk (annexe IX of Circular 4/2004); IAS (review of hedge accounting procedures, the fair value of assets and the treatment of impairment); up-dating of the Tax department; audit of risks in the outsourcing of IT systems; and audit of IT support systems for the prevention of money laundering.

A RANGE OF AUDIT PROGRAMMES ARE BEING DEVELOPED, INCLUDING AUDIT OF PROCEDURES FOR THE PREPARATION OF REPORTS FOR THIRD PARTIES

The **Accounting Committee** continued to focus on the analysis of the questions faced by savings banks as a result of the application of Bank of Spain Circular 4/2004 concerning the adaptation of financial institutions to International Financial Reporting Standards, as well as modifications to the regulations concerning the setting and monitoring of minimum equity requirements.

Important aspects included the attention paid to the treatment of certain aspects related to financial instruments, hedging, the study of draft modifications to standards and, in particular, relating to changes in the recognition of fair value, the valuation of financial assets and liabilities and the analysis of changes in the treatment of transactions with related parties.

In addition, as a result of the publication of the draft National Chart of Accounts adapted to IFRS, an in-depth analysis took place of the differences between this and Bank of Spain Circular 4/2004, so as to minimise the differences between these regulations and so facilitate preparation of the consolidated financial statements.

THE ACCOUNTING COMMITTEE HAS LAUNCHED A PROJECT AS A RESULT OF THE CHANGES TO COMMERCIAL REGULATIONS RESULTING FROM BASEL II

As a result of the changes resulting from the modifications to business regulations, and developments related to Basel II, a sectoral project was launched with the remit to carry out the following: analysis and the work to be carried out for publication of the report with appropriate prudence (Pillar II of Basel); the changes to be carried out in the Management Report and in the Notes to the Financial Statements as result of the publication of the IFRS regulations adopted by the EU, and the amendments made to business regulations; and a study of the effects on the sector of the modifications contained in Bank of Spain Accounting Circular 4/2004.

Welfare fund forums

The **National Welfare Fund Committee** intensified its work and increased the number of meetings held, both by the Committee itself and its specialist working groups. In 2007 the first steps were taken on the latest initiative proposed by the micro-credits working group, which consisted of establishing the Spanish Micro-financing Network (*Red Española de Microfinanzas*), built around CECA and led by the savings banks. Throughout the year, an increasing number of NGOs and other bodies, in addition to savings banks, joined this initiative. As its first training activity in this field, the ESCA savings banks college gave a course on skill-building, aimed mainly at NGOs which are also involved in the management of micro-credits.

A NEW COURSE OF SKILL-BUILDING FROM NGOS INVOLVED IN THE MANAGEMENT OF MICRO-CREDITS

Together with this working group, the National Welfare Fund Committee was active in standards, copyright and communication rights and was also responsible for increasing the amount of public information available about the Welfare Fund. Before the summer, the Committee also decided to reactivate one of its traditional working groups - the culture working group, which is responsible for interpreting the public's cultural requirements and the response of the savings banks to it. This group was also given the task of studying a range of initiatives related to Historical and Artistic Heritage.

In addition, through CECA, the savings banks have been involved in a range of new activities as part of the agreement with the Ministry of Labour and Social Affairs for encouraging voluntary work in Spain as part of the *State Volunteer Plans*, which the savings banks have been contributing to since 2001.

In November the **Sectoral CSR Committee** was formed to monitor joint CSR activities and to encourage progress in this area. This Committee holds meetings with the people responsible for corporate social responsibility in the savings banks with the objective of establishing a forum for the interchange of ideas and experiences; but above all, it provides a platform for work on joint projects and initiatives.

The most important publications related to welfare fund forums were, once again, the preparation and publication of the third sectoral CSR report, which obtained the classification of being "in accordance" with the Global Reporting Initiative (GRI). In addition, this was the first sectoral report in Spain, and the first sectoral report for the financial sector in the world, to be prepared in accordance with the principles of G-3, the new GRI guidelines.

THE THIRD SECTORAL REPORT ON CSR HAS BEEN PUBLISHED UNDER G-3; THIS IS, THE FIRST IN SPAIN, AND THE FIRST FOR THE FINANCIAL SECTOR ANYWHERE IN THE WORLD

AN INNOVATIVE PROGRAMME HAS BEEN LAUNCHED FOR CONVERTING ADMINISTRATIVE PERSONNEL INTO EXPERT ASSESSORS

Another of the unique aspects of the savings banks work in the fight against marginalisation: the work of pawnbrokers, saw, an increase in contacts and meetings last year, in line with other welfare fund forums. The **Pawnbroking Institutions Committee** was responsible for a range of information and institutional strengthening initiatives relating to pawnbrokers. In addition, the Committee, in colloboration with the ESCA savings bank college, launched new training projects, involving a number of specific courses and an innovative programme to develop administrative personnel into appraisal experts; these courses featured a large e-learning component.

Pawnbroking institutions now hold a joint auction of jewellery every year to coincide with the annual General Assembly. Last year, the General Assembly was organised by Caja España, which also organised the joint auction of jewellery and an exhibition on the history of pawnbrokers. The interest created by such events helped to achieve the main objective of these institutions: making their work more relevant to the public.

Other forums

The **Savings Banks Management Planning and Control Committee** met several times during the year to deal with the main issues of relevance to this group; one of the main focuses of discussion was the performance of the market in 2007 and the prospects for 2008.

In May, the sector's conferences were held in Palma de Mallorca, with presentations on planning and diversification, the process of adapting to MiFID, the economic environment and financial strategies, practical experiences with the balanced scorecard, the new management model resulting from Basel II and its effects on the organisation of credit institutions.

THE WORK OF THE SAVINGS BANKS MANAGEMENT PLANNING AND CONTROL COMMITTEE FOCUSSED ON MIFID, THE ECONOMIC ENVIRONMENT AND FINANCIAL STRATEGIES

The **Statistics and Analysis** working group met three times and covered a range of issues related to the statistical information which savings banks provide to the Confederation, and the analysis of this information, both on an aggregate and an individual basis. In particular, progress was made on the definition of ratios and methodologies, and with regard to information on consolidated groups.

THERE WERE SIGNIFICANT ADVANCES IN THE DEFINITION OF RATIOS AND METHODOLOGIES, AND IN STATISTICAL INFORMATION FOR CONSOLIDATED GROUPS

The **Research Committee**, which consists of research department directors from the savings banks, met twice, once in the spring and once in the autumn, and analysed the national and international situation; the second of these meetings focussed in particular on the international credit crunch and its impact on savings banks.

The **Property Group** met twice, resulting in the publication of the *2nd and 3rd Savings Banks' Property Monitor*, which analysed the state of the housing market.

The **National Quality Committee** participated actively during the year in a range of projects and activities, such as for example the *Customer Satisfaction Benchmarking* project, the scope of which was increased in 2007 to include a range of channels for communicating with customers (branches and the Internet) and a range of market segments (individual clients and SMEs). The Efficiency project, which measures the objective performance of vertical and horizontal processes in savings banks and opportunities for improvement in each, went into greater detail in its analysis of the horizontal process of branch opening. CECA's Quality Management and Consulting Unit also took part, as part of the National Committee, in the *EXCELCA* project (analysing management in accordance with the criteria of the European Excellence Model) in which participating savings banks are evaluated according to the criteria of the European Foundation for Quality Management.

The **Savings Banks' Housing Group** analyses and discusses matters concerning Spain's public and private housing sectors which affect savings banks in order to establish a joint position to present to the Housing Ministry and other official bodies. In 2007 it was very active on work to streamline the processing and payment of subsidies under the 2005-2008 *State Housing Plan*, and earlier plans which are still in force, using the new website created by the Housing Ministry for such purposes.

BENCHMARKING OF CLIENT SATISFACTION WAS SPREAD TO CLIENT RELATIONSHIPS AND TO DISTINCT SECTORS

The ESCA savings banks college was responsible for the technical secretariat of the **Savings Banks Technical Training Committee** (a forum for dealing with the impact of regulation and innovation through educational strategies and priority setting). This national Committee has established activities such as training in Insurance (in response to the insurance brokerage law), MiFID, Prevention of Money Laundering and Health and Safety at Work.

Structure and Services

Association services and technical advice
Risk services
Training services
Financial and support services
Other wholesale services
Technological services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CECA PROVIDES CENTRALISED SERVICES TO THE SAVINGS BANKS AND FINANCIAL INSTITUTIONS WHICH REQUEST SUCH SERVICES

CECA is not just a savings banks association, it is also a financial institution in its own right which provides services to the member savings banks and other bodies that request such services. From this point of view, the Confederation is a company which provides financial, technological and consultancy services, and it offers these through a wide range of structures. These services are contracted voluntarily by the banks at market prices.

CECA HAS HAD ITS AENOR ISO 9000 CERTIFICATION FOR SETTLEMENT, TRUSTEE, CUSTODY AND DEPOSITARY SERVICES FOR COLLECTIVE INVESTMENT INSTITUTIONS RENEWED

CECA aims to manage these structures and services efficiently, aiming for excellence as a supplier. During the year, CECA's Quality Management services were involved in measuring the satisfaction of internal and external clients, with an increased number of services surveyed. In addition, CECA's AENOR ISO 9000 Certification for its settlement, trustee, custody and depository services for collective investment institutions was renewed.

Association services and technical advice 9.1

The Confederation collects and analyses public data on the sector and the financial system as a whole, as required by the Bank of Spain and other bodies, in accordance with sector segmentation criteria, for the savings banks. CECA provides the savings banks with the necessary IT tools to efficiently receive, integrate and convey this information.

THE CONFEDERATION COLLECTS AND ANALYSES ALL PUBLIC DATA ON THE FINANCIAL SYSTEM AS REQUIRED BY THE BANK OF SPAIN AND OTHER FINANCIAL INSTITUTIONS, ON BEHALF OF THE SAVINGS BANKS

Having been cleansed and aggregated, the information is sent to the members using a range of internal publications common to all savings banks which, with varying frequency, provide the tools needed for analysis at sector level and to perform comparative surveys with other groups of institutions: Statistical Bulletin, Quarterly Report, and Comparative Analysis.

More in-depth analysis is carried out in reports on particularly significant areas: the Income statement, Equity, Liquidity, Bad debts, Loans and receivables, etc, which are supplemented with individualised annexes for each savings bank.

In addition, under delegation from the Bank of Spain, the Confederation publishes the savings banks' financial statements: balance sheets, income statements, statement of changes in consolidated equity and cash flow, both at individual and consolidated group level for each savings bank, using the corporate website, and makes the information available to the public in PDF and XBRL formats.

UNDER DELEGATED AUTHORITY FROM THE BANK OF SPAIN, THE CONFEDERATION PUBLISHES THE FINANCIAL STATEMENTS OF THE SAVINGS BANKS

It also prepares reports for savings banks on the Spanish and international economies, summaries of which are made public through a number of channels addressing issues which are of interest at the time. Savings banks have instant access to the main Spanish and international economic indicators, which the Confederation summarises and presents.

The Research Club provides the savings banks with the latest domestic and international economic publications, and the most significant economic indicators, which are updated on a daily basis. In addition, it coordinates research for various savings banks using standardised methodology, such as that for the Property Monitor.

SAVINGS BANKS HAVE IMMEDIATE ACCESS TO THE MAIN ECONOMIC INDICATORS WHICH THE CONFEDERATION IS RESPONSIBLE FOR SUMMARISING

The Confederation is also responsible for compiling and distributing the savings banks' publications and has a documentation centre for all issues which affect activity in the sector, which is kept permanently up-to-date, and a historical document archive.

As in previous years, in 2007 CECA also provided advisory and consultancy services to savings banks and other institutions as requested in a number of areas: financial regulation, organisation, project management, human resources, quality, legal and tax advice, regulatory compliance, etc.

Some of the most important consultancy projects in the year were: implementation of a general cost reduction programme; advice on the merger of the two Seville savings banks (El Monte and Caja San Fernando), supporting the merger office by providing the methodology required to define and implement the master plan for the project.

In 2007, the Framework Agreement on Collaboration was renewed with the Spanish Association of Foundations, a public service organisation created from the merger of the Spanish Confederation of Foundations and the Foundations Centre, with the aim of promoting commercial and financial relations between the Association and CECA and its member savings banks.

THE AGREEMENT WITH THE SPANISH ASSOCIATION OF FOUNDATIONS HAS BEEN RENEWED WITH THE OBJECTIVE OF PROMOTING COMMERCIAL AND FINANCIAL RELATIONSHIPS BETWEEN THE TWO BODIES AND THEIR MEMBERS

In 2007 CECA signed two new financing contracts with the Official Credit Institute (ICO). One of these was for the finance of investment projects by small and medium-sized companies amounting to 700,000 euros, whilst the other was designed to promote and support investment projects carried out by entrepreneurs with a value of less than 200,000 euros.

CECA HAS SIGNED TWO FINANCING CONTRACTS WITH THE ICO TO FINANCE INVESTMENT PROJECTS IN THE SME SECTOR

Risk services 9.2

Basel II compliance advisory service: documentation and consultation

The work begun a few years ago by financial institutions to adapt to the requirements of Basel II has been complicated, and has involved major resource investment by the institutions.

The Documentation and Consultation service has been responsible for answering questions from members registered for this service related to the new regulatory framework and its application. It has also provided access to all relevant documents relating to this issue.

In 2007, the Confederation worked with the regulator on the capital self-assessment process within the new solvency standards framework

The new solvency circular requires that, in addition to complying with capital requirements, savings banks must have a process, which each is responsible for, which enables them to assess whether their capital levels are in accordance with actual risk levels. The results of this process must be included in an annual report and sent by the savings banks to the Bank of Spain.

The challenge this process represents for savings banks led to CECA launching a collaborative project which established the steps required to achieve the effective implementation of the capital self-assessment process.

Risk consultancy: credit risk management and approval models for personal banking

In its risk consultancy activities, CECA focussed its activities in 2007 on developing credit risk policies and services for the sector. This activity has been undertaken based on a policy of continuously searching for new and better methodologies, the implementation of technological innovations and the development of cooperation projects within the sector.

IN ITS RISK CONSULTANCY WORK, CECA HAS FOCUSSED ITS ACTIVITIES ON DEVELOPING CREDIT RISK PRODUCTS AND SERVICES

In terms of the development of new products, 2007 saw the consolidation of risk management and acceptance policies for personal banking services, which is the most important market segment for savings banks. The implementation of decision-making strategies for the personal banking segment has spread throughout the sector, providing definitive proof of the efficiency of the proposed methodology and of the credit risk models. The aim is for the integration of these models into the above-mentioned strategies to become a key element in decision making.

15 savings banks are now using the Decision Making Strategies developed in collaboration with CECA in acceptance of risk decision making for the personal banking segment. These solutions have been developed on an individual basis bilaterally with each savings bank so that their risk policies can be taken into account. Around 30 credit risk models were developed in 2007 to take advantage, as efficiently as possible, of each institution's historical data, and to convert this into an essential tool for meeting their management and monitoring needs.

Risk consultancy: proactive credit risk management and approval models for pre-classifying personal banking segment customers

2007 saw the first Proactive Risk solutions come into production; through them the five savings banks which developed them are able to classify all their personal banking clients and assign different limits for granting loan products. The ease with which the methodologies used can be adapted, together with the incorporation of the different treatment to be applied based on each institution's own concept of the risk, has enabled the savings banks to incorporate the unique characteristics of each portfolio on an individual basis. The behaviour-scoring systems, developed as basic components of these classification strategies, provide the savings banks with highly efficient tools, not only for classification strategies, but also as a way to cover information gaps when estimating defaults on current risk portfolios.

THIS YEAR SAW THE FIRST PROACTIVE RISK SOLUTIONS COME INTO OPERATION

The Risk Models and Strategies Division has made a strategic commitment to invest in methodology in order to achieve this objective. The efficiency in distinguishing good payers from bad payers obtained by such systems enables limits to be assigned with certainty for most personal banking clients (in some cases accounting for as much as 80% of the whole portfolio), and this has facilitated rapid integration into the acceptance processes and the design and launch of marketing campaigns for loans. This integration of reactive and proactive treatment, through the combination of decision-making and classification strategies, has enabled the institutions which developed these solutions together with CECA to position themselves at the forefront of best credit risk approval and management practices in this market segment.

2007 SAW THE DEVELOPMENT OF THE FIRST INITIATIVES FOR ADOPTING ADVANCED PRACTICES FOR THE TREATMENT OF COMPANIES

In 2007 advanced models for the assignment of credit limits by product were developed for the corporate segment

In other segments, 2007 saw the development of the first initiatives for adopting advanced practices and methodologies for the corporate segment. The institutions which developed these initiatives in collaboration with CECA are able to assign different limits for each of their corporate customer's products, and can also automate the decision-making process for clients with lower turnover.

Monitoring of models as a key to maintaining decision-making tools

In 2007, as an essential supplement to the two previous initiatives, the first Strategy and Model Monitoring Environments were developed; these enable institutions to complete the methodological cycle by developing information and analysis systems which allow them to feed information back into their Decision and Classification Strategies and so to have the necessary degree of confidence in the basic implementation hypotheses for the models integrated into them. In addition to the importance of developing these initiatives, it was also necessary to raise awareness of the need itself, which the Risks Division achieved through a range of documents, workshops and training activities.

Training services 9.3

	Programmes 2007	Students 2007
Classroom Training	**149**	**5,182**
Seminars	102	2,843
Experts - Long Course	20	940
Conventions	27	1,399
Non-classroom	**1,745**	**75,396**
Distance learning	215	5,502
On-line	1,189	64,217
In Company	341	5,677
Total	**1,894**	**80,578**

OVER 80,000 STUDENTS TOOK PART IN THE NEARLY 1,900 TRAINING PROGRAMMES WHICH THE ESCA COLLEGE ORGANISED

In 2007, CECA focussed on bringing ESCA's (Escuela Superior de Cajas de Ahorros - Savings Banks College) programme of studies into line with the regulatory requirements of the Spanish financial system.

The total number of programmes offered increased from 1,091 in 2006 to 1,894 in 2007. A significant part of this growth was due to the change to distance learning and on-line methods to improve cost efficiency and to increase distribution capacity.

The **Centralised Training** department continued to offer services to all the savings banks. The use of e-training within the range of long-course training programmes on offer was increased and became more specialised: resulting in a lower cost per participant.

THE USE OF ON-LINE TRAINING AS PART OF THE LONG-TERM TRAINING PROGRAMME WAS EXPANDED, INCREASING FROM 26,649 STUDENTS TO 64,217

The seminar programme has become more selective, focussing on regulatory compliance and innovation. One special programme is that deriving from the Markets in Financial Instruments Directive (MiFID), which was linked to the project in that sector, with parallel training support being given as required.

Programmes related to Taxation Changes in 2007 and the new Distance Marketing of Consumer Financial Services Law were of particular interest. The list of conventions offered was increased with the addition of the 1st Convention for Property and General Services Managers.

The Catalan Savings Banks Federation remained committed to the training programme, having carried out a range of activity in Barcelona at the behest of the ESCA college.

One important development was the advanced programme in Strategic Management of Corporate Social Responsibility in credit institutions, and the advanced course in financial issues and private insurance.

THE ADVANCED PROGRAMME IN STRATEGIC MANAGEMENT OF CORPORATE SOCIAL RESPONSIBILITY FOR CREDIT INSTITUTIONS WAS ONE OF THE MAIN ADDITIONS TO OUR TRAINING SERVICES

Another innovative highlight was the long-term programme in Specialisation in Integrated Financial Risk Management which was prepared in coordination with the Risks division. In terms of open classroom activities, one important event was the Conference on the Mortgage Reform Law.

A significant effort was made in terms of **In-Company training** in adapting and offering programmes relating to Finance Products for Companies, Leasing, Factoring and Confirming, Foreign Trade, New Regulations for Collective Investment Institutions, development of management skills and taxation issues relating to financial products. There is now a tried and tested training programme relating to companies. Risk training continues to be a strong point in this service for training centres.

The ESCA's **On-line** programme really took off in 2007, increasing from 26,649 students in 2006 to 64,217 in 2007, a significant increase in market penetration. At the same time, this increase also represents a major cost saving in terms of travel and student care in the educational process. The on-line MiFID programme was one of the basic parts of the new training programme.

THE MIFID PROGRAMME HAS BEEN ONE OF THE MAIN COMPONENTS OF OUR NEW ON-LINE TRAINING OPTIONS

The integrated insurance training project was based on an agreement with the AMAEF (Agrupación de la Mediación Aseguradora de Entidades Financieras - Insurance Brokerage for Financial Entities Association), members of which include banks and savings banks.

The total number of students trained by the ESCA college was 42,166 in 2006 and 80,578 in 2007.

In addition, new educational agreements were signed with Madrid's Complutense University and with Barcelona University.

A tutorial programme on Investment Funds was established with the Spanish Securities Market Commission, through a tender process.

As part of CECA's international activity, in coordination with the European Savings Bank Group-WSBI, it took part in the "*International Forum on Banking Management-Summer Forum on Banking Management*" which was held in France.

NEW EDUCATIONAL AGREEMENTS HAVE BEEN SIGNED WITH THE COMPLUTENSE UNIVERSITY IN MADRID AND BARCELONA UNIVERSITY

Financial and support services 9.4

In terms of central operational services in this area, CECA provides a Discount Centre which offers an interbank clearing system for savings bank asset portfolios: document processing (for both physical and electronic documents), custody and deposit, information management and database interconnection (both on-line and batch processing).

During the year a range of projects were carried out to adapt the overall management services provided to certain savings banks, either in line with legal or interbank regulations or to optimise their procedures; some of the most important of these include:

- New on-line access to the Discount Centre databases.
- Improvement of the search tool for lists and forms (Cold System) to include all the reports issued by the Discount Centre.
- To facilitate the possibility of discounting invoices, both physically and electronically.
- The incorporation of new information on management and past-due bill fees in the Factoring database, with the possibility of including the minimum and maximum amounts to be applied.

CECA'S DISCOUNT CENTRE PROVIDES AN INTERBANK CLEARING SYSTEM FOR SAVINGS BANK ASSET PORTFOLIOS

The **Central Discount Office** which handles documents related with bill discounting recorded a rise in both transaction numbers and total volumes compared to 2007 (see chart).

Item (*)	2006	2007	Change
Incoming bills	16,295,543	16,621,704	2.00 %
Nominal value of incoming bills	52,325	58,917	12.60 %
Outgoing bills	16,203,241	16,723,334	3.21 %
Nominal value of outgoing bills	51,149	58,003	13.40 %
Bills deposited	2,039,093	1,939,995	- 4.86 %
Nominal value of bills deposited	9,564	10,493	9.71 %
Truncated bills presented	8,320,257	7,431,122	- 10.69 %
Nominal value of truncated bills presented	26,510	26,799	1.09 %

(*) Nominal values in EUR million.

CECA also has a **Securities Department** which centralises the processing of fixed income assets and equities. These services include custody, settlement and management of financial operations, with dividend payments, attendance bonuses, redemption, coupon payments, etc. In addition, personalised tax information is provided for each client.

THE DISCOUNT CENTRE INCREASED BOTH THE VOLUME AND VALUE OF TRANSACTIONS CONDUCTED, COMPARED TO THE PREVIOUS YEAR

In 2007, the Securities Department implemented the changes required to adapt to the regulations contained in MiFID. In addition, policies were developed for improved execution, safeguard of assets and externalisation, etc.

CECA plays an active part in the working groups created by the European Central Bank for the TARGET2 Securities project (a single settlement system for the whole European securities market). This system will form the basis of the liquidation and custody systems in Europe.

IN 2007, THE SECURITIES DEPARTMENT IMPLEMENTED THE CHANGES REQUIRED TO ADAPT TO THE REGULATIONS CONTAINED IN MIFID

The key figures for securities activity in 2007 were as follows:

DEPOSITS BY EFFECTIVE VALUE

Type of Instrument	2006	2007	Change 2006/2007
Private fixed income	16,519	31,538	90,92%
Equities	29,710	28,577	- 3,81%
Government debt	6,629	6,340	- 4,36%
Foreign securities	42,757	42,036	- 1,69%
Total	**95,615**	**108,491**	**13,47%**

Amounts in EUR millions

STOCK MARKET TRANSACTIONS

	2006		2007		Change 2006/2007	
Item	No. Transactions	Settlement value	No. Transactions	Settlement value	No. Transactions	Settlement value
Securities purchased	502,639	19,790	660,016	30,117	31.31%	52.18%
Securities sold	665,040	20,732	752,803	31,439	13.20%	51.64%
TOTAL	**1,167,679**	**40,522**	**1,412,819**	**61,556**	**20.99%**	**51.91%**

Amount settled, at effective value, in EUR million.

BOOK ENTRY SYSTEM // GOVERNMENT DEBT

	2006		2007		Change 2006/2007	
Item	No. Transactions	Settlement value	No. Transactions	Settlement value	No. Transactions	Settlement value
Government debt added	66,787	208,741	97,269	345,944	45.64%	65.73%
Government debt removed	67,948	208,960	101,384	346,064	49.21%	65.61%
TOTAL	**134,735**	**417,701**	**198,653**	**692.008**	**47.44%**	**65.67%**

Amount settled, at nominal value, in EUR million.

THE CONFEDERATION SUPERVISED 126 INVESTMENT FUNDS AND COMPANIES THIS YEAR, AND WAS THE CUSTODIAN FOR A FURTHER 50 PENSION FUNDS

SPANISH FOREIGN INVESTMENT

Year	No. Transactions	Change on 2006	Settlement value	Change on 2006	Volume deposited	Change on 2006
2005	178,903	7.28%	168,876	33.25%	38,685	19.53%
2006	199,030	11.25%	186,128	10.22%	42,757	10.53%
2007	**255,877**	**28.56%**	**190,031**	**2.10%**	**42,036**	**- 1.69%**

Settled amount and deposit volumes, in EUR million.

Furthermore, through its **Funds Depositary**, the Confederation also performs central operational support tasks relating to the custody, supervision and control of investment funds, investment companies and pension funds. These tasks include CECA's activity as a depository of investment and pension funds.

The key figures in this activity in 2007 were as follows:

- 126 investment funds and companies supervised by CECA as the depository
- 50 pension funds supervised by CECA as the custodian
- EUR 7.5 billion in assets supervised

The Confederation also shares a tool for the supervision and control of fund deposit activity with fourteen savings banks, which includes monitoring the following:

- 302 investment funds and companies
- 102 pension funds

The following activity took place relating to the exchange, clearing and settlement of transactions services managed by the **Exchange and Clearing Centre**, both electronically and using physical documents, as a direct result of the Confederation's involvement on behalf of some savings banks and other institutions in national and international payment systems:

Item	2006	2007	Change
CROSS-BORDER EXCHANGE OF			
CHEQUES/ CURRENCY			
Cheques handled	650,629	561,942	- 13.63%
SWIFT MESSAGES EXCHANGED			
Outgoing	1,174,752	1,315,743	12.00%
Incoming	1,148,887	1,313,248	14.31%
EBA (Euro Banking Association) - STEP1 and STEP2			
Transactions handled	961,042	1,181,613	22.95%
Nominal value	9,300	11,180	20.22%
TARGET / SLBE (Fund and Cross-border Transfer Orders)			
Transactions handled	319,590	411,524	28.77%
Nominal value	531,931	717,039	34.80%
EXCHANGE OF OPERATIONS USING			
THE SNCE (NATIONAL ELECTRONIC CLEARING SYSTEM)			
Transactions handled	644,277,464	692,044,142	7.41%
Nominal value	700,449	750,048	7.08%
EXCHANGE OF DIRECT DEBITS			
Transactions handled	460,664,000	497,358,000	7.97%
Nominal value	123,061	136,084	10.58%
EXCHANGE OF TRANSFERS			
Transactions handled	125,214,000	138,784,000	10.84%
Nominal value	274,378	321,114	17.03%
OTHER INSTRUMENTS			
Transactions handled	58,399,464	55,902,142	- 4.28%
Nominal value	303,010	292,850	- 3.35%

Nominal amounts in EUR millions.

THE DEVELOPMENT AND ADAPTATION OF THE PROCEDURES FOR EXCHANGE AND SETTLEMENT OF SEPA TRANSFERS WAS SUCCESSFULLY COMPLETED

In addition, CECA also completed its development of, and adaptation to, the procedure for the exchange and settlement of SEPA transfers, from January 2008, both nationally and internationally, for itself and all the institutions that it represents.

Finally, CECA and the 39 institutions to which it provides technical support as part of the TARGET2 (Trans-European Automated **Real-time Gross Settlement Express Transfer** platform) project successfully carried out connectivity tests both internally and with all other countries in the system, as required by the Bank of Spain in order to start operating this system in February 2008.

In cash management, through its **Cash flow Department**, and as the manager of the Bank of Spain's Auxiliary Deposits System (SDA), the Confederation continued to open operating centres, which currently number 32, to increase distribution cover for bank notes to financial institutions and thereby help the banking sector to boost operating efficiency for cash, while at the same time helping to improve the quality of the bank notes in circulation.

THE NUMBER OF TRANSACTIONS CONTRACTED BY THE SAVINGS BANKS WITH CECA'S TRADING ROOM INCREASED BY 5.17% TO 205,587

The **Centralised Accounts Administration Department** has continued to provide services to the joint venture formed by 25 savings banks and CECA for the cash flow management of Spain's National Lottery and Gambling Agency (Loterías y Apuestas del Estado - LAE), for which CECA is the sole manager.

This activity included the management of the 4,205 accounts opened in the name of the LAE.

From its **Trading Room**, the Confederation acts as a financial institution in all markets to provide a wide range of central financial services to both Spanish savings banks and other institutions, such as dealing in currency, options, interest swaps, asset swaps, public debt (including Treasury bills), financial futures, credit derivatives, structured products, equity and fixed income security loans, dealing in foreign banknotes, etc. CECA acts as market maker in these markets, helping to obtain highly competitive prices in transactions of all sizes for its clients. The number of financial transactions contracted by savings banks with the CECA Trading Room increased by 5.17%, from 195,842 in 2006 to 205,587 in 2007.

CECA ROSE FROM 13TH TO 7TH PLACE IN THE RANKING OF THE SPANISH AIAF FIXED INCOME MARKET THIS YEAR

CASH FLOW ACTIVITY WITH INSTITUTIONAL CLIENTS

	No. of transactions	Volume Millions of euros
1998	144,071	167,706
1999	103,212	157,313
2000	121,697	225,302
2001	132,170	314,272
2002	149,449	556,513
2003	152,520	515,645
2004	159,803	538,207
2005	159,803	653,783
2006	195,842	621,244
2007	205,587	745,876

This was mirrored by the increase in the volume of transactions, which increased from EUR 621,244 million to EUR 745,876 million; and reflects the **dynamism of the savings sector in relation to the supply** and contracting of financial products for its clients, particularly considering that this occurred in a year when there was a serious financial crisis. Spain's economic growth has led to greater needs for hedging and investment products for both corporate and retail customers, who increasingly demand more sophisticated products, as Spain's financial markets develop.

In 2007 the liquidity crisis suffered by financial markets once again demonstrated the importance of converting securities in the portfolio into cash and, as a result, to manage cash flow liquidity as a whole. Whilst in 2005 and 2006 the main item developed in the Confederation's Treasury Department was equity instrument loans, in 2007 the highest growth was in fixed income security loans, with the number of repos and spot and forward transactions using such instruments quadrupling compared to 2006. This was reflected in CECA's rise in the Spanish AIAF fixed income market general ranking; from thirteenth place in 2006 to seventh in 2007. In addition, the market has grown rapidly, with **derivatives and structured products extending to all types of clients and amounts**.

CECA's Treasury Department has paid special attention to both of these operations. In the area of equity instrument loans, the Confederation has become a benchmark institution in the Spanish market, due to the volume of securities traded.

As for the booming **derivatives and structured products** market, in 2007, the Confederation's Treasury Department acted as counterparty in numerous interest rate risk hedging operations ; it designed a range of structured products for adaptation by interested institutions and, above all, it listed a wide range of structures as hedges for the products sold through commercial networks and to private banking clients.

Another important area of activity in 2007 for CECA's Treasury Department was in secondary credit markets where, until the summer's financial crisis, it was involved in a high level of brokerage transactions. In this connection, the Confederation has a broad institutional customer base, both in Spain and abroad, including not only banks but also insurance companies and investment and pension funds interested in buying securities issued by savings banks and their securitisation funds.

In 2007, **trading of promissory notes** by CECA's Treasury Department was of particular importance, with trading increasing from EUR 2,340 million in 2006 to EUR 3,989 million in 2007.

In 2007, the Confederation continued to enjoy **official market** maker status in both Government Debt and Spanish Treasury Bills, which translated into an active presence in secondary markets where these assets are traded.

The Confederation's international presence in the **trading of foreign bank notes** also increased. In 2007, operations began with Latin American countries, a natural area for expansion of this type of activity. CECA is now an important wholesaler in the world market for foreign bank notes, and aims to become one of the leaders in this market.

CECA'S TRADE IN PROMISSORY NOTES INCREASED FROM EUR 2.3 BILLION IN 2006 TO EUR 3.9 BILLION THIS YEAR

Other wholesale services 9.5

The Confederation has provided strong support for the structuring and management of multi-issuer issues from a range of savings banks and from their subsidiaries.

Despite the turbulence which shook the financial markets in the second half of the year, the Confederation has continued to discount issues of mortgage bonds through the programme designed by the company Ahorro y Titulización, the leading company in Spain for this type of product.

In this area, anticipating the liquidity problems suffered by the markets in the year, the Confederation has been an active party in the development of new Securitisation Funds, the basic objective of which is to serve as a liquidity tool for the savings banks, through the creation of Collateral Bonds for discount by the European Central Bank (AyT Colaterales Global Hipotecario I). The issue limit for this fund is EUR 16 billion.

The Confederation also supported the role played by savings banks as important lenders to the SME sector, acting as the Senior Mandated Arranger for the innovative new AyT ICO PYMES Líneas de Mediación I securitisation fund which, with a limit of EUR 14 billion, has served to mobilise the brokerage lines which the ICO (the Official Credit Institute) has with all financial institutions with which it has a financing agreement for SMEs.

NEW SECURITISATION FUNDS HAVE BEEN DEVELOPED AS LIQUIDITY TOOLS FOR SAVINGS BANKS

CECA has continued to act as counterparty and a financial agent for over 30 issues by savings banks, totalling some EUR 20 billion.

In the new structures area, CECA has designed the first multi-issuer securitisation fund for the American Extendible Notes markets, for the finance of savings banks in US dollars.

Special mention should be made of the 10th Anniversary of SICAVs, which was celebrated in London on 27 September. Spearheaded by the London branch, volumes of this vehicle increased last year to £1.394 billion from £1.246 billion.

In addition, this branch supported the medium-term finance of savings banks by organising private placements of savings banks issues in the German market (*Schuldschein*) worth EUR 1.5 billion.

CECA HAS CONTINUED TO ACT AS A COUNTERPARTY AND A FINANCIAL AGENT FOR OVER 30 ISSUES BY SAVINGS BANKS, TOTALLING SOME EUR 20 BILLION

The London branch has continued to provide support to all member savings banks in the three areas of its activity: international portfolios, capital markets and commercial operations. CECA currently leases out the premises used by 7 savings banks for their representative offices.

In 2007, CECA, meeting the objectives set in the Savings Banks' International Business Development Plan, rolled out new products and services and promoted access, both for savings banks and their customers, to international financial and commercial markets.

In 2007, CECA continued to expand its cooperative work with other institutions, both public and private sector, the objective of which is to develop international economic relationships: these bodies included: the World Savings Banks Institute, the European Savings Banks Group, the International Chamber of Commerce, the Higher Council of Chambers of Commerce, the CEOE (Spanish employer's organisation), the ESCA savings banks college and the Instituto Español de Comercio Exterior (ICEX - the Spanish Institute for Foreign Trade), etc.,

SEVEN SAVINGS BANKS HAVE OFFICES IN CECA'S LONDON BRANCH

In 2007, the Confederation, in addition to implementing the agreements already signed with international financial institutions, signed collaboration agreements with Sberbank, Russia's major bank, to facilitate financial services for Spanish companies wishing to do business with that country, and COFACE, an institution which provides business information reports, factoring services and export insurance in over 90 countries. In addition CECA joined the *International Finance Corporation*, a body which is part of the World Bank, the objective of which is to cover foreign trade operations with developing countries. As a result, services are available to both savings banks and their clients providing advice on foreign markets and providing products, services and hedging facilities, enabling the new market to be entered with the maximum chances of success, whatever the country.

During the last year, Euro-Sofac, a subsidiary of the European Savings Banks Group, merged with another French company, TEVEA, the main activity of which is fiscal representation and VAT recovery.

The resulting company, EUROTEVEA, in which CECA owns twenty percent of the capital, will support the international activity of savings banks and their clients, providing contacts, advice, and financial products and services in over 100 countries.

In addition, the Pan-European Direct Debit Service, which was established by CECA in 2006 to provide an international clearing system for payments for Germany, France and Italy, was expanded to include Portugal, the UK and Ireland. This provides companies that are savings bank customers with a clearing system for export-related transfers which is quick, secure, cheap and offers widespread coverage.

CECA HAS SIGNED AN AGREEMENT WITH SBERBANK TO PROVIDE FINANCIAL SERVICES TO SPANISH COMPANIES LOOKING TO DO BUSINESS WITH RUSSIA

In 2004, CECA established its CEA TSL subsidiary in Hong Kong to process import documentary credits issued by savings banks at the request of their clients; in 2007, both the number of countries covered by this system and the total number of transactions carried out increased.

Also in relation to CEA TSL, in 2007, as a result of the approval of the new UCP 600 rules and regulations, which govern the issue of documentary credits, CECA organised a conference with representatives of CITIBANK to present the new developments in the system, and the current and future prospects for international trade, to the 35 savings banks present.

In 2007, CECA opened the new premises of its Representative Office in Geneva; providing savings banks and their customers with larger offices in the centre of the city's financial district.

In terms of international transfers, CECA has made its new "Currency Channelling" service available to savings banks; this system enables payment orders to be sent more quickly and safely, and at lower cost.

In addition, the Confederation, which is responsible for the payment of pensions for a range of international bodies to people resident in Spain, signed an agreement to pay Italian pensions in Spain.

Also the WSBI (World Savings Bank Institute) developed its IRCA project to assist immigrant workers' financial transactions.

Finally, CECA signed the International Business Network Agreement developed by the European Savings Banks Group so that, through the European savings bank network, private individuals and companies can open accounts and have access to financial services in each and every country in the European Union.

CECA'S HONG KONG SUBSIDIARY HAS INCREASED BOTH THE NUMBER OF TRANSACTIONS IN WHICH IT IS INVOLVED AND THE NUMBER OF COUNTRIES WITH WHICH IT WORKS

On 18 September 2007, on behalf of all its member savings banks, CECA signed a new two-year cooperation agreement with the MundoSenior JV to channel payments of this annual holiday programme for senior citizens, promoted by IMSERSO, via savings banks' branches.

As a result member savings banks currently channel over 60% of operations relating to these trips, which enables the savings banks to provide a social service which is highly appreciated by a group which is closely linked to our sector.

Furthermore, and within the cooperation agreements with the Public Authorities, the joint venture formed by 36 savings banks and CECA for the cash flow management of Spain's National Lottery and Gambling Agency, of which the Confederation is the sole manager, continued to operate until 31 March 2007. In early 2007, Spain's National Lottery and Gambling Agency began the process for putting the system out to tender again. This time the contract was awarded to a new joint venture consisting of 25 savings banks and CECA, of which the Confederation is the manager. The annual average sum held by the National Lottery and Gambling Agency in accounts at the member banks of the joint venture was approximately EUR 114 million, which is around 45% of the Agency's total cash generated through the marketing of all its forms of gambling. In 2007, the savings banks belonging to the JV made the necessary provisions to offer a new service managing payments of large prizes for the national lottery, as requested by the National Lottery and Gambling Agency; something which the financial institutions previously contracted to provide this service had also been asked to provide.

IN 2007, THE CONFEDERATION OPENED THE NEW PREMISES OF ITS REPRESENTATIVE OFFICE IN GENEVA

OVER 60% OF THE TRIPS PROMOTED BY IMSERSO ARE CHANNELLED THROUGH MEMBER SAVINGS BANKS

Also in 2007, the **CECA-CAJAS HOGARES CONECTADOS joint venture** continued its activities. This JV, involving twenty-seven savings banks and CECA was set up in November 2005 under the collaboration agreement signed with the Industry, Tourism and Trade Ministry, in order to promote actions to facilitate citizens' access to the Information Society via the Connected Homes (Hogares Conectados) initiative. This initiative was widely backed by savings banks, which at the close of the period for granting loans under the cooperation agreement, had granted more than 21,000 loans worth around EUR 24 million; of all the institutions subscribed to this agreement, the joint venture was the financial group which granted most loans. In this respect, it should be noted that most of the loans granted (over 75%), were made in towns of fewer than 25,000 inhabitants and in deprived areas, which were among the priorities set by the Industry Ministry when the agreement was signed and as part of the Avanza Plan, on which the Ministry is focusing its efforts.

THE SAVINGS BANKS GRANTED OVER 21,000 LOANS, WITH A COMBINED VALUE OF 24 MILLION EUROS FOR THE PURCHASE OF IT EQUIPMENT AS PART OF ITS HOGARES CONECTADOS (CONNECTED HOMES) PROGRAMME

Technological services 9.6

The technological services which CECA provides performed well in 2007, boosted by the increasing penetration of new payment channels and cards in the market, and by the launch of new services, most notably those related to security, e-banking and management support services.

Payment systems

CECA is responsible for managing the **EURO 6000 System processing centre**, which enables the exchange of transactions carried out using the 14,200,000 cards issued by EURO 6000 members in 15,800 ATMs and using 313,000 point of sale terminals which use this system. In 2007, the volume of transactions processed exceeded 656 million, an increase of 12% on the previous year. The availability of the service over the year, weighted for real traffic, was 99.97%.

THIS YEAR THE EURO 6000 SYSTEM PROCESSED TRANSACTIONS WORTH EUR 656 MILLION; UP BY 12% ON 2006

CECA is constantly developing the technological support which it provides to members of the EURO 6000 system. Examples of this include work having begun on the **conversions to EMV** planned in SEPA, and a pilot project which has been carried out to evaluate the commercial applications of **contactless smart card technology** in the low value payment segment. Caja Segovia, working with EURO 6000 and MasterCard, and supported by CECA, is the first Spanish financial institutions to offer PayPass contactless smart cards to its clients.

The merchant-**acquiring** side of the payment cards business is demonstrating its strategic importance. For this reason, in 2007 CECA developed a set of important initiatives aimed at strengthening this area by improving the technical platform and communications systems, and introducing innovative commercial services.

In addition, CECA supports the savings banks in complying with **international security standards. These standards** are defined for payments systems by the PCI SSC (Payment Card Industry Security Standards Council). In 2007, common procedures were developed for use by institutions, and CECA was audited for the first time by an independent consultant in accordance with the standards and procedures established by PCI SSC.

Retail outlet transactions:	492,712,690	
ATM and branch transactions	164,143,300	
TOTAL 2007	**656,855,990**	
TOTAL 2006	586,399,631	12%

Other technological services provided by the Confederation to its members in relation to payment systems were also improved in 2007:

- **PECA**, the service which enables savings banks to manage all payment system products, has now been adapted to the EMV standard, including accreditation point by point of all its developments. The solution takes a modular approach to the administration of cards, terminals and ATMs, providing support for credit, debit and cash transactions and handling the settlement of transactions between merchants and saving bank customers in line with the savings banks' commercial policies. In 2007 the volume of transactions processed using PECA exceeded 108 million.

IN 2007, PECA, THE SERVICE WHICH ENABLES SAVINGS BANKS TO MANAGE ALL PAYMENT SYSTEM PRODUCTS, PROCESSED TRANSACTIONS WITH A VALUE OF OVER EUR 108 MILLION

- **SAT**, the service which enables savings banks to manage all of their credit payment systems, has also been fully adapted to the EMV standard. This service generates transaction statements, charges clients and credits merchants for transactions made with credit cards. This is done in line with the savings banks' commercial policies relating to charges, interest, etc. In 2007 the volume of transactions processed using SAT was EUR 22 million.

- The **CARD** service allows savings banks to delegate, to whatever degree each bank considers appropriate, the processing and control of incidents related to payment systems. In 2007, automated incident-handling mechanisms were improved and a set of tools designed to facilitate decentralised management and monitoring of incidents was made available to the savings banks which use this service, which can adapt these tools to their own organisational requirements. Members are showing great interest in this product as it resolves a central problem which in the past was extremely time-consuming for highly qualified personnel. At the end of 2007 14 savings banks were using this service.

The new fee system approved by the Board, which improves and simplifies the earlier versions, has been in use since the start of January 2007. At the same time, new functions have been added to the invoicing system in order to achieve the greatest possible visibility and transparency.

THIS YEAR, THE MULTI-CHANNEL ELECTRONIC BANKING SYSTEM PROCESSED 416 MILLION FINANCIAL TRANSACTIONS ON BEHALF OF 922,000 USERS

New Channels

CECA provides services related to virtual channels to 43 savings banks, credit institutions and companies. These services are aimed at achieving economies of scale with sufficient reach to enable the banks to distribute products and services via the new channels in the most efficient manner possible.

In 2007, the **multi-channel e-banking platform** handled 416 million financial transactions relating to 922,000 users with monthly transactions, with availability of 99.92%, weighted by real traffic.

During the year two new channels were added to the multi-channel electronic banking system. One of these was the development of **digital terrestrial television**, so that financial institutions which contract this service can provide their services using this medium. The other was the development of an application using JAVA and Windows technologies for installation on clients' **mobile handsets**, enabling them to exploit the capabilities of such devices and so encouraging functional convergence between PCs and mobile telephony.

In 2007, CECA continued to be a reference point for e-banking security for Spanish savings banks. CECA provides an anti-fraud monitoring service to 41 financial institutions. In 2007, 277 attacks on savings banks were detected and resolved by CECA through this service. Systems were developed for the use of the eDNI (electronic national identity card) as a means of authentication and signature in electronic banking . In addition, a tool for the on-line analysis of the behaviour of e-banking clients so as to detect and prevent fraud was also developed.

In 2007, some 439,000 **investment fund and securities trading** transactions were processed using CECA's New Channels infrastructure, via internet, telephone and mobile banking services and terminals in the branch network. In terms of investment products, a great deal of work was carried out to adapt all the contracting and advice tools offered by New Channels
to savings banks to meet MiFID standards.

CECA PROVIDES ANTI-FRAUD SERVICES TO 41 FINANCIAL INSTITUTIONS

THIS YEAR, AROUND 439,000 INVESTMENT FUND AND SECURITIES TRADING TRANSACTIONS WERE PROCESSED BY THE NEW CHANNELS INFRASTRUCTURE

CECA has continued the re-engineering work on the **Contact Centre** so as to improve service quality. It has diversified service provision with a range of telemarketing companies in order to provide greater flexibility and capacity to respond to change. Improved control mechanisms were established for service levels and online reports enabling the monitoring of this activity were made available to financial institutions which contracted this service, together with an electronically accessible audio and video recording tool for supervising response levels. In addition, many operating tasks have been automated, such as the replacement of communication of payment card blocking by fax with an e-mail application. This enabled the system operators to deal efficiently with 1.9 million calls in 2007.

In 2007, savings banks increased the services available using their online mobile portal, and the organisation's communications emphasised the importance of keeping a permanent presence on customers' mobile phones. Over 1 million transactions were processed in this way in 2007, of which 20,000 involved the movement of funds. Another channel linked to mobile phones which has been intensively used has been **SMS messages**, with 9.2 million messages being sent relating to 30 savings banks in 2007. The number of entities using this channel for transactions, whether for e-banking or for payment systems, increased last year, making the availability of the service of critical importance; last year availability was 98.76%.

A new service called "**Pago Amigo**" ("Friend Payment") has been developed and implemented, which can be used either online or from a mobile phone to provide person-to-person payment using telephones or e-mail instead of bank account details.

Since December 2004 the New Channels technology platform has been used as a system for developing and operating the Bravo project for **remittances sent by immigrants**. At the present time, 32 savings banks are involved in the project, progressively increasing the number of transactions carried out and the banks available in immigrants' home countries. In 2007, around 130,000 remittances were sent from 26 savings banks to 20 different overseas banks.

THIS YEAR, AROUND 439,000 INVESTMENT FUND AND SECURITIES TRADING TRANSACTIONS WERE PROCESSED BY THE NEW CHANNELS INFRASTRUCTURE

An executive dashboard management tool has been used by **New Channels** since June 2005. In 2007, call centre indicators were improved by introducing the concept of a campaign, typical of this environment, and migration to the new "Bits" executive dashboard also took place.

The **e-invoicing** project, involving 31 savings banks, came into operation in 2007. Since May invoicing of savings banks has been carried out electronically through the New Channels invoicing application; over time all other CECA departments will also join this system. This project enables participating savings banks to provide this service for their clients, and also complies with new regulations which stipulate that all invoicing with the public authorities must use the Central Tax Agency (AEAT) and Interbank Cooperation Centre (CCI) format, which is supported by this project.

New Channels has increased the range of products and services which can be contracted by entities which are involved in its projects, with the number of contracts agreed using the applications developed by CECA under the name e-marketing now amounting to over 6,200. During the year the applications have been adapted to the requirements of the Distance Marketing of Consumer Financial Services Law, which aims to establish increased safeguards for customers when entering into contracts with financial institutions.

The **enCuenta** application now has over 33,000 registered users and has continued to develop as an accounting tool for private individuals and industry professionals.

In e-commerce transactions, CECA's **virtual POS** continued to be a standard operating process among savings banks, now present at 34 banks, which in 2007 processed a total of 1.8 million transactions.

New Channels provided support in the development of the **Pan-European Direct Debit Service**, involving 21 savings banks, which has so far processed direct debits with Germany, Italy and France, totalling 24 million euros from 14 savings banks; there are plans for new countries to join, in order to boost international coverage for savings banks' customers.

CECA'S VIRTUAL POS CARRIED OUT 1.8 MILLION TRANSACTIONS THIS YEAR

New Channels was also involved in the **e-notary project** which involves 19 savings banks, and which makes it possible to complete personal loans applications online, with 9,410 loans so far having been agreed this way. During the year development work began on including mortgage loans on this platform.

Management Support Services

For almost ten years, CECA has been providing a wide range of support services to savings banks, covering areas such as **Human Resources, Administration and General Services**, so as to facilitate management work involved in purchasing and administration of suppliers and property and human resources (payroll, staff development, risk prevention and health and safety at work) management.

Work continued on improving the quality of these services in 2007, with improvements being made to management information and support for staff development management, particularly with regard to management of competences.

New functions have continued to be added to the "**Portal del Empleado**" (Employees' Portal), whilst a new version of its basic architecture has been brought into operation, which includes improvements to administration and presentation and technical improvements.

CECA HAS DEVELOPED A BUSINESS INTELLIGENCE SYSTEM KNOWN AS "BITS"

CECA has developed an initiative known as "Bits", which provides a set of information services and content using Business Intelligence technologies, tools and methodology. In other words, this is a Business Intelligence technology platform , which will serve to improve performance.

In addition to general financial information on each institution, this system also incorporates information on services such as the Pulso, New Channels and Payment Systems, using **executive dashboards** for each of these which enable situation analysis and benchmarking to take place with regard to the financial institutions contracting the services.

IN 2007 THE "GEO-MARKETING" PROJECT BEGAN TO PROVIDE KNOWLEDGE ABOUT CLIENTS BASED ON THEIR GEOGRAPHIC LOCATION

During the year, the **Pulso** service was consolidated, with twenty savings banks now using the system. The incorporation of Bits has enabled and encouraged the preparation of individualised studies and reports for those user savings banks with a strong focus on business monitoring.

Following an initiative proposed at one of the Pulso workshops, a **Geomarketing project** was launched, the objective of which was to provide knowledge about clients and their situation based on their geographical location. The preparation of a prototype in which 5 savings banks took part enabled this model to be evaluated and made it possible to consolidate the project at the end of the year.

Agora was solidly established as the Corporate Management System and the working environment for CECA executives with the addition of a display of the annual budget once this is approved by the Assembly.

Technological infrastructure and services

As an additional complement to business monitoring, and with the aim of improving quality and efficiency of all these services, the information system Activity Monitor was added to the Bits system. This facilitates the monitoring and control of the infrastructure which supports each of the services, providing online analysis of the number of transactions processed, average response time, service level, line occupation and monitoring systems for outsourced services.

THE HIDRA NETWORK PROVIDES 45 SERVICES TO 44 SAVINGS BANKS AND 32 CREDIT INSTITUTIONS AND SERVICE COMPANIES

In 2007, the **Hidra** network provided the savings banks with a set of services for both their branches and their central services. In total, 45 services are provided via this network, which are used by 44 savings banks and another 32 credit institutions and services companies. One new feature was the incorporation of a new support service for savings banks in the technical implementation of work stations for the **TARGET2** project.

In terms of CECA's mainframe technology, in 2007 the disk technology was updated with the installation of IBM 2107-8100 and 2107-8300 equipment with greater storage and redundancy facilities.

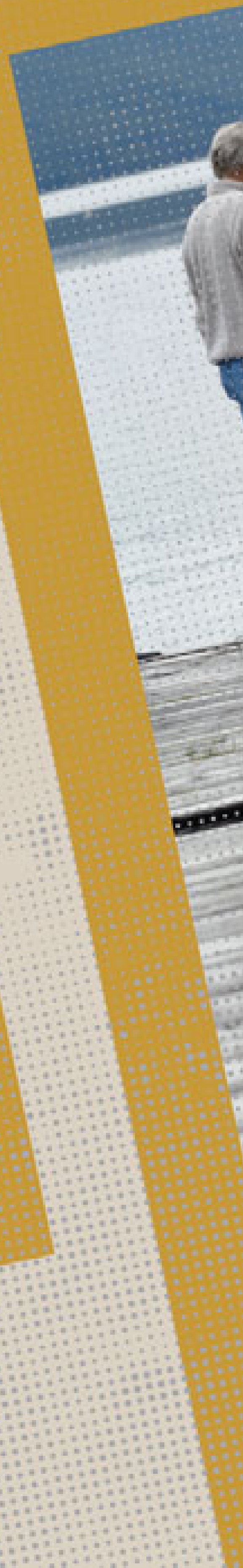
Outsourcing

In 2007, the main activities of the Technology *Outsourcing* Service were:

- The Production Service for transactions in Z/OS environments and Windows systems for the five savings banks that belong to InfoCaja.
- Operation of the private banking and retail banking system for fourteen savings banks and two banks.
- Prevention of Money Laundering Service.
- Operation of the insurance management system.
- Infrastructure services such as website hosting, hosting of savings bank servers or corporate internet and e-mail access, etc.

Welfare Fund

The Savings Banks' Foundation (FUNCAS)



THIS YEAR THE RESEARCH PROGRAMME INCLUDED WORK ON THE HOUSING PROBLEM, SAVINGS AND THE LEGAL NATURE OF SAVINGS BANKS

The Savings Bank Foundation (FUNCAS) was created by CECA in 1980. Its basic purpose is to carry out research and promotional activities which contribute to spreading knowledge of the functions performed by Spanish savings banks, and which improve technical and scientific aspects of economic information, paying particular attention to the financial system and, in general, to promote any activities which contribute to Spanish economic, social and cultural development.

The Foundation undertakes a range of programmes in order to achieve these objectives.

The first of these is its research programme. In order to carry this out, the Foundation contracts renowned experts in the areas to be studied. In 2007 the Foundation produced a total of 20 research reports on economic, financial and social issues, with particular focus on the problems faced by Spain's regional governments (or "autonomous communities"). At the present time a further sixteen reports are being prepared which will be published in 2008.

Some of the most important of these studies relate to issues such as housing problems, the savings behaviour of individuals and households in Spain and the legal nature of savings banks as foundations-companies. This research programme is mostly carried out by contracting external experts, complemented by intensive internal research work by the Foundation. Its Economics and Statistics, Regional Statistics, Financial analysis and Social Studies teams have prepared a range of indicators (covering the whole of the Spanish economy, EU and EMU convergence, the international economy, the economies of the autonomous communities and the Financial System) which are up-dated regularly, and which provide useful information for analysts and researchers. The Foundation makes this information available on its website, allowing access to everyone interested in it.

"IN THE RESEARCH PROGRAMME, THE MOST REMARKABLE STUDIES THIS YEAR ARE THOSE REFERRED TO THE HOUSING MARKET, SAVINGS AND THE LEGAL NATURE OF THE CAJAS".

The research work undertaken would be of no use if its conclusions were not widely communicated, and, therefore, these findings are published in FUNCAS's magazines, etc.

It publishes four magazines: *Papeles de Economía Española, Perspectivas del Sistema Financiero, Cuadernos de Información Económica and Panorama Social*. Each of these titles aims to fill a niche in the market. The first of these deals with issues of relevance to the Spanish economy. In 2007 it focussed on comparing financial systems, the methods used for the analysis of the economy, Spanish industry and the main challenges faced by the Spanish economy.

Perspectivas del Sistema Financiero (Financial System Outlook) is mostly concerned with innovations in the financial system, at both operational and institutional level. Issues published in 2006 featured such topics as venture capital, SME finance and foundations.

THE 200TH EDITION OF THE MAGAZINE "CUADERNOS DE INFORMACIÓN ECONÓMICA" WAS PUBLISHED THIS YEAR, AND WAS PRESENTED AT AN EVENT TO MARK WORLD SAVINGS DAY

In its six annual publications, *Cuadernos de Información Económica* (Economic Review) deals with the most vital questions of the moment. The variety of content in this magazine, and the fact that it deals with the current issues of the moment, has resulted in this magazine becoming an important source for the media, which often reproduce the main conclusions from its articles. We are very proud that 200 issues of this magazine have now been published, with issue 200 having been launched on World Savings Day at a ceremony presided over by the second vice-president of the Government and Minister of the Economy and Finance, Pedro Solbes Mira; at this event Professor Guillermo Calvo of the University of Columbia gave a speech entitled "*Lessons from financial globalisation: the new and the false*".

Panorama Social (Social Panorama) was launched recently and has focussed on two issues which are of particular interest to Spanish civil society: firstly, the problems arising from global warming, resulting in thirty courses and public events being organised by a range of institutions with the sole requirement that FUNCAS should be represented at all of the events where its presence was deemed useful. Of these, important events included the involvement of the Financial Analysis Department in the Banking Structure

Conference organised by the Chicago Federal Reserve and the event organised by the Board of Governors of the Federal Reserve in Washington; the Economics and Statistics Department has also been constantly involved in Spanish forums associated with analysis of the environment. And secondly, it focussed on the changes affecting Spanish universities.

THIS YEAR, A STUDY OF CONVERGENCE INDICATORS FOR THE SPANISH REGIONS WAS PUBLISHED

In addition to these magazines, as part of the thesis series of *Estudios de la Fundación* (Foundation Studies), three doctoral theses were published which had been awarded the *Enrique Fuentes Quintana* prize, and in the Análisis (Analysis) series a study was published on forms of analysis and measurement for regional innovation systems. Finally, in line with the traditional research interest in regional economic problems, a study on convergence indicators for the Spanish regions was published.

As a way of offering an insight into the research being carried out by a range of teams at Spanish universities, more than sixty originals from the *Documentos de Trabajo* (Working Documents) series have been published on the Foundation's website

This publishing work promotes the research being sponsored by the Foundation and is complemented by public events, courses and scientific meetings in which the issues deemed of most important at the time are discussed. As a result, a series of events has been organised under the title *Debates en la Fundación* (Foundation Debates) to carry out this task. In the last year one of the most important issues discussed was public protection of the family.

In addition, the various members of the Foundation have taken part in a range of events associated with our economy. Some members of the Foundation have taken part in summer courses at the International University of Andalucia on the new income tax law.

As part of the collaboration framework agreed with the Carolina Foundation, FUNCAS is responsible for directing the education given in the expert-level course on managing financial institutions, and prepares the material which is used on the course.

As a result of its decision to also undertake activities other than those directly related to the economy, the Foundation organises the Hucha de Oro (Golden piggy bank) story competition. The first prize at the 34th Award ceremony for this literary prize was won by "*Carne de exportación*" by Inés Fernández Moreno. The chairman of the jury was the Royal Academy member Luis Mateo Díez and the prizes were awarded at the Madrid Casino. The winning story was read out in public by the actor Miguel Ángel Solá who was accompanied on the accordion by Fabián Carbone.

AN EXPERT-LEVEL COURSE ON MANAGING FINANCIAL INSTITUTIONS WAS GIVEN IN COLLABORATION WITH THE CAROLINA FOUNDATION

For the second year, *Tiempo de Música* organised a trumpet concert, which featured the soloist from the RTVE TV channel orchestra, Benjamín Moreno, accompanied by the pianist Isabel Hernández. The concert was presented by the critic Víctor Burell.

The Foundation was active on two fronts related to the environment. Firstly, it financed the FONDENA prize organised by the *Fondo* Foundation for the protection of the environment, which is awarded for creative work or research which makes a significant contribution to the preservation of Spanish flora and/or fauna. The 6th prize giving ceremony was attended by His Majesty the King of Spain.

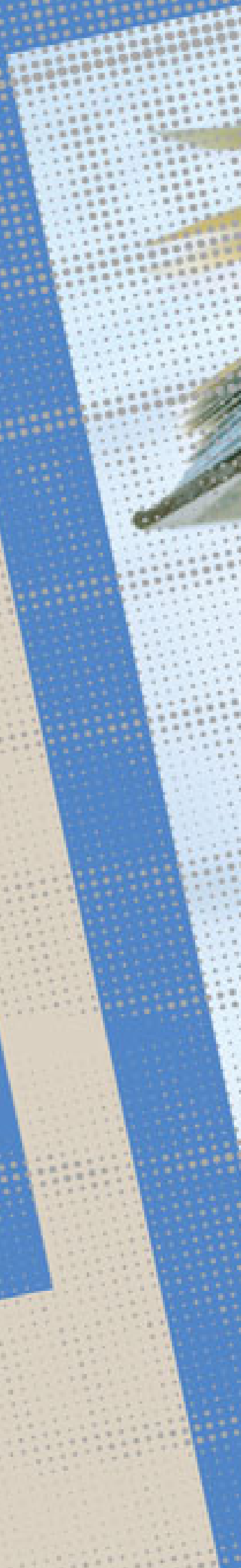
THE FIRST PRIZE IN THE 34TH HUCHA DE ORO STORY COMPETITION WAS AWARDED TO "CARNE DE EXPORTACIÓN", BY INÉS FERNÁNDEZ MORENO

In addition, FUNCAS lent financial support to Europarc España with a series of bursaries for masters students in Natural Protected Spaces organised by this institution, and for the awards given on the European Day of Parks.

We cannot finish this summary without recognising the sad death of the Managing Director and Honorary Chairman, Profession Enrique Fuentes Quintana. His memory will always be linked to the Foundation; founded in great part due to his personal initiative, and to which he dedicated his considerable efforts.

Annexes

Main standards approved and projects pending approval in 2007
CECA publications
FUNCAS publications
Glossary
Chronology
Headquarters, branches and delegate offices




11

Main standards approved and projects pending approval in 2007 11.1

This annexe groups together all financial regulations, whether state, autonomous community or international, passed in the last year and the main draft regulations at the report stage and awaiting approval in the year.

All the regulations approved detailed herein can be consulted at www.normativafinanciera.com. This website includes CECA's financial regulation database, which is available to experts in the field from 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 to include all amendments. The most significant laws can be searched by article, to which descriptions have been attached.

I SPANISH STATE LEGISLATION:

1. Main regulations approved

a) Account auditing:

::: Resolution of 1 March 2007 from the Spanish Accounting and Audit Institute (ICAC), which published the Technical Auditing Standards for the Auditor's Report for the Annual Accounts of Credit Institutions.

b) Money laundering:

::: Order EHA/2444/2007, dated 31 July, which enacts the Regulations provided for in Law 19/1993, dated 28 December, on measures for the prevention of money laundering, which was approved by Royal Decree 925/1995, dated 9 June, relating to reports by external experts on the procedures and bodies for internal communication and control to prevent money laundering.

c) Venture capital:

::: Law 30/2007, dated 30 October, on Public Sector Contracts (modification of Law 1/1999 and the Insolvency Law, on venture capital companies).

d) Remote selling of financial services:

::: Law 22/2007, dated 11 July, on the remote selling of financial services to consumers.

e) Accounting:

::: Law 16/2007, dated 4 July, on the reform and adaptation of commercial legislation to harmonise it with international law and European Union regulations.

::: Royal Decree 1514/2007, dated 16 November, which approved the Spanish National Chart of Accounts.

f) Collective Investment Institutions:

::: Order PRE/3/2007, dated 10 January, concerning the agreements to promote asset securitisation funds to boost business financing

::: Royal Decree 362/2007, dated 16 March, which modified the Regulations implementing Law 35/2003, dated 4 November, on collective credit institutions, which was approved by Royal Decree 1309/2005, dated 4 November.

::: The Resolution dated 13 June 2007 from the Spanish Securities Market Commission (CNMV), which determined that certain modifications to the management, constitution and articles of association of collective investment institutions were of limited importance.

::: Circular 1/2007, dated 11 July, from the Spanish Securities Market Commission (CNMV) on requirements for statistical information from collective investment institutions for the European Union, which partially modified Circular 2/1998, dated 27 July, on statistical information requirements from collective investment institutions in the European Monetary Union.

g) Government debt market:

::: Bank of Spain Circular 2/2007, dated 26 January, on Government Debt in book entries.

h) Securities market:

::: Royal Decree 361/2007, dated 16 March, which implemented Law 24/1988, dated 28 July on the Securities Market, relating to shareholdings in companies which manage secondary markets, and companies which administer the registration, settlement and clearing of securities.

::: Royal Decree 363/2007, dated 16 March, which modified Royal Decree 726/1989, dated 23 June, on Governing Bodies and members of Stock Markets, Stockbrokers and Collective Funds, Royal Decree 1814/1991, dated 20 December, which regulates the futures and options markets and Royal Decree 116/1992, dated 14 February, on the representation of shares through book entries and the clearing and settlement of stock market transactions.

::: Royal Decree 364/2007, dated 16 March, which amended Royal Decree 685/1982, dated 17 March, which implemented certain aspects of Law 2/1981, dated 25 March, on regulation of the mortgage market; Royal Decree 1343/1992, dated 6 November, which implemented Law 13/1992, dated 1 June, on equity and supervision on a consolidated basis of financial entities; Royal Decree 867/2001, dated 20 July, on the legal regime for companies providing investment services; and Royal Decree 1333/2005, dated 11 November, which implemented Law 24/1988, dated 28 July on the Securities Market in relation to market abuse.

::: Law 6/2007, dated 12 April, amending Securities Market Law 24/1988, dated 28 July, to modify the system for takeover bids and the transparency of issuers

::: Resolution of 16 May 2007 from the Council of the Securities Market Commission, which modified the Regulations of the Internal Regime of the Spanish Securities Market Commission.

::: Royal Decree 1066/2007, dated 27 July, on the regime for public takeover bids for securities.

::: Royal Decree 1362/2007, dated 19 October, which implemented Law 24/1988, dated 28 July, on the Securities Market in relation to requirements for transparency relating to issuers whose securities are admitted for trading on official secondary markets or other regulated European Union markets.

i) The mortgage market:

- Royal Decree 364/2007, dated 16 March, which amended Royal Decree 685/1982, dated 17 March, which implemented certain aspects of Law 2/1981, dated 25 March, on regulation of the mortgage market; Royal Decree 1343/1992, dated 6 November, which implemented Law 13/1992, dated 1 June, on equity and supervision on a consolidated basis of financial entities; Royal Decree 867/2001, dated 20 July, on the legal regime for companies providing investment services; and Royal Decree 1333/2005, dated 11 November, which implemented Law 24/1988, dated 28 July on the Securities Market in relation to market abuse.

- Order EHA/3011/2007, dated 4 October, which modified Order ECO/805/2003, dated 27 March, on valuation regulations for property and certain rights related to particular financial objectives.

- Law 41/2007, dated 7 December, which modified Law 2/1981, dated 25 March, on regulation of the mortgage market and other regulations related to the mortgage and finance systems and regulation of reverse mortgages and dependency insurance, and which established certain taxation regulations.

j) Modification of the Statutes of Autonomy of Spain's Autonomous Regions:

- Organic Law 1/2007, dated 28 February, on Reform of the Statute of Autonomy of the Balearic Islands.

- Organic Law 2/2007, dated 19 March, on Reform of the Statute of Autonomy of Andalucia.

- Organic Law 5/2007, dated 20 April, on Reform of the Statute of Autonomy of Aragon.

k) Data Protection:

- Spanish Data Protection Agency Resolution, dated 12 February 2007, stating the date on which notification of files carried out using forms approved by Spanish Data Protection Agency Resolution dated 30 May 2000 would cease to be valid.

- Bank of Spain Circular 3/2007, dated 27 July, updating Circular 2/2005, dated 25 February, regarding computerised files containing personal data managed by the Bank of Spain.

- Royal Decree 1720/2007, of 21 December, approving the Regulation implementing Organic Law 15/1999, dated 13 December, on personal data protection

l) Equity:

- Law 36/2007, dated 16 November, which modified Law 13/1985, dated 25 May, on investment ratios, equity and information requirements for financial intermediaries and other regulations relating to the financial system.

::: Royal Decree 364/2007, dated 16 March, which amended Royal Decree 685/1982, dated 17 March, which implemented certain aspects of Law 2/1981, dated 25 March, on regulation of the mortgage market; Royal Decree 1343/1992, dated 6 November, which implemented Law 13/1992, dated 1 June, on equity and supervision on a consolidated basis of financial entities; Royal Decree 867/2001, dated 20 July, on the legal regime for companies providing investment services; and Royal Decree 1333/2005, dated 11 November, which implemented Law 24/1988, dated 28 July on the Securities Market in relation to market abuse.

ll) Payment systems:

::: Bank of Spain Circular 1/2007, dated 26 January, on information to be provided by Sociedad Española de Sistemas de Pago, SA, Iberpay, and approval of its regulations.

m) Foreign transactions:

::: General Directorate of the Treasury and Financial Policy Resolution, dated 20 December 2007, modifying the Resolution of 9 July 1996 by the General Directorate of Trade Policy and Foreign Investment, establishing regulations for the application of articles 4, 5, 7 and 10 of the Order of the Ministry of Economy and Finance, dated 27 December 1991, on foreign transactions.

n) Government subsidised housing:

::: Housing Ministry Under-Secretariat Resolution, dated 20 April 2007, publishing the Council of Ministers resolution of 30 March 2007 which revised and modified effective annual interest rates for eligible loans granted within the framework of the 1992 and 1995 programmes (1992-1995 Housing Plan), the 1998 programme (1996-1999 Housing Plan) and the 2002-2005 Housing Plan

::: Housing Ministry Under-Secretariat Resolution dated 20 April 2007, publishing the Council of Ministers resolution of 30 March 2007, which set the effective annual interest rates for loans arranged within the scope of the 2005-2008 Housing Plan

2. Draft regulations announced and pending approval

- Draft Law on competition and priority of loans in the event of special executions
- Draft Law regulating the protection of consumers in brokerage services and in contracting credit and loans.
- Draft law on structural modifications to companies.
- Draft Royal Decree regulating the arbitration system for consumption and mediation through the arbitration process.
- Draft Royal Decree implementing article 21 of Law 44/2002, dated 22 November, on measures to reform the financial system in relation to electronic money institutions.
- Draft Royal Decree approving Fair Trading Regulations.
- Draft Ministerial Order EHA/XXX/2007 implementing regulations relating to accounting practices for collective investment institutions, the measurement of equity, the computation of risk diversification ratios and certain aspects of collective investment institutions whose investment policy consists of reproducing, replicating, or taking as a benchmark a stock market or fixed income index, and the implementation of which is authorised by the Spanish National Securities Market Commission.
- Draft Order EHA/ 2007 which establishes the procedures for communication of abandoned deposits and balances by financial institutions.
- Draft Order EHA/.../2007, dated ... ... which modified Order PRE/3662/2003, dated 29 December, regulating the new procedures for the collection of non-tax income collected by branches of the Ministry of Economy and Finance and cash paid in at the General Public Depositary (caja general de depósitos).
- Preliminary consultation on the planned circular on solvency which will replace Bank of Spain Circular 5/1993.
- Draft Decree to regulate the registration of savings banks in Galicia and the registration of their senior executives.
- Draft Order establishing regulations relating to the organisation of the electoral process for savings banks in Galicia.

II INTERNATIONAL LEGISLATION:

Main EC regulations enacted

a) Accountancy:

- European Central Bank Regulation (EC) 4/2007, dated 14 December 2006, modifying Regulation (EC) 2423/2001 (ECB/2001/13) relating to the consolidated balance sheet of the monetary financial institutions sector.
- Commission Regulation (EC) 610/2007, dated 1 June 2007, amending Regulation (EC) 1725/2003, adopting international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council in relation to International Financial Reporting Interpretation Committee (IFRIC) Interpretation 10.
- Commission Regulation (EC) 611/2007, dated 1 June 2007, amending Regulation (EC) 1725/2003, adopting international accounting standards in accordance with Regulation (EC) 1606/2002 of the European Parliament and of the Council in relation to International Financial Reporting Interpretation Committee (IFRIC) Interpretation 11.

b) Credit entities:

- Directive 2007/44/EC of the European Parliament and Council, dated 5 September 2007, which modified Directive 92/49/EEC of the Council and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC with regards to the procedural regulations and evaluation criteria applicable in relation to the prudent evaluation of acquisitions and increases in shareholdings in the financial sector.

c) Statistics:

- European Central Bank Guideline, dated 18 December 2006, concerning certain statistical reporting requirements of the ECB and the procedures for statistical information exchange in the European Central Banking System in the field of statistics on public finances.
- European Central Bank Recommendation, dated 31 May 2007, modifying Recommendation ECB/2004/16 on the ECB's statistical information requirements in relation to the balance of payments, international investment positions and international reserves.

- European Central Bank Guideline, dated 31 May 2007, modifying Guideline ECB/2004/15 on the ECB's statistical information requirements in relation to the balance of payments, international investment positions and international reserves.

- Regulation (EC) 716/2007 of the European Parliament and the Council, dated 20 June 2007, relating to EU statistics on the structure and activities of foreign subsidiaries.

- European Central Bank Regulation (EC) 958/2007, dated 27 July 2007, relating to statistics on the assets and liabilities of investment funds.

d) The euro

- The agreement dated 21 December 2006 between the European Central Bank and the central banks of the member states which are not in the euro zone, which modified the Agreement of 16 March 2006 between these bodies, which established the operating procedures for exchange rates in the third stage of economic and monetary union.

- Ruling by the European Central Bank, dated 15 December 2006, modifying ECB Ruling 2001/15 concerning the issue of euro-denominated bank notes.

- Council Regulation (EC) 835/2007, dated 10 July 2007, which modified Regulation (EC) 974/98 on the introduction of the euro in Cyprus.

- Council Regulation (EC) 836/2007, dated 10 July 2007, which modified Regulation (EC) 974/98 on the introduction of the euro in Malta.

- Council Ruling, dated 10 July 2007, in accordance with Article 122, section 2 of the Treaty on Malta's entry into the single currency on 1 January 2008

- Council Ruling, dated 10 July 2007, in accordance with Article 122, section 2 of the Treaty on Cyprus' entry into the single currency on 1 January 2008

- Council Regulation (EC) 1135/2007, dated 10 July 2007, which modified Regulation (EC) 2866/98 on the conversion rate for the euro with respect to Cyprus.

- Council Regulation (EC) 1134/2007, dated 10 July 2007, which modified Regulation (EC) 2866/98 on the conversion rate for the euro with respect to Malta.

e) Collective Investment Institutions:

- Commission Directive 2007/16/EC, dated 19 March 2007, which established the dispositions for the application of Council Directive 85/611/CEE, which coordinated the legal, regulatory and administrative dispositions relating to certain collective investment in transferable assets institutions (UCITS) with regard to the clarification of certain definitions.

f) The Securities Market:

- Commission Regulation (EC) 211/2007, dated 27 February 2007, which modified Regulation (EC) 809/2004, of the European Parliament and the Council, with regard to the financial information which must be contained in the prospectus when the issuer has a complex financial history or has acquired significant financial commitments.

- Commission Directive 2007/14/CE, dated 8 March 2007, which established dispositions for the application of certain prescriptions in Directive 2004/109/EC on the harmonisation of transparency requirements relating to information on issuers whose instruments are not admitted for trading in a regulated market.

g) Monetary policy:

- European Central Bank Guideline, dated 21 December 2006, on the management of the foreign reserve assets of the European Central Bank by national central banks and the legal documentation required for asset trading.

- European Central Bank Decision, dated 15 December 2006, which adopted the measures required for the contribution of the capital required by the Central European Bank from the participating central national banks.

- European Central Bank Decision, dated 15 December 2006, which adopted the measures required for the contribution of accumulated value to the equity of the European Central Bank, and for the adjustment of the assets of national central banks by an amount equivalent to the foreign reserves transferred.

- European Central Bank Decision, dated 15 December 2006, which established the conditions for the transfer of shareholdings in the European Central Bank between national central banks and adjustments to the capital contributed.

- European Central Bank Decision, dated 15 December 2006, on the shareholdings of national central banks in the capital of the Central European Bank.

- European Central Bank Decision, dated 18 December 2006, which adopted the measures required for the contribution of the capital required by the Central European Bank from non-participating central national banks.

- European Central Bank Decision, dated 30 December 2006, relating to the contribution of capital, transfer of foreign reserve assets and the contribution of reserves and provisions from the European Central Banks to Banka Slovenije.

- European Central Bank Guideline, dated 20 July 2007, which modified Guideline ECB/2006/28 on the management of the foreign reserve assets of the Central European Bank by national central banks and the legal documentation required for asset trading.

- European Central Bank Guideline, dated 20 September 2005, amending Annexes I and II to Guideline ECB/2000/7 on monetary policy instruments and the procedures of the Eurosystem.

h) Data Protection:

- European Central Bank Decision, dated 17 April 2007, which adopted complementary regulations on data protection in the European Central Bank.

i) Equity:

- Commission Directive 2007/18/EC, dated 27 March 2007, which modified Directive 2006/48/EC of the European Parliament and the Council, with regard to the inclusion or exclusion of certain bodies in its scope of application, and of the treatment of risk in multi-lateral development banks.

j) Target:

- European Central Bank Guideline, dated 26 April 2007, concerning the Trans-European Automated Real-time Gross settlement Express Transfer system (TARGET 2)

k) Transparency of information:

- Commission Recommendation, dated 11 October 2007, on the electronic network of officially appointed mechanisms for the central storage of regulated information referred to in Directive 2004/109/EC of the European Parliament and of the Council.

III REGIONAL LEGISLATION:

Main regulations enacted affecting the savings banks

- Order ECF/70/2007, dated 15 March, from Catalonia, which established regulations relating to the regime for per diem allowances for savings banks.

- Law 5/2007 from Castilla y León, dated 28 March, which modified the amended Castilla y León Savings Banks Law, which was approved by Legislative Decree 1/2005 of 21 July.

- Law 3/2007 from Madrid, dated 26 July, on Urgent Measures for the Modernisation of the Government and Administration of the Community of Madrid.

- Law 5/2007 from Catalonia, dated 4 July on tax and financial measures.

CECA Publications 11.2

Monthly ::: **Agrocajas**
Review of European agrarian legislation.

Quarterly ::: **Análisis Comparativo (*)**
Comparison of basic data relating to financial entities by province and Autonomous Community. Market shares. League table of institutions.

Annual ::: **Anuario Estadístico de las Cajas de Ahorros**
Statistical yearbook containing relevant data for each savings bank and sector statistical series. Includes the year-end public financial statements of each savings bank.

Monthly ::: **Apunte de Coyuntura Económica**
General overview of economic developments, both domestically and internationally.

Annual ::: **Asamblea de Montes de Piedad (*)**
Publication of the papers presented at the 16th General Assembly of Pawnbroking institutions held in León.

Monthly ::: **Balances de las Cajas de Ahorros (**)**
Public balance sheets of each savings bank and for the whole sector.

Quarterly ::: **Boletín COAS (*)**
Bi-monthly R+D+I bulletin. Brief roundup of latest news on new technologies in the field of information and communications systems.

Monthly ::: **Boletín Estadístico (*)**
Statistical gazette containing all the monthly data available for the savings bank sector, including basic details of each institution and the financial system.

Quarterly ::: **Cuentas de Pérdidas y Ganancias de las Cajas de Ahorros (**)**
Public Income Statements for each savings bank and for the sector as a whole.

Quarterly ::: **Estados Financieros consolidados de las Cajas de Ahorros (**)**
Consolidated balance sheet and income statement for each savings bank.

Quarterly ::: **Informe Estadístico (*)**
Compilation of all the quarterly statistical information available for the savings banks sector. Breakdown by province of basic details and number of branches.

Quarterly ::: **Resultado de los Grupos Consolidados de las Cajas de Ahorros (*)**
Analysis of the aggregate results of the financial groups of savings banks.

Monthly ::: **Revista "Ahorro"**
Savings Banks Sector journal. Issues published in 2007 (428-438).

(*) Restricted publication, available only to savings banks.
(**) Publications only available in electronic format.

OTHER PUBLICATIONS

June 2007 ::: Literatura sobre los Montes de Piedad
Bibliography of articles and publications relating to Pawnbrokers.

Digital publications
(only for savings banks)

Daily ::: **Boletín Fiscal**
Legislation, theory and case law on taxation for savings banks newsletter.

Half-yearly ::: **Boletín M@rketing**
Marketing newsletter with the latest developments and articles relating to the financial market.

Three times a year ::: **Boletín Melania de Auditoría**
Internal and external audit function, money laundering, compliance and risk management newsletter.

Occasional ::: **Boletín Melania de Calidad**
Quality management at savings banks newsletter.

Annual ::: **Boletín Melania de la COAS**
Newsletter on savings banks' projects.

Six times a year ::: **Boletín Melania de la ESCA**
Business management, training and leadership newsletter.

Monthly ::: **Boletín Melania de Marketing y Publicidad**
Marketing and advertising of financial products newsletter.

Half-yearly ::: **Boletín Melania de Operaciones**
Operating management newsletter.

Three times a year ::: **Boletín Melania de Recursos Humanos**
Selection, recruitment, hiring, human resources management, labour relations, prevention of occupational hazards training newsletter.

Weekly ::: **Boletín Melania de Seguridad**
Newsletter on financial security, security products, topics and interviews relating to these areas.

Daily ::: **Facsímiles de Billetes Extranjeros**
Facsimiles of foreign notes in operation for CECA.

Annual ::: **Legislación de las Cajas de Ahorros**
Compilation of the legislation enacted by Spain's autonomous regions on matters affecting savings banks.

Funcas Publications 11.3

PAPERS ON THE SPANISH ECONOMY

May 2007 ::: Economic analysis: instruments and interpretation; (2007), nº 111

June 2007 ::: Spanish industry:outlook evaluation and future; (2007), nº 112

October 2007 ::: Current economic challenges; (2007), nº 113

December 2007 ::: Competition in retail financial services; (2007), nº 114

October 2007 ::: "Regional (Autonomous Communities) economies" series:
Galicia and the North of Portugal. Economic keys to a euro region; (2007), nº 22

PROSPECTS FOR THE FINANCIAL SYSTEM

March 2007 ::: Venture capital and its management companies; (2007), nº 89

June 2007 ::: SME Finance; (2007), nº 90

November 2007 ::: Foundations; (2007), nº 91

ECONOMIC REVIEW

March 2007 ::: Autonomous communities: learning to grow; (January - February 2007), nº 196

May 2007 ::: Economic briefing: highlights and shadows; (March - April 2007), nº 197

June 2007 ::: The energy challenge; (May - June 2007), nº 198

July 2007 ::: Savings Banks: 30 years on the path of freedom; (July - August 2007), nº 199

October 2007 ::: 20 years of the economy in 200 reviews; (September - October 2007), nº 200

December 2007 ::: The State Budget 2008 (November - December 2007), nº 201

SOCIAL PANORAMA

July 2007 ::: The environment at the start of the 21st Century: crisis or adapting?; (2007), nº 5

December 2007 ::: Changing universities and students: political projects and social responses; (2007), nº 6

STUDIES CONDUCTED BY THE FOUNDATION

March 2007 ::: Real convergence indicators for the Spanish regions / Encarnación Cereijo, Jaime Turrión and Franisco J. Velázquez; (2007), nº 23

June 2007 ::: Regional innovation systems: new forms of analysis and measurement (Analysis Series) / Mikel Buesa, Joost Heijs, Björn Asheim, Thomas Baumert, Mikel Navarro and Mónica Martínez Pellitero; (2007), nº 24

July 2007 ::: The economic impact of controlling climate change in Spain (Thesis series) / Mikel González Ruiz de Eguino; (2007), nº 25

July 2007 ::: The fiscal response of developing countries to international aid flows: application to the case of Central America (Thesis series) / Mariola Gozalo Delgado; (2007), nº 26

July 2007 ::: aThe economic incidence of social security payments and the labour market in Spain (Thesis series) / Ángel Melguizo Esteso; (2007), nº 27

OTHER PUBLICATIONS

January 2007 ::: Regional Economic Balance Sheet (Autonomous Communities and Provinces) - 2000 to 2005 / Julio Alcaide Inchausti, Pablo Alcaide Guindo; (2007)

January 2007 ::: Lessons in Mathematical Economics / Carlos de Orduña y Zarauz; (2007)

December 2007 ::: "*Carne de exportación y otros cuentos*" (Meat for export and other stories). 34th Hucha de Oro (Golden piggy-bank) short story competition

DIGITAL PUBLICATIONS
WORKING PAPERS

January 2007 ::: Empirical analysis of social preferences in terms of the social welfare expenditure of savings banks / Alejandro Esteller-Moré, Jonathan Jorba Jiménez and Albert Solé-Ollé; (2007), nº 301

January 2007 ::: Assessing the enlargement and deepening of regional trading blocs: The European union case / Salvador Gil-Pareja, Rafael Llorca-Vivero and José Antonio Martínez-Serrano; (2007), nº 302

January 2007 ::: Are franchises a form of finance?: Evidence from the Spanish case / Vanesa Solís Rodríguez and Manuel González Díaz; (2007), nº 303

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Glossary 11.4

ACARL ::: *Asociación de Cajas de Ahorros para las Relaciones Laborales* (Savings Banks' Association for Labour Relations)

AEAT ::: *Agencia Estatal de Administración Tributaria* (Central Tax Agency)

AEB ::: *Asociación Española de Banca* (Spanish Banking Association)

ESBG ::: *Agrupación europea de Cajas de Ahorros* (European Savings Banks' Group)

AENOR ::: *Asociación Española de Normalización y Certificación* (Spanish Quality Association)

AIAF ::: *Mercado Español de Renta Fija* (Spanish Fixed Income Market)

ALM ::: *Gestión del Riesgo del Tipo de Interés* (Asset Liability Management)

AMAEF ::: *Agrupación de la Mediación aseguradora de entidades Financieras* (Insurance Brokerage for Financial Entities Association)

ANCERT ::: *Agencia Notarial de Certificación* (Notarial Certification Agency)

ASNEF ::: *Asociación Nacional de Establecimientos Financieros de Crédito* (National Association of Financial Credit Establishments)

AUTELsi ::: *Asociación Española de Usuarios de las Telecomunicaciones y de los Sistemas de Información* (Spanish Association of Telecommunications and Information Systems Users)

BIS II ::: Basel II

BME ::: *Bolsas y Mercados Españoles* (Spanish Stock Market operator)

CARD ::: *Centro Activo para Resolución de Disputas* (Active Centre for Dispute Resolution)

CCI ::: *Centro de Cooperación Interbancaria* (Interbank Cooperation Center)

CEA TSL ::: *Cajas Españolas de Ahorros* (Spanish Savings Banks) Trade Services Limited

CEAMI ::: *Centro de Apoyo a la Microempresa* (Small Company Support Centre)

CECA ::: *Confederación Española de Cajas de Ahorros* (Spanish Savings Banks' Confederation)

CEOE ::: *Confederación Española de Organizaciones Empresariales* (Spanish Confederation of Business Organisations)

CEPYME ::: *Confederación Española de la Pequeña y Mediana Empresa* (Spanish Confederation of Small and Medium-sized Businesses)

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

COAP ::: *Comité de Activos y Pasivos* (Assets and Liabilities Committee)

COAS ::: *Comisión de Organización, Automación y Servicios* (Organisation, Automation and Services Commission)

CSR ::: Corporate Social Responsibility

CTN ::: *Comité Técnico de Normalización* (Technical Standardisation Committee)

EBA ::: Euro Banking Association

EC ::: European Commission

ECB ::: European Central Bank

ECF ::: Economia y Finanzas (Economics and Finance)

ECO ::: Ministry of the Economy

EEA ::: European Economic Area

EEC ::: European Economic Community

EHA ::: *Ministerio de Economía y Hacienda* (Ministry for the Economy and Finance)

EMU ::: European Monetary Union

EMV ::: Europay Mastercard Visa

ERP ::: *Sistemas Integrales de Gestión para la Empresa* (Integrated Management Systems for Companies

ESCA ::: *Escuela Superior de Cajas de Ahorros* (Savings Bank college)

EU ::: European Union

FEDECRÉDITO ::: *Federación de Cajas de Crédito y Bancos de los Trabajadores* (Federation of Credit Banks and Employees' Banks)

FUNCAS ::: *Fundación Cajas de Ahorros* (Savings Bank Foundation)

GMRA ::: Global Master Repurchase Agreement

GMSLA ::: Global Master Securities Lending Agreement

GREF ::: *Grupo de Responsables de Formación de Entidades Financieras* (Financial Institutions Training Managers Group)

GRI ::: Global Reporting Initiative

HR ::: Human Resources

IAS ::: International Accounting Standards

IBERPAY ::: *Sociedad Española de Sistemas de Pagos* (Spanish Payment Systems Company)

ICCA ::: *Instituto de Crédito de las Cajas de Ahorros* (Savings Bank Credit Institute)

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)

INVERCO ::: *Asociación de Instituciones de Inversión Colectiva y Fondos de Pensiones* (Association of Collective Investment institutions and Pension Funds)

ISDA ::: International Swaps and Derivatives Association

ISO ::: International Organisation for Standardisation

JV ::: Joint Venture

LORCA ::: *Ley Órganos Rectores de las Cajas de Ahorros* (Law on the Governing Bodies of Savings Banks)

MiFID ::: Markets in Financial Instruments

OBS ::: *Obra Benéfico Social* (Social Work)

PCI SSC ::: Payment Card Industry Security Standards Council

PECA ::: *Pago Electrónico Cajas de Ahorros* (Savings Bank e-payments)

PRE ::: *Ministerio de la Presidencia* (Ministry of the President)

RAI ::: *Registro de Aceptaciones Impagadas* (Register of unpaid bills of acceptance)

RIC ::: *Recursos Integrales de Comunicación* (Integrated Communication Resources)

RoVaR ::: Ratio between Results and VaR

RTVE ::: Radio Televisión Española

SAP ::: *Sistemas de Aplicaciones y Productos* (Systems Applications and Products)

SAT ::: *Servicio de Autorización de Tarjetas* (Card Authorisation Service)

SEPA ::: Single Euro Payment Area

SESP ::: *Sociedad Española de Sistemas de Pagos* (Spanish Payment Systems Company)

SICAVs ::: *Sociedades de Inversión de Capital Variable* (Variable Capital Investment Companies)

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

TINSA ::: Tasaciones Inmobiliarias, S.A.,

UCITS ::: *Organismo de Inversión colectiva en Valores Mobiliarios* (Collective Securities Investment Body)

UNACC ::: *Unión Nacional de Cooperativas de Crédito* (Spanish National Union of Credit Cooperatives)

VaR ::: Value at Risk

VAT ::: Value Added Tax

WSBI ::: World Savings Bank Institute

WSBI ::: World Savings Banks Institute

Chonology 11.5

9 January ::: Presentation of issue 9 of the magazine *Papeles de Economía Española* (Housing: prices, markets and finance) by FUNCAS at the University of Alcala de Henares (Madrid)

11 January ::: Signature of an agreement on batch processing with the Ministry of Labour and Social Affairs and the Foreign Office at the Casa de América in Madrid

17 January ::: Board of Directors

18 January ::: Meeting of the Organisation, Automation and Services Commission (COAS)

24 January ::: Control Committee Meeting

8 February ::: Meeting of companies belonging to the European Alliance for Corporate Social Responsibility called by the EC and held in Brussels, Belgium

14 February ::: Conference and workshops on SEPA

15 February ::: Meeting of the Organisation, Automation and Services Commission (COAS)

16 February ::: Coordination Committee for WSBI-ESBG, in Brussels, Belgium

21 February ::: Board of Directors

21 February ::: Meeting of FUNCAS trustees

27 February ::: Training conference on the sectoral project for adapting to the MiFID standard

28 February ::: Control Committee Meeting

28 February ::: XIII CECA Executives Convention

2 March ::: Chairman and Managing Directors' Conference in Palma de Mallorca

5 March ::: Presentation of issue 196 of the FUNCAS magazine *Cuadernos de Información Económica* (Autonomous Communities: learning to grow)

12 March ::: Meeting of the Organisation, Automation and Services Commission (COAS)

14 March ::: 4th workshop for General Secretaries

15 March ::: Speech by Professor Santiago Carbó at the 63rd International Atlantic Economic Conference, at the *Hotel Meliá Galgos* in Madrid

16 March ::: Board of Directors Meeting of WSBI, in Manila (Philippines)

21 March ::: Board of Directors

21-23 March ::: Presentation of diplomas to Spanish winners of the Stock Market Game, in the Trading Room of the Madrid Stock Exchange

23-25 March ::: Presentation of diplomas to the European winners of the Stock Market Game, in Brussels, Belgium

28 March ::: Control Committee Meeting

11 April ::: Conference on the Equality Law (ACARL)

12 April ::: Conference on profitability of facility automation and control systems

16 April ::: Participation by the Financial Analysis Team at the 5th Annual International Industrial Organization Conference, in Georgia, USA

17 April ::: Up-dating on the prevention of money laundering in Barcelona

18 April ::: Board of Directors

18 April ::: Control Committee Meeting

18 April ::: 93rd General Assembly of CECA

18 April ::: Visit by the Board of Sweden's Alfa Savings Banks Foundation

19 April ::: Meeting of the Organisation, Automation and Services Commission (COAS)

23 April - 4 May ::: Visit by a delegation from Banrural (Guatemala)

25 April ::: Training conference on the sectoral project for adapting to the MiFID Directive

25 April ::: Meeting of the Association of Retired Executives

26-27 April ::: Operational Risk Convention in Cordoba

27 April ::: ESBG Board Meeting in Brussels, Belgium

8-11 May ::: Visit by a delegation from Chile's *Cajas de Compensación de Asignación Familiar* avings banks

9-11 May ::: Personal Banking and Assent Management Conferences

9-11 May ::: Visit by a delegation from El Salvador's *Federación de Cajas de Crédito y Bancos de los Trabajadores* savings banks (FEDECRÉDITO)

16 May ::: Board of Directors

17 May ::: Meeting of the Organisation, Automation and Services Commission (COAS)

21 May ::: Visit by a delegation from the Aragua State *Cooperativas de Ahorro* (Venezuela) savings cooperatives

23 May ::: Control Committee Meeting

23 May ::: COAS Coordinators Meeting

23 May ::: Debates in the Foundation: Public protection of the family in Spain

23-25 May ::: 20th series of workshops on Management Planning and Control in Palma de Mallorca

24 May ::: Award of the prizes for European Parks Day sponsored by FUNCAS

24 May ::: Conference on continuous improvement of operating efficiency

24-25 May ::: VII Convention for Heads of Securities and Funds Depositories in Las Palmas de Gran Canaria

31 May ::: Visit by a delegation of business and public sector representatives from Brazil

31 May ::: Conference and workshops on SEPA

31 May - 1 June ::: 11th conference on customer service, Cordoba

31 May - 1 June ::: 2nd series of technical workshops on Market Risk, Vigo

5 de june ::: Award of the 34th prizes in the *Hucha de Oro* (Golden Piggy Bank) Story contest, at Madrid Casino

5-7 June ::: Meeting with a delegation from La Poste (France) on human resources strategies

13-15 June ::: 25th Convention of Human Resources Managers, Valencia

14 June ::: Meeting of FUNCAS trustees

14-15 June ::: 67th Convention of Legal Advisors, Toledo

14-15 June ::: Annual Credit Risk Convention, Granada

15 June ::: Meeting of the Board of Directors, Paris

15 June ::: Control Committee Meeting, Paris

15 June ::: CEAMI, SICAV and Internationalisation Plan meeting, Paris

15 June ::: Visit by a delegation from the French Finance Ministry (General Directorate of the Treasury and Finance Policy) accompanied by the Economics and Finance Secretary of the French Embassy in Spain, to collect information on the economic situation in Spain

21 june ::: Award of the Investment Prizes to the Savings Banks' Welfare Fund, in the Offices of the President of the Community of Madrid

21 June ::: Meeting of the Organisation, Automation and Services Commission (COAS)

21-22 June ::: 15th General Assembly of Pawnbroking Institutions, León

21-22 June ::: 5th Convention for Heads of Portfolio and Exchange, in San Sebastián

22 June ::: Coordination Committee for WSBI-ESBG, in London, UK

22-25 June ::: Training workshops on risks and IAS with a delegation from the National Bank of Russia

25-26 June ::: 2nd Global Reporting Initiative workshop for review of the financial supplement indicators, Boston, USA

25-27 June ::: Workshop on tools for the efficient management of micro-credit programmes for self-employment

28 June ::: Completion of the internal promotion examination and boards for promotion from level 7 to level 10

28 June ::: Presentation of the Geo-marketing pilot project

28-29 June ::: 57th Meeting of Tax Advisors, Lisbon

28-29 June ::: 2nd Convention on New Channels, Oviedo

4 July ::: Presentation of the doctoral theses which won the *Enrique Fuentes Quintana* prize for 2005-2006

4 July ::: Workshops on State Law 8/2000 on Land (TINSA)

6 July ::: Meeting of Treasury and Capital Markets Managers, Moscow, Russia

9 July ::: Training conference on the Sectoral Project for Adapting to the MiFID Directive

12 July ::: COAS Coordinators Meeting

18 July ::: Board of Directors

19 July ::: Meeting of the Organisation, Automation and Services Commission (COAS)

19 July ::: Presentation of issue 5 of the magazine *Panorama Social* (The environment at the start of the 21st Century: crisis or adapting?)

23 July ::: Training conference on the Sectoral Project for Adapting to the MiFID Directive in Madrid and Barcelona

26 July ::: Training conference on the Sectoral Project for Adapting to the MiFID Directive

27 July ::: Control Committee meeting, San Sebastián

27 July ::: Training conference on the Sectoral Project for Adapting to the MiFID Directive

13-14 September ::: 9th Communication Conference, Vigo

14 September ::: Coordination Committee for WSBI-ESBG, in Brussels, Belgium

17 September ::: Opening of the CECA office in Geneva, Switzerland

17 September ::: Conference and workshops on SEPA

19 September ::: Board of Directors

19 September ::: Meeting of FUNCAS trustees

19-21 September ::: 32nd conference of Training and Development Managers, Andorra

20 September	:::	Meeting of the Organisation, Automation and Services Commission (COAS)
26 September	:::	Conference on the new internal conduct regulations for the equities market
26-30 September	:::	25th International Conference of Pawnbroking Institutions, Merida, Mexico
27-28 September	:::	9th Advertising Convention, in Mataró, Barcelona
27-28 September	:::	19th International Department Heads Convention, Oporto, Portugal
28 September	:::	Visit by a delegation of the European Commission to compile information in order to draft the autumn economic projections
1 October - 23 November	:::	6th course for experts in managing Financial Institutions, run by FUNCAS in partnership with Fundación Carolina
3 October	:::	Control Committee Meeting
3-5 October	:::	32nd Auditors' Conference, Málaga
3-5 October	:::	National Welfare Fund Convention 2007, in Palma de Mallorca
10 October	:::	Workshop on public and sectoral Corporate Social Responsibility initiatives
17 October	:::	Board of Directors
17-18 October	:::	29th Marketing Convention, in León
17-19 October	:::	26th National Conference of Security Managers, Amsterdam, Holland
18-19 October	:::	3rd Regulatory Compliance Conference, in Pamplona
19 October	:::	General Assembly and Board of Directors Meeting of WSBI, in Washington, USA
22 October	:::	Meeting of the Organisation, Automation and Services Commission (COAS)
22-24 October	:::	27th Conference of Technical Managers of Organisation, IT and New Services departments, part of the series of COAS workshops, Salamanca
23 October	:::	Presentation of issue 22 of *Papeles de Economía Española*, from the series *Economía de las Comunidades Autónomas* (Galicia and Northern Portugal: the economic keys to a self-contained region) by Funcas

24 October ::: Control Committee Meeting

25-26 October ::: 5th Accounting Convention, Valencia

25 October ::: 2nd meeting to pool experience from the Internal Audit working groups
8 November

29 October ::: 2nd *Tiempo de Música* (Music Time) in the Círculo de Bellas Arte building, Madrid

31 October ::: Presentation of issue 200 of the magazine *Cuadernos de Información Económica* (20 years of the economy in 200 reviews)

31 October ::: Signature of a cooperation agreement with Chile's *Cajas de Compensación de Asignación Familiar* savings banks association

12-25 November ::: Visit by a delegation from the Social Security Department in Chile

15 November ::: Meeting of the Organisation, Automation and Services Commission (COAS)

16 November ::: Signature of a cooperation agreement with the General Council of the Judiciary, in Madrid

21 November ::: Meeting of the Board of Directors, Valencia

21 November ::: Control Committee meeting, Valencia

21 November ::: Meeting of FUNCAS trustees

22 November ::: 3rd Research Department Conference

22 November ::: Formation of the Sectoral Social Responsibility Committee

22-23 November ::: 1st Convention for Property and General Services Managers, in La Coruña

24 November ::: Conference on continuous improvement of operating efficiency

28 November ::: Conference on Electronic Case Files: the impact and results of launch of the electronic case file for Savings Banks

28-29 November ::: 5th Conference of Quality Controllers, Zaragoza

30 November ::: General Assembly and Board of Directors Meeting for the ESBG, in Berlin, Germany

11 December ::: Prevention of money laundering workshops

11 December ::: Signature of the annexes to the general agreement signed on 21 July 2006 for the Mortgage Arrangement service using the Ancert (Notarial Certification Agency) system

11 December ::: COAS Coordinators Meeting

13 December ::: Meeting of the Organisation, Automation and Services Commission (COAS)

19 December ::: Board of Directors

19 December ::: Control Committee Meeting

19 December ::: 96th General Assembly of CECA

20 December ::: 4th awards for the best Savings Bank Welfare Project (Actualidad Económica magazine)

21 December ::: Conference on the Mortgage Reform Law

* Where no mention is made of the event's locations they look place at the CECA head office in Madrid.

Confederación Española de Cajas de Ahorros

11.6

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