

# DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

FONDO DE GARANTÍA DE DEPÓSITOS  
EN ESTABLECIMIENTOS BANCARIOS

SPAIN

ANNUAL REPORT 2006



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## DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

### MANAGEMENT REPORT FOR THE YEAR 2006

#### Activity during the year

1. Management and administration of Deposit Guarantee Fund for Banking Establishments (hereinafter FGDEB) during the year 2006 have been carried out by virtue of the contract signed on 29 June, 2000, with Fund Management Company (Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, AIE), and have been in line with the performance and guidelines observed in previous years, as follows:

- Management of third party debts acquired in prior years from banking establishments' crisis.
- Management of the equity capital through the investment in public debts. Total investments have amounted to € 1,470,644.6 thousand and total of disinvestments to € 1,263,666.2 thousand. The financial income shows a profit of € 56,131.1 thousand, representing an average yield of 2.76% on an average investment of € 2,074,202 thousand. The financial management on the whole with others financial income and expenses shows a net profit of € 48,734.5 thousand, up the previous year in € 4,314.4 thousand.
- Twelve participated and administrated societies have been liquidated once concluded the pending performances, remaining six participated societies, also administrated by FGDEB.
- Other significant activities include the actions required for the preparation of Executive Committees and for the execution of the decisions adopted, and the analysis of coverage level on the basis of its equity capital.

2. In connection with the litigious maintained by Mr. Domingo López Alonso against Bank of Valladolid, SA, today Barclays Bank, SA, described in the annual reports of 2004 and 2005, and that they are under the judicial direction of the Management Committee and with the economic covering of the Deposit Guarantee Fund for Banking Establishments, it is necessary to point out that on December, 2006, the Section 20.<sup>a</sup> of the Provincial Court Appeal of Madrid have notified a ruling dictated the previous day 18, for which is estimated the motion to appeal filed by Barclays Bank, SA, against a ruling of the Court of First Instance n.º 4 of Madrid, that had quantified in € 26,478,544.08 the compensation to satisfy to Mr. Domingo López Alonso, former president of the Banco de Valladolid, SA, ordering the retraction of the actions up to 13 June, 2002.

This resolution, against which it is not possible any ordinary appeal, determines the nullity of the payment made to Mr. Domingo López Alonso of the foregoing amount that took place on 22 December, 2003; this resolution will be decisive for the pretense of the

interests calculated on the preceding amount, assessed in more than € 1,312.6 million. A legal expert designed by the Court of First Instance n.º 4 of Madrid had expressed one report on 9 March, 2006, pronounced in favour of Barclays Bank, SA, and against the pretense of Mr. Domingo López Alonso.

The FGDEB has requested to the Court of First Instance n.º 4 of Madrid that, without prejudice of other complementary actions, to require to Mr. Domingo López Alonso the immediate refund of the amount unduly perceived.

On 1 February, 2007, a ruling dictated by the Court of First Instance n.º 4 of Madrid has been notified, on execution of judicial titles n.º 1.521/2005, brought by Mr. Domingo López Alonso against Barclays Bank, SA, claiming € 1,312.6 million as compensation for damages and prejudices for interests. The ruling considers that no amount has to be paid as damages and prejudices.

**3.** The Resolution of the Ministry of Economy of 1 August, 2002, in accordance with the point 3 article 74 of Law 24/2001, of 27 December, on Tax, Administrative and Labour Matters, fixed the contributions payable by the Investment Guarantee Fund and the Deposit Guarantee Funds as a percentage of total compensation for non-compliance of the repayment obligation by investment services firms, before the above mentioned Law, 24/2001 coming into force.

By virtue of the above mentioned Resolution of the Ministry of the Economy, the percentage distribution of compensation payable to affected investors between the Investment Guarantee Fund and the Deposit Guarantee Funds has been established as follows:

• Deposit Guarantee Fund for Banks Establishments .....	53.98%
• Deposit Guarantee Fund for Savings Banks .....	40.90%
• Deposit Guarantee Fund for Credit Cooperative Banks .....	4.95%
• Investment Guarantee Fund .....	0.17%

The Management of the Investment Guarantee Fund has estimated the total amount of compensation in € 79.7 million. Approximately € 43 million of this figure shall be payable by the FGDEB. This financial year € 0.6 million have been paid, totalling € 34.7 million from the beginning.

### **Integrated entities and contributions**

**4.** At the beginning of the year there were 82 entities integrated in FGDEB. A list of the member entities was published in the Official Spanish State Gazette 77, on 31 March, 2006, as it is required by Royal Decree 2606/1996.

At the date of this report, the entities integrated comprise 80 Spanish and non-EU banks. This decrease of two entities is due to one entity has been merged and the other has transferred the total active and passive to another credit entity.

**5.** Order ECO 318/2002, of 14 February, published on 20 February, 2002, establishes the contributions to be made to the FGDEB by integrated entities. These contributions

were fixed at 0.6% of the calculation basis established in articles 3 and 4 of Royal Decree 2606/1996, in accordance with Royal Decree 948/2001, on investor compensation systems. The contributions of the entities has amounted a total of € 140,379.4 thousand, up 8.5% on the previous year, which were disbursed on 28 February, 2006.

Of the total amount disbursed, the 94.8% corresponds to guaranteed deposits and the 5.2% to guaranteed securities. In accordance with the legislation, the Banco de España has made no contributions.

## Guaranteed deposits

6. The evolution of deposits from 1990 has been as follows, Euros in million:

<i>Year</i>	<i>Deposits and securities guaranteed</i>	<i>Calculation bases of contributions</i>	<i>Deposit and securities covered</i>	<i>% guaranteed</i>
31.12.1990	111,223.3	111,223.3	50,179.7	45.1
31.12.1991	119,442.5	119,442.5	52,280.6	43.8
31.12.1992	124,092.2	124,092.2	51,754.0	41.7
31.12.1993	139,615.1	139,615.1	56,461.2	40.4
31.12.1994	144,142.3	144,142.3	61,871.8	42.9
31.12.1995	154,031.9	154,031.9	64,573.8	41.9
31.12.1996	145,189.4	145,189.4	79,685.9	54.9
31.12.1997	140,651.3	140,651.3	74,201.1	52.8
31.12.1998	144,881.8	144,881.8	70,654.5	48.8
31.12.1999	157,442.8	157,442.8	78,660.3	50.0
31.12.2000	171,019.8	171,019.8	92,109.8	53.9
31.12.2001	403,769.5	196,586.2	114,526.5	28.4
31.12.2002	375,335.6	202,602.8	114,395.2	30.5
31.12.2003	411,019.3	208,663.9	119,943.0	29.2
31.12.2004	417,063.8	215,657.5	122,254.7	29.3
31.12.2005	466,644.6	233,965.7	126,083.1	27.0
31.12.2006	551,766.6	269,228.0	135,729.6	24.6

From 31 December, 2001, guaranteed deposits include the total amount of securities and financial instruments and the calculation bases include the money deposits and the 5% of the value of securities and financial instruments. As at 31 December, 2006, deposits and securities guaranteed have been up 18.2% on the previous year.

7. FGDEB's equity is the 0.78% of the calculation base for contributions in 2006, compared with 0.82% in 2005. In compliance with article 3.4 of Royal Decree 2606/1996, the contributions will cease when FGDEB's equity reaches 1% of the calculation bases of contributions.

## Actions in banks

8. Banco Credipas, SA: FGDEB has recovered € 3,398.5 thousand representing 126% of the cost of the loans portfolio acquired in 1998 from Banco Credipás, SA, which amounted to € 2,704.5 thousand.

9. Bank of Credit and Commerce, SAE (hereinafter BCC): FGDEB holds a 99.97% interest; the winding-up is pending on judgment not appealed in judicial proceedings.

10. Finally, it is necessary to highlight, at year-end, that the guaranteed deposits by FGDEB derived from the crises of other banks, which have not been claimed by their holders, amount a total of € 2,342.3 thousand, and are related with BCC, SAE, Banco Credipás, SA, Banco de Navarra, SA, Banco de los Pirineos, SA and Eurobank del Mediterráneo, SA.

## Assets deriving from financial restructuring

11. Debtors: The assets from financial rehabilitations can be considered as residuals and difficult collection, and their realization will take place hardly. This year € 1,188.2 thousand have been recovered from the sale of assets and other mortgage loans.

Unsecured third party debts are full provided and mortgage debts of third parties, are provided up to 92.9%, based on the estimated value of such guarantees. Debts to securities are 89.8% provided for on the basis of estimated settlement values.

12. Lands and buildings: The administrations are continued to carry out the residual real estate assets coming from the reparations of entities.

13. Equity investments: In 2006, FGDEB has continued the winding up of participated and administrated entities, remaining six entities on account of legal procedures that are delaying final liquidation.

## Financial position

14. Available resources have been increased in € 188,139.6 thousand during the year 2006, as follows:

<i>Items</i>	<i>Thousand of Euros</i>
Annual contributions from banks .....	140,379.4
Other income and expenses of the exercise .....	43,774.9
Indemnities to FGG Inversiones art. 74, Law 24/2001 .....	(609.9)
Other minor items .....	4,595.2
<b>Total increase of liquid assets .....</b>	<b>188,139.6</b>

These resources have been invested totally in public debts in compliance of article 3.7 of Royal Decree 2606/1996, which establishes that uncommitted net equity shall be invested in public debt or in other highly liquid, low-risk assets.

15. At year-end, the distribution of investments is 47.6% for Treasury bills and 52.4% for Government bonds.

### Surplus for the year and equity

16. The surplus of the year shows the next figures, Euros in thousands:

<i>Items</i>	<i>Management</i>	<i>Financial</i>	<i>Restructuring</i>	<i>Total</i>
Income.....	144,598.0	56,337.2	—	200,935.2
Expenses.....	(1,895.3)	(7,602.7)	(137.9)	(9,635.9)
<b>Total.....</b>	<b>142,702.7</b>	<b>48,734.5</b>	<b>(137.9)</b>	<b>191,299.3</b>

The surplus generated in 2006 stands at € 191,299.3 thousand, an increase of € 19,468.3 thousand from the previous year, which represents an increase of 11.3%. Of the amount of the surplus it is necessary to highlight in income € 140,379.4 thousand from contributions, which represents 73.4% of the surplus of the year, and in expenses € 7,565.6 thousand of the provision for decline value in financial investments.

17. Considering the amount of the surplus for the year, the equity of FGDEB amounts to € 2,111,392.7 thousand as at 31 December, 2006, up 10% on the opening balance.

### Economic/financial control

#### *Court of Auditors*

18. The results of audit of accounts and contracts in 2005 submitted to the Court of Auditors (Tribunal de Cuentas), will be set in the annual report for that year, its approval is still pending.

#### *External audit*

19. The audit report for 2006 prepared by KPMG Auditors, SL, is attached.

### Executive Committee

20. Some representatives of the Banco de España in the Management Committee have been changed during the financial year. Mr. Gonzalo Gil García and Mr. Pedro Pablo

Villasante have resigned and Mr. José María Viñals Íñiguez and Mr. Francisco Javier Arístegui Yáñez have been appointed. Mr. Viñals, Deputy Governor of the Banco de España, is the chairman and Mr. Arístegui is the deputy chairman. Besides, Mr. José Antonio Alepúz Sánchez has been renewed as member representative and secretary of the Management Committee. Relating the representatives of bank entities, Mr. Vitalino Manuel Nafria Aznar has been appointed; Mr. José Ignacio Goirigolzarri Tellaeche has resigned, and Mr. José Antonio Álvarez Álvarez and Mr. José Ignacio Goirigolzarri Tellaeche have been incorporated as substitute vowels; Mr. Alfredo Sáenz Abad has resigned.

## **FINANCIAL STATEMENTS**

### **MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING**

The accompanying financial statements of the Deposit Guarantee Fund for Banking Establishments and the information related to the financial statements in this Annual Report are the responsibility of Management Committee. The financial statements have been prepared by the Fund Management Company (Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, AIE), in accordance with generally accepted accounting principles applied in Spain on a basis consistent with that the preceding year.

The financial information presented elsewhere in the Annual Report is consistent with that contained in the financial statements.

Under the article 2.º 4 b) of the Royal Decree 2606/1996, of 20 December, corresponds to the Management Committee the approval of the accounts that the Funds must provide each year to their members and to the Banco de España.

In fulfilment of this legal order, the formulated Annual Report together with the financial statements, offer information about the activities developed in 2006, the equity and the financial situation of the Deposit Guarantee Fund for Banking Establishments, the results of its management and the source and application of funds for the year 2006, information that is enlarged with data regarding previous exercises.

These financial statements have been audited by KPMG AUDITORES, SL, and the report is included herein.

## DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

### BALANCE SHEET, as at 31 December

(Thousands of euros)

<i>ASSETS</i>	<i>2006</i>	<i>2005</i>
<b>FIXED ASSETS</b>		
<b>Long term investments</b> .....	<b>821,125.6</b>	<b>650,907.0</b>
Government bonds and Treasury bills.....	820,690.1	650,471.5
Securities .....	333.0	333.0
Long term deposits and guarantees given .....	102.5	102.5
<b>Total fixed assets</b> .....	<b>821,125.6</b>	<b>650,907.0</b>
<b>ASSETS BEING SOLD OFF, as a result of assisted bank</b>		
<b>Real state</b> .....	<b>295.3</b>	<b>295.3</b>
<b>Loans to third parties</b> .....	<b>94.5</b>	<b>701.6</b>
<b>Loans to related companies</b> .....	<b>1,044.3</b>	<b>1,435.2</b>
<b>Securities portfolio</b> .....	<b>53.8</b>	<b>106.9</b>
<b>Total assets being sold off</b> .....	<b>1,487.9</b>	<b>2,539.0</b>
<b>CURRENT ASSETS</b>		
<b>Debtors</b> .....	<b>6,135.3</b>	<b>3,774.7</b>
<b>Short term investments</b> .....	<b>1,295,631.8</b>	<b>1,278,372.1</b>
Government bonds and Treasury bills.....	1,253,513.7	1,247,409.6
Interest receivable on investments.....	42,118.1	30,962.5
<b>Cash and liquid assets</b> .....	<b>2,006.1</b>	<b>1,344.8</b>
<b>Total current assets</b> .....	<b>1,303,773.2</b>	<b>1,283,491.6</b>
<b>TOTAL ASSETS</b> .....	<b>2,126,386.7</b>	<b>1,936,937.6</b>
<i>LIABILITIES AND FUND BALANCE</i>		
<b>FUND BALANCE</b>		
Accumulated net income .....	1,920,093.4	1,748,262.4
Current year's surplus .....	191,299.3	171,831.0
<b>Total fund balance</b> .....	<b>2,111,392.7</b>	<b>1,920,093.4</b>
<b>PROVISIONS</b>		
Indemnities for legal prescription .....	8,283.9	8,893.8
Provision for liabilities and charges .....	3,927.2	4,261.7
<b>Total provisions</b> .....	<b>12,211.1</b>	<b>13,155.5</b>
<b>CURRENT LIABILITIES</b>		
Short term creditors .....	2,782.9	3,688.7
<b>Total current liabilities</b> .....	<b>2,782.9</b>	<b>3,688.7</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b> .....	<b>2,126,386.7</b>	<b>1,936,937.6</b>
<b>Memorandum accounts</b> .....	<b>23,504.2</b>	<b>33,883.3</b>

## DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

### STATEMENT OF INCOME, for the year ended 31 December

(Thousands of euros)

<i>EXPENSES</i>	<i>2006</i>	<i>2005</i>
<b>MANAGEMENT EXPENSES</b>		
Operating expenses .....	1,753.8	1,922.6
Provision for losses .....	132.2	1,347.6
Extraordinary expenses .....	8.3	—
Other items.....	1.0	—
<b>Total management expenses .....</b>	<b>1,895.3</b>	<b>3,270.2</b>
<b>MANAGEMENT REVENUES .....</b>	<b>142,702.7</b>	<b>127,737.8</b>
<b>FINANCIAL EXPENSES</b>		
Provision for decline in value of investments .....	7,565.6	3,007.0
Financial expenses.....	37.1	106.2
<b>Total financial expenses .....</b>	<b>7,602.7</b>	<b>3,113.2</b>
<b>FINANCIAL REVENUES .....</b>	<b>48,734.5</b>	<b>44,420.1</b>
<b>RESTRUCTURING EXPENSES</b>		
Provision for losses .....	137.9	326.9
<b>Total restructuring expenses .....</b>	<b>137.9</b>	<b>326.9</b>
<b>SURPLUS FOR THE YEAR .....</b>	<b>191,299.3</b>	<b>171,831.0</b>
<i>INCOME</i>		
<b>MANAGEMENT INCOME</b>		
Annual contributions .....	140,379.4	129,394.5
Freed up provisions .....	3,269.1	886.7
Extraordinary income.....	949.5	726.8
<b>Total management income .....</b>	<b>144,598.0</b>	<b>131,008.0</b>
<b>FINANCIAL INCOME</b>		
Interest on public debt investments .....	56,131.1	45,378.7
Others financial income .....	206.1	2,154.6
<b>Total financial income .....</b>	<b>56,337.2</b>	<b>47,533.3</b>
<b>RESTRUCTURING LOSSES .....</b>	<b>137.9</b>	<b>326.9</b>

## DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

### STATEMENT OF CASH FLOWS, for the year ended 31 December

(Thousands of euros)

	<i>2006</i>	<i>2005</i>
<b>CASH FLOWS PROVIDED BY</b>		
Annual contributions .....	140,379.4	129,394.5
Sale of assets acquired		
Loans and claims recovered .....	1,953.2	484.2
Interest revenue on investments .....	68,077.1	65,866.8
Miscellaneous income .....	4.7	683.5
Repayments loans to banks (depositors) .....	—	9,929.9
Income by litigious in actions .....	223.8	—
Decrease in liquid cash .....	—	451.9
<b>Total .....</b>	<b>210,638.2</b>	<b>206,810.8</b>
<b>CASH FLOWS USED BY</b>		
Increase in financial investments .....	206,978.4	201,249.9
Operating expenses .....	1,537.7	1,985.4
Financial expenses .....	31.3	38.7
Indemnities for legal prescription .....	609.9	2,039.8
Payments to depositors .....	—	1.8
Loans to invested companies .....	276.2	565.4
Payment by legal procedures .....	76.0	—
Other items (net) .....	467.4	929.8
Increase in liquid cash .....	661.3	—
<b>Total .....</b>	<b>210,638.2</b>	<b>206,810.8</b>

# EXTERNAL AUDITORS' REPORT



**KPMG Auditores S.L.**  
Edificio Torre Europa  
Paseo de la Castellana, 96  
28046 Madrid

## Informe de Auditoría de Estados Financieros

A la Comisión Gestora del  
Fondo de Garantía de Depósitos en Establecimientos Bancarios

Hemos auditado los estados financieros del Fondo de Garantía de Depósitos en Establecimientos Bancarios (en adelante el Fondo), que comprenden el balance de situación al 31 de diciembre de 2006 y la cuenta de cuenta de pérdidas y ganancias, el cuadro de financiación y la memoria correspondientes al ejercicio anual terminado en dicha fecha, cuya formulación es responsabilidad de los Administradores de la Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, A.I.E. (en adelante, los Administradores de la Sociedad Gestora). Nuestra responsabilidad es expresar una opinión sobre los citados estados financieros en su conjunto, basada en el trabajo realizado de acuerdo con las normas de auditoría generalmente aceptadas, que requieren el examen, mediante la realización de pruebas selectivas, de la evidencia justificativa de los estados financieros y la evaluación de su presentación, de los principios contables aplicados y de las estimaciones realizadas.

Los Administradores de la Sociedad Gestora presentan, a efectos comparativos, con cada una de las partidas del balance de situación, de la cuenta de cuenta de pérdidas y ganancias y del cuadro de financiación, además de las cifras del ejercicio 2006, las correspondientes al ejercicio anterior y en algunos epígrafes de la memoria, las cifras y movimientos desde el origen de los saldos. Nuestra opinión se refiere, exclusivamente, a los estados financieros del ejercicio 2006. Con fecha 28 de enero de 2006 emitimos nuestro informe de auditoría acerca de los estados financieros del ejercicio 2005 en el que expresamos una opinión con una salvedad.

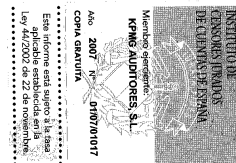
En nuestra opinión, los estados financieros del ejercicio 2006 adjuntos expresan, en todos los aspectos significativos, la imagen fiel del patrimonio y de la situación financiera del Fondo de Garantía de Depósitos en Establecimientos Bancarios al 31 de diciembre de 2006 y de los resultados de sus operaciones y de los recursos obtenidos y aplicados durante el ejercicio anual terminado en dicha fecha y contienen la información necesaria y suficiente para su interpretación y comprensión adecuada, de conformidad con principios y normas contables generalmente aceptados que guardan uniformidad con los aplicados en el ejercicio anterior.

El informe de gestión del ejercicio 2006 adjunto, contiene las explicaciones que los Administradores de la Sociedad Gestora consideran oportunas sobre la situación del Fondo, la evolución de su actividad y sobre otros asuntos y no forma parte integrante de los estados financieros. Hemos verificado que la información contable que contiene el citado informe de gestión concuerda con la de los estados financieros del ejercicio 2006. Nuestro trabajo como auditores se limita a la verificación del informe de gestión con el alcance mencionado en este mismo párrafo y no incluye la revisión de información distinta de la obtenida a partir de los registros contables del Fondo de Garantía de Depósitos en Establecimientos Bancarios.

KPMG AUDITORES, S.L.

Julio Álvaro Esteban

5 de febrero de 2007



KPMG Auditores S.L., firma española miembro de  
KPMG Internacional, sociedad suiza.

Inscrito en el Registro Oficial de Auditores de Cuentas con el n.º S0702,  
y en el Registro de Sociedades del Instituto de Censores Jurados de  
Cuentas con el n.º 16.  
Reg. Mer. Madrid, T. 11.961, F. 90, Sec. 8, H. M.-188.007 Inscrp. 9.  
N.I.F. B-78610163

Auditors' Report on the Financial Statements

(Translation from the original in Spanish)

To the Executive Committee of

Fondo de Garantía de Depósitos en Establecimientos Bancarios

We have audited the financial statements of the Deposit Guarantee Fund for Banking Establishments (hereinafter the Fund), which comprise the balance sheet at 31 December, 2006, the statement of profit and loss, the disclosure of source and application of funds for the year then ended and the notes thereto, the preparation of which is the responsibility of the directors of the Fund's Management Company (hereinafter the Directors). Our responsibility is to express an opinion on the financial statements taken as a whole, based on our examination which was conducted in accordance with generally accepted auditing standards, which require examining, on a test basis, evidence supporting the amounts in the financial statements and assessing the appropriateness of their presentation, of the accounting principles applied and of the estimates employed.

The Directors shown to comparative effects, for each individual caption in the balance sheet, statement of profit and loss and disclosure of source and application of funds, besides the figures of the 2006, figures of the previous year, and movement with regard to initial balances for certain captions. We express our opinion solely on the financial statements for 2006. On 28 January, 2006, we issued our qualified audit report with one condition on the financial statements for 2005.

In our opinion, these financial statements for 2006 present fairly, in all material respects, the shareholders' equity and financial position of the Deposit Guarantee Fund for Banking Establishments at 31 December, 2006, and the results of its operations and the source and application of funds for the year then ended, and contain sufficient information necessary for their adequate interpretation and understanding, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The accompanying directors' report for 2006 contains such explanations as the Directors consider relevant to the situation of the Fund, the evolution of its business and other matters, but is not an integral part of the financial statements. We have verified that the accounting information contained therein is consistent with that disclosed in the financial statements for 2006. Our work as auditors is limited to the verification of the directors' report within the scope described in this paragraph and does not include a review of information other than that obtained from the accounting records of the Deposit Guarantee Fund for Banking Establishments.

KPMG AUDITORES, S.L.

(Signed by)

Julio Álvaro Esteban

5 February 2007