

DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

FONDO DE GARANTÍA DE DEPÓSITOS
EN ESTABLECIMIENTOS BANCARIOS

SPAIN

ANNUAL REPORT 2008

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DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

MANAGEMENT REPORT FOR THE YEAR 2008

Activity during the year

1. Management and administration of Deposit Guarantee Fund for Banking Establishments (hereinafter FGDEB) during the year 2008 have been carried out by the Fund's Management Company (Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, AIE) in accordance with the terms of the contract signed with this latter on June 29, 2000, and have been in line with the guidelines issued by the FGDEB to the Management Company in previous years, as follows:

- Equity management not committed to any of the operations aimed to fulfil the purposes of the FGDEB through the investment in public debt. Total investments have amounted to €1,663,503.6 thousand and total of disinvestments to €1,367,670.3 thousand. The financial income shows a return of €101,071.5 thousand, representing an average yield of 3.97% on an average investment of €2,543,615.9 thousand.

The financial management as a whole with other financial income and expenses shows a net return of €100,710.1 thousand, €14,268.3 thousand higher than the previous year, due to the quantitative increase of the invested amounts and the higher return.

- Management of third party debts acquired in previous years from failed banking establishments.
- Other significant activities are those related to the preparation of Management Committee meetings and to the execution of the decisions taken, and the analysis of the coverage level on the basis of the institutions' equity.

2. In connection with the lawsuits brought by Mr. Domingo López Alonso against Bank of Valladolid, SA, (nowadays Barclays Banks, SA), which is under the legal direction of the Management Company and with the financial cover of the FGDEB, it is important to remind that the annual report of 2007 made reference to the Court Orders passed by the 4th Court of First Instance of Madrid on December 26, 2007, by virtue of which it required Mr. Domingo López Alonso to reimburse the €27 million unduly perceived in 2003, and at the same time gave leave for a new €185 million claim for damages filed by Mr. Domingo López Alonso.

To date Mr. Domingo López Alonso has not reimbursed the €27 million unduly received and the aforementioned Court of First Instance has passed a new Court Order on October 1, 2008 quantifying in €85 million the 'fair money compensation' to be paid to Mr.

Domingo López Alonso by Barclays Bank, SA, from which the aforesaid €27 million unduly perceived in the course of the provisional enforcement have to be deducted.

Therefore, the lawsuit has come to the same situation which the Provincial Court of Appeal of Madrid had rejected in December 2006, under the legal direction of the Management Company, Barclays Bank, SA, has continued making use of all available legal means of defence, pending currently several appeals both before the same 4th Court of First Instance of Madrid as well before the Provincial Court of Appeal of Madrid. We are also waiting for the admission of a criminal action instituted by the public prosecutor of the Regional Autonomy of Madrid against the judge of the 4th Court of First Instance of Madrid, following a previous complaint of continued breach of his official duty filed by Barclays Bank, SA before the Upper Court of Justice of Madrid.

3. The Resolution of the Ministry of Economy of August 1, 2002, issued in accordance with paragraph 3, article 74 of Law 24/2001, of December 27, on Tax, Administrative and Labour Matters, fixed the contributions payable by the Investment Guarantee Fund and the Deposit Guarantee Funds as a percentage of the total compensation to be paid by them due to the non-fulfilment by investment firms of their reimbursement and restitution obligations of the cash and securities deposited by investors, respectively, before the entry into force of the above mentioned Law 24/2001.

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 General Fund and the Deposit Guarantee Funds has been established as follows:

• Deposit Guarantee Fund for Banking 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 General 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 €0.1 million have been paid, totalling €35 million from the beginning.

Integrated entities and contributions

4. At the beginning of the year there were 78 Spanish and non-EU banks adhered to the FGDEB. A list of the adhered entities was published in the Spanish State Official Gazette (issue 71) on March 22, 2008, as required by Royal Decree 2606/1996.

At the end of the year, the adhered entities include 74 Spanish and non-EU banks, with a decrease of five Spanish entities which have been absorbed by other banks and an increase of one bank due to the transformation of a credit cooperative bank into a banking establishment.

5. The Order of the Ministry of Economy 318/2002, of February 14, published on February 20, 2002, established the contributions to be made to the FGDEB by the adhered entities. These contributions were fixed at 0,6‰ of the calculation basis established in articles 3 and 4 of Royal Decree 2606/1996, as amended by Royal Decree 948/2001, on investor compensation schemes, Banco de España, according to the legal framework in force, doesn't have to make contributions.

The contributions of the entities have amounted to €176,112 thousand, up 9% on the previous year, which were disbursed on February 29, 2008.

Of the total amount paid in, 95.1% corresponds to guaranteed deposits and 4.9% to guaranteed transferable securities and financial instruments.

Guaranteed deposits and coverage ratio

6. By virtue of Royal Decree 1642/2008, October 10, published in the Spanish State Official Gazette on October 11, 2008, the guaranteed amount have increased from €20,000 to €100,000 per depositor and entity, both for depositors' claims as well as for investors' claims independent of each other.

7. The evolution of aggregate guaranteed deposits in the last years has been as follows, Euros in million:

<i>Year</i>	<i>Deposits and securities insured</i>	<i>Calculation bases of contributions</i>	<i>Deposit and securities covered</i>	<i>% coverage</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	122,217.4	29.3
31.12.2005.....	466,644.6	233,965.7	126,083.1	27.0
31.12.2006.....	550,833.9	269,183.1	135,698.9	24.6
31.12.2007.....	566,702.1	293,519.9	144,122.0	25.4
31.12.2008.....	524,326.0	323,634.5	270,950.9	49.8

From December 31, 2001, the financial cover of the FGDEB includes also the transferable securities and financial instruments. The calculation base includes the total amount of cash deposits and the 5% of the value of transferable securities and financial instruments.

Although on December 31, 2008, guaranteed cash deposits increased over the previous year (12.2%), the decrease in the amount of securities covered has caused a decrease as a whole of 7.5%.

FGDEB's equity in 2008 has amounted to 0.82% of the calculation base for contributions in 2008 compared with 0.82% in 2007. In compliance with article 3.4 of Royal Decree 2606/1996, the contributions will cease when FGDEB's equity reaches 1% of the calculation base for contributions.

Actions in banks

8. In the current financial year the liquidation process of Bank of Credit and Commerce, SAE, in which the FGDEB held a stake of 99.7%, has finalised.

9. At year-end, the guaranteed deposits by FGDEB derived from the crises of other banks, which have not been claimed by their holders, amount a total of €2,301.9 thousand, and are related with Bank of Credit and Commerce, SAE, Banco Credipás, SA, Banco de Navarra, SA, Banco de los Pirineos, SA and Eurobank del Mediterráneo, SA.

Assets derived from financial restructuring

10. Debtors: The assets derived from financial restructurings can be considered as residual and of difficult collection, and their realization will take place hardly. In 2008 €641 thousand have been recovered from the sale of assets and other mortgage loans.

Funds have been allocated to fully cover unsecured third party debts and up to 90% in the case of mortgage debts of third parties, based on the estimated value of such guarantees, Funds have been allocated to cover up to 84.3% in the case of losses of value arising from our shareholdings on the basis of estimated settlement values.

11. Shareholdings: Final liquidation of six entities which remain under the control of the FGDEB is being delayed on account of legal procedures and expropriations.

Financial position

12. Available financial resources have been increased in €280,850.3 thousand during the year; €177,112 thousand come from contributions of the adhered entities and €104,738.3 from asset management, primarily financial interests. These resources have

been invested totally in public debt securities in accordance with 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.

At year-end, the distribution of financial investments is 40.1% for Treasury bills and 59.9% for Government bonds. The weighted average maturity is 1.62 years.

13. Financial resources at year end were €2,655,931.2 thousand, and represented 100% of total assets and 100.6% of capital resources.

Surplus for the year and equity

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

<i>Items</i>	<i>Operating</i>	<i>Financing</i>	<i>Total</i>
Income.	182,637.6	101,221.5	283,859.1
Expenses.	(2,446.4)	(511.3)	(2,957.7)
Total	180,191.2	100,710.2	280,901.4

The 2008 surplus stands at €280,901.4 thousand, an increase of €32,069.6 thousand from the previous year, which represents an increase of 12.9%. The surplus includes €176,112 thousand from contributions, which represents 62.7% of the surplus of the year.

15. Considering the amount of the surplus for the year 2008, the FGDEB's capital amounts to €2,641,126 thousand on December 31, 2008, up 11.9% over the opening balance.

16. There are not facts that can have an impact on the present financial statements after December 31, 2008, nor before to this report's date.

Economic/financial control

Court of Auditors

17. The results of auditing the accounts and contracts in 2007 which have been submitted to the Spanish Court of Auditors (Tribunal de Cuentas) will be made public in the annual report for that year.

External audit

18. The 2008 audit report prepared by PricewaterhouseCoopers Auditores, SL, is attached.

Management Committee

19. During the financial year the mandate of the members of the Management Committee Mr. José María Roldán Alegre and his substitute Mr. Francisco Javier Priego Pérez has been renewed. New members of the Management Committee have also been appointed and resigned, respectively: Mr. Roberto Higuera Montejo and Mr. José María Lucía Aguirre; and the substitutes Mr. Ramón Quintana Aguirre and Mr. Jerónimo Martínez Tello.

ANNUAL ACCOUNTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying annual accounts of the Deposit Guarantee Fund for Banking Establishments and the information related thereto in this Annual Report are the responsibility of its Management Committee. The annual accounts have been prepared by the Fund's Management Company (Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, AIE), in accordance with generally accepted accounting standards applied in Spain.

The financial information presented elsewhere is consistent with that contained in the annual accounts.

Under the article 2.º - 4 b) of Royal Decree 2606/1996, of December 20, the Management Committee is competent to approve the accounts that the Deposit Guarantee Fund for Banking Establishments must submit each year to their members and to Banco de España.

In fulfilment of those rules, the submitted Annual Report together with the annual accounts, offer information about the activities performed in 2008, the equity and the financial situation of the Deposit Guarantee Fund for Banking Establishments, the results of its management and the source and allocation of funds for the year 2008, information that is enlarged with data regarding previous exercises.

These annual accounts have been audited by PricewaterhouseCoopers Auditores, SL, and the report is included herein.

DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

BALANCE SHEET, at December 31

(Thousands of euros)

<i>ASSETS</i>	<i>2008</i>	<i>2007</i>
FIXED ASSETS		
Long term investments	1,355,589.1	1,100,887.6
Government bonds	1,355,112.2	1,100,420.5
Securities	386.7	386.9
Long term deposits	90.2	80.2
Total fixed assets	1,355,589.1	1,100,887.6
CURRENT ASSETS		
Real state	151.4	151.4
Debtors	4,082.2	5,556.8
Loans to related companies	1,253.0	883.4
Short term investments	1,285,277.8	1,266,293.1
Treasury bills	1,045,100.1	1,031,742.1
Government bonds	180,965.7	171,277.8
Interest receivable on investments	59,212.0	63,273.2
Cash and others liquid assets	9,433.8	1,174.6
Total current assets	1,300,198.2	1,274,059.3
TOTAL ASSETS	2,655,787.3	2,374,946.9
<i>FUND BALANCE AND LIABILITIES</i>		
FUND BALANCE		
Retained earnings	2,360,224.6	2,111,392.8
Net income	280,901.4	248,831.8
Total fund balance	2,641,126.0	2,360,224.6
FIXED LIABILITIES		
Indemnities for legal prescription	7,984.3	8,112.1
Provision for liabilities and charges	2,155.9	2,259.4
Other financial liabilities	2,100.8	2,100.8
Total fixed liabilities	12,241.0	12,472.3
CURRENT LIABILITIES		
Short term creditors	2,420.3	2,250.0
Total current liabilities	2,420.3	2,250.0
TOTAL LIABILITIES	14,661.3	14,722.3
TOTAL FUND BALANCE AND LIABILITIES	2,655,787.3	2,374,946.9

DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

INCOME STATEMENT, for the year ended December 31

(Thousands of euros)

<i>OPERATING ACTIVITIES</i>	<i>2008</i>	<i>2007</i>
Contributions	176,112.0	161,549.0
Annual contributions	176,112.0	161,549.0
Operating income	6,061.3	524.7
Securities liquidation earnings	6,046.5	501.7
Others subordinate income	14.8	23.0
Operating expenses	(2,446.4)	(1,994.6)
Freed up provisions	464.3	203.9
Operating results	180,191.2	160,283.0
<i>FINANCING ACTIVITIES</i>		
Financial income	101,154.6	79,541.5
Interest on Treasury bills	41,210.3	37,516.4
Interest on government bonds	59,861.2	41,841.2
Other financial income	83.1	183.9
Change of value financial instruments	(511.3)	—
Foreign currency traslation	66.9	—
Profit or loss on financial instruments	—	6,900.3
Freed up provisions Treasury bills	—	2,336.2
Freed up provisions Government bonds	—	4,564.1
Financial results	100,710.0	86,441.8
Surplus from activities	280,901.2	246,724.8
RESTRUCTURING ACTIVITIES	—	2,107.0
Restructuring surplus	—	2,107.0
NET INCOME	280,901.2	248,831.8

DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

STATEMENT OF CHANGES IN EQUITY, for the year ended December 31

(Thousands of euros)

<i>Items</i>	<i>2008</i>	<i>2007</i>
Fund balance - Beginning	2,360,224.6	2,111,392.8
Annual contributions	176,112.0	161,549.0
Securities liquidation earnings	6,046.5	501.7
Operating expenses	(2,446.4)	(1,994.6)
Financial results	100,710.2	86,441.8
Minor items	479.1	226.9
Restructuring transactions	—	2,107.0
Net income	280,901.4	248,831.8
Fund balance - Ending	2,641,126.0	2,360,224.6

DEPOSIT GUARANTEE FUND FOR BANKING ESTABLISHMENTS

CASH FLOWS STATEMENT, for the year ended December 31

(Thousands of euros)

	<i>2008</i>	<i>2007</i>
OPERATING ACTIVITIES		
Annual contributions	176,112.0	161,549.0
Sale of assets	6,046.6	711.4
Financial income	114,749.7	81,729.8
Operating expenses	(1,904.9)	(1,701.3)
Other items (net)	597.3	2,716.6
Cash provided by operating activities	295,600.7	245,005.5
FINANCING ACTIVITIES		
Financial disinvestments	1,367,670.3	1,571,249.8
Financial investments	(1,663,503.6)	(1,817,086.8)
Cash used in financing activities	(295,833.3)	(245,837.0)
Net decrease in cash	(232.6)	(831.5)

INDEPENDENT AUDITORS' REPORT



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INFORME DE AUDITORÍA DE CUENTAS ANUALES

A la Comisión Gestora de Fondo de Garantía de Depósitos en Establecimientos Bancarios por encargo de la Dirección de Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, A.I.E.,

1. Hemos auditado las cuentas anuales de Fondo de Garantía de Depósitos en Establecimientos Bancarios que comprenden el balance de situación al 31 de diciembre de 2008, la cuenta de pérdidas y ganancias, el estado de cambios en el patrimonio neto, el estado de flujos de efectivo y la memoria de las cuentas anuales correspondientes al ejercicio anual terminado en dicha fecha, cuya formulación es responsabilidad de la Dirección de Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, A.I.E. Nuestra responsabilidad es expresar una opinión sobre las citadas cuentas anuales en su conjunto, basada en el trabajo realizado de acuerdo con normas de auditoría generalmente aceptadas, que requieren el examen, mediante la realización de pruebas selectivas, de la evidencia justificativa de las cuentas anuales y la evaluación de su presentación, de los principios contables aplicados y de las estimaciones realizadas.
2. Las cuentas anuales adjuntas del ejercicio 2008 de Fondo de Garantía de Depósitos en Establecimientos Bancarios son las primeras que la Dirección de Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, A.I.E. formula aplicando el Plan General de Contabilidad aprobado por el Real Decreto 1514/2007. En este sentido, de acuerdo con la Disposición Transitoria Cuarta, Apartado 1 del citado Plan, se han considerado las presentes cuentas anuales como cuentas anuales iniciales, por lo que no se incluyen cifras comparativas. En la Nota 26 de la memoria se incorpora el balance de situación y la cuenta de pérdidas y ganancias incluidos en las cuentas anuales aprobadas del ejercicio 2007 que fueron formuladas aplicando el Plan General de Contabilidad vigente en dicho ejercicio y en la Nota 2.c) de la memoria se incluye una explicación de las principales diferencias entre los criterios contables aplicados en el ejercicio anterior y los actuales, así como la cuantificación del impacto que produce esta variación de criterios contables en el patrimonio neto al 1 de enero de 2008, fecha de transición. Nuestra opinión se refiere exclusivamente a las cuentas anuales del ejercicio 2008. Con fecha 25 de febrero de 2008 emitimos nuestro informe de auditoría acerca de las cuentas anuales del ejercicio 2007, formuladas de conformidad con los principios y normas contables generalmente aceptados en la normativa española vigentes en dicho ejercicio, en el que expresamos una opinión favorable.
3. En nuestra opinión, las cuentas anuales del ejercicio 2008 adjuntas expresan, en todos los aspectos significativos la imagen fiel del patrimonio y de la situación financiera de Fondo de Garantía de Depósitos en Establecimientos Bancarios al 31 de diciembre de 2008 y de los resultados de sus operaciones, de los cambios en el patrimonio neto y de sus flujos de efectivo correspondientes al 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 en la normativa española que resultan de aplicación.
4. El informe de gestión adjunto del ejercicio 2008, contiene las explicaciones que la Dirección de Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, A.I.E. considera oportunas sobre la situación de Fondo de Garantía de Depósitos en Establecimientos Bancarios, la evolución de sus actividades y sobre otros asuntos y no forma parte integrante de las cuentas anuales. Hemos verificado que la información contable que contiene el citado informe de gestión concuerda con la de las cuentas anuales del ejercicio 2008. 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 de Fondo de Garantía de Depósitos en Establecimientos Bancarios.

PricewaterhouseCoopers Auditores, S.L.


José Ángel Díez Ruiz de Azúa
Socio Auditor de Cuentas

23 de febrero de 2009

PricewaterhouseCoopers Auditores, S. L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79031290



Este informe está sujeto a la tasa aplicable establecida en la Ley 44/2002 de 22 de noviembre.

Independent auditors' Report

(Translation from the original in Spanish)

To Deposit Guarantee Fund for Banking Establishments Management Committee (Comisión Gestora del Fondo de Garantía de Depósitos en Establecimientos Bancarios), for command of Fund's Management Company (Dirección de la Sociedad Gestora de los Fondos de Garantía de Depósitos en Entidades de Crédito, AIE).

1. We have audited the accompanying annual accounts of Deposit Guarantee Fund for Banking Establishments which comprise the balance sheet as of December 31, 2008, the income statement, statement of changes in the net equity, the cash flow statement and the annual report ("Memoria"), which are the responsibility of the managing directors of the Fund's Management Company. Our responsibility extends to stating an opinion on the annual accounts taken as a whole, based on our examinations which were conducted in accordance with generally accepted auditing standards, which require examining, on a test basis, evidence supporting the amounts in the annual accounts and assessing the appropriateness of their presentation, of the accounting standards applied and of the estimates used.
2. The 2008 annual accounts of Deposit Guarantee Fund for Banking Establishments are the first ones that Fund's Management Company presents under General Plan of Accounting approved by Royal Decree 1514/2007. In accordance with the Fourth Provision, Section 1, these annual accounts are considered as the first ones, and there is no comparative amounts. In Note 26 has been incorporated the balance sheet and the income statement of 2007, that were formulated under General Plan of Accounting in force in this exercise, and in the Note 2.c) of the Memoria has been included one explanation of the main differences between the account criteria applied in the previous exercise and the current one, and the quantification at January 1, 2008, date of transition, of the impact on the equity because the variations of account criteria. Our opinion is solely on 2008 annual accounts. On January 25, 2008, we express a favourable audit report over the 2007 annual accounts, under the accountant principles generally accepted in Spanish regulation in this exercise.
3. In our opinion, the enclosed annual accounts for 2008 present fairly, in all material respects, the net equity and financial position of the Deposit Guarantee Fund for Banking Establishments as at December 31, 2008, as well as the results of its operations, the changes in the net equity and the source and allocation of funds for the year 2008, and contain the necessary information for their adequate interpretation and understanding, in accordance with generally accepted accounting standards in the Spanish regulation.
4. The accompanying managing directors' report for 2008 contains such explanations as the Fund's Management Company deems relevant to the situation of the Deposit Guarantee Fund for Banking Establishments, the evolution of its activities and other matters, but is not an integral part of the annual accounts. We have verified that the accounting information contained therein matches with that disclosed in the annual accounts for 2008. Our work as auditors is limited to the verification of the managing 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.

PricewaterhouseCoopers Auditores, SL

(Signed by)

José Ángel Díez Ruiz de Azúa

February 23, 2009