

DEPOSIT GUARANTEE FUND FOR SAVINGS BANKS

FONDO DE GARANTÍA DE DEPÓSITOS
EN CAJAS DE AHORRO

SPAIN

ANNUAL REPORT 2006

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This document is a partial translation of the Spanish original and has been prepared for the convenience of readers and in the event of ambiguity, the Spanish text will prevail. The Spanish version can be downloaded from the web site (www.fgd.es) or can be requested to:

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DEPOSIT GUARANTEE FUND FOR SAVINGS BANKS

MANAGEMENT REPORT FOR THE YEAR 2006

Activity during the year

1. Management and administration of Deposit Guarantee Fund for Savings Banks (hereinafter FGDCA) 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 savings banks crisis.
- Management of the equity capital through the investment in public debts. Total investments have amounted to € 1,712,706.1 thousand and total of disinvestments to € 1,470,526.2 thousand. The financial income show a profit of € 75,662.9 thousand, representing an average yield of 2.75% on an average investment of € 2,816,233.9 thousand. The financial management on the whole with other financial income and expenses shows a net profit of € 68,665.3 thousand, higher the previous year in € 4,298.6 thousand, due to two factors, one positive of € 11,226.6 thousand on account of the increase of the rate of interest and other negative of € 6,928 thousand due to the provision for decline value of financial investments.
- Monitoring of the value of units held in Treasury funds which has had an increase of € 1,603.8 thousand in 2006, that together with the return of the income generated on investment fund commissions, which has amounted € 4,914.8 thousand, totalizing € 6,518.6 thousand, a return of 1.39% compared to the value at the beginning of the year.
- 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 FGDCA's coverage level on the basis of its equity capital.

2. The Resolution of the Ministry of Economy on 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 € 32.6 million of this figure shall be payable by the FGDCA. This financial year € 0.5 million have been paid, totalling € 26.4 million from the beginning.

Integrated entities and contributions

3. At the beginning of the year there were 47 entities integrated in FGDCA. 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 annual report, there were integrated the same entities.

4. Order ECO 317/2002, of 14 February, published on 20 February, 2002, establishes the contributions to be made to the FGDCA by integrated entities. These contributions were fixed at 0,4‰ 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 amount a total of € 145,517.7 thousand, with an increase of € 15,910.8 thousand (12.3%) on the previous year, which were disbursed on 28 February, 2006.

Of the total amount disbursed, the 99.1% corresponds to guaranteed deposits and the 0.9% to guaranteed securities. In accordance with the legislation, the Banco de España has made no contributions.

Guaranteed deposits

5. 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	85,649.5	85,649.5	58,810.2	68.7
31.12.1991	101,459.0	101,459.0	63,199.5	62.3
31.12.1992	111,954.1	111,954.1	63,929.3	57.1
31.12.1993	127,156.4	127,156.4	69,352.7	54.5
31.12.1994	138,998.8	138,998.8	71,806.4	51.7
31.12.1995	148,832.1	148,832.1	74,942.6	50.3
31.12.1996	152,778.9	152,778.9	93,501.0	61.2
31.12.1997	156,200.6	156,200.6	95,732.1	61.3
31.12.1998	169,593.2	169,593.2	100,133.0	59.0
31.12.1999	194,031.5	194,031.5	110,263.9	56.8
31.12.2000	216,995.9	216,995.9	132,774.7	61.2
31.12.2001	302,374.8	246,435.8	173,720.1	57.4
31.12.2002	323,973.3	266,954.3	179,172.0	55.3
31.12.2003	355,666.8	296,359.1	189,014.0	53.1
31.12.2004	382,991.4	324,009.5	199,799.6	52.2
31.12.2005	427,512.6	364,783.7	214,951.7	50.0
31.12.2006	513,579.0	422,479.5	227,340.7	44.3

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 of 31 December, 2006, deposits and securities guaranteed have been up 20.1% on the previous year.

FGDCA's equity is the 0.74% of the calculation base for contributions in 2006, compared with 0.8% in 2005. In compliance with article 3.4 of Royal Decree 2606/1996, the contributions will cease when FGDCA's equity reaches 1% of the calculation bases of contributions.

Assistance granted

6. During the year no new assistance has been granted to savings banks.

Financial position

7. Available resources have been increased in € 213,361.4 thousand during the year, of which € 145,514.7 thousand comes from annual saving banks contributions and € 67,846.7 thousand to FGDCA management, primarily financial interests. These resources have been invested totally in public debt 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.

At year-end, the distribution of investments is 43.7% for Treasury bills and 56.3% for Government bonds.

8. The financial resources, without considering the unearned increment of the Treasury funds, amounted to € 3,124,558 thousand and represent 99.9% of total assets and 100.2% of net equity at year ended.

Surplus for the year and equity

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

<i>Items</i>	<i>Management</i>	<i>Financial</i>	<i>Total</i>
Income.....	145,518.3	80,592.2	226,110.5
Expenses.....	(496.6)	(11,926.9)	(12,423.5)
Total.....	145,021.7	68,665.3	213,687.0

The surplus generated in 2006 stands at € 213,687 thousand, an increase of € 20,123.4 thousand from the previous year, which represent an increase of 10.4%. Of the amount of the surplus it is necessary to highlight in income € 145,514.7 thousand

from contributions, which represent 68.1% of the surplus of the year, and in expenses € 11,892.8 thousand of the provision for decline value in financial investments.

10. Considering the amount of the surplus for the year, the equity of FGDCA amounts to € 3,119,757.1 thousand as at 31 December, 2006, up 7.4% from the opening balance.

Assets deriving from financial restructuring

11. The assets from financial rehabilitations can be considered as residuals and with difficult collection, and their realization will take place hardly. This year € 13.5 thousand has been recovered.

Economic/financial control

Court of Auditors

12. 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

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

Executive Committee

14. 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 Villasanté 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.

FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying financial statements of the Deposit Guarantee Fund for Savings Banks 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 of 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 Savings Banks, 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 SAVINGS BANKS

BALANCE SHEET, as at 31 December

(Thousands of euros)

<i>ASSETS</i>	<i>2006</i>	<i>2005</i>
FIXED ASSETS		
Long term investments	1,372,114.0	1,424,752.7
Government bonds and Treasury bills.....	1,370,991.3	1,423,631.0
Term bonds	786.1	785.1
Securities	333.0	333.0
Long term deposits	3.6	3.6
Total fixed assets	1,372,114.0	1,424,752.7
ASSETS BEING SOLD OFF as a result of assisted plans		
Real state (net value)	4.2	4.2
Loans to third parties (net value)	70.1	70.5
Total assets being sold off	74.3	74.7
CURRENT ASSETS		
Debtors	1,175.0	1,301.8
Short term investments	1,750,680.3	1,484,744.9
Government bonds and Treasury bills.....	1,687,483.7	1,436,225.4
Interest receivable on investments.....	63,196.6	48,519.5
Cash and liquid assets	2,100.3	2,035.6
Total current assets	1,753,955.6	1,488,082.3
TOTAL ASSETS	3,126,143.9	2,912,909.7
<i>LIABILITIES AND FUND BALANCE</i>		
FUND BALANCE		
Accumulated net income	2,906,070.1	2,712,506.5
Current year's surplus	213,687.0	193,563.6
Total fund balance	3,119,757.1	2,906,070.1
PROVISIONS		
Indemnities for legal prescription	6,276.6	6,738.7
Total provisions	6,276.6	6,738.7
CURRENT LIABILITIES		
Short term creditors	110.2	100.9
Total current liabilities	110.2	100.9
TOTAL LIABILITIES AND FUND BALANCE	3,126,143.9	2,912,909.7
Memorandum accounts	212,429.7	211,001.5

DEPOSIT GUARANTEE FUND FOR SAVINGS BANKS

STATEMENT OF INCOME, for the year ended 31 December

(Thousands of euros)

<i>EXPENSES</i>	<i>2006</i>	<i>2005</i>
MANAGEMENT EXPENSES		
Operating expenses	496.6	414.9
Total management expenses	496.6	414.9
MANAGEMENT REVENUES	145,021.7	129,196.9
FINANCIAL EXPENSES		
Provision for decline in value of Treasury bills	90.1	2,796.4
Provision for decline in value of Government bonds	11,802.7	2,168.4
Others financial charges	34.1	32.0
Total financial expenses	11,926.9	4,996.8
FINANCIAL REVENUES	68,665.3	64,366.7
SURPLUS FOR THE YEAR	213,687.0	193,563.6
<i>INCOME</i>		
MANAGEMENT INCOME		
Annual contributions	145,514.7	129,603.9
Freed-up provisions	3.6	7.8
Extraordinary income	—	0.1
Total management income	145,518.3	129,611.8
FINANCIAL INCOME		
Interest on public debts investments	75,676.4	64,252.6
Other financial income	4,914.8	5,104.5
Freed up provisions	1.0	6.4
Total financial income	80,592.2	69,363.5

DEPOSIT GUARANTEE FUND FOR SAVINGS BANKS

STATEMENT OF CASH FLOWS, for the year ended 31 December

(Thousands of euros)

	<i>2006</i>	<i>2005</i>
CASH FLOWS PROVIDED BY		
Annual contributions	145,514.7	129,603.9
Interest on financial investments	92,667.9	88,581.3
Recovery of debtors.....	13.5	27.3
Others financial products	5,032.8	5,089.5
Total	243,228.9	223,302.0
CASH FLOWS USED BY		
Increase of financial investments	242,179.9	219,882.4
Management expenses.....	522.2	445.0
Indemnities for legal prescription	462.1	1,545.6
Others items.....	—	100.0
Increase (decrease) in liquid assets	64.7	1,329.0
Total	243,228.9	223,302.0

EXTERNAL AUDITORS' REPORT



KPMG Auditores S.L.
Edificio Torre Europa
Paseo de la Castellana, 95
28046 Madrid

Informe de Auditoría de Estados Financieros

A la Comisión Gestora del
Fondo de Garantía de Depósitos en Cajas de Ahorro

Hemos auditado los estados financieros del Fondo de Garantía de Depósitos en Cajas de Ahorro (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 31 de enero de 2006 emitimos nuestro informe de auditoría acerca de los estados financieros del ejercicio 2005 en el que expresamos una opinión favorable.

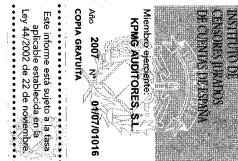
En nuestra opinión, los estados financieros del ejercicio 2006 adjuntos expresan, en todos los aspectos significativos, la imagen fiel del patrimonio y de la situación financiera del Fondo de Garantía de Depósitos en Cajas de Ahorro al 31 de diciembre de 2006 y de los resultados de sus operaciones y 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 Cajas de Ahorro.

KPMG AUDITORES, S.L.

Julio Álvaro Esteban

26 de enero de 2007



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

Inscrita 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 15.
Reg. Mer. Madrid, T. 11.961, F. 90, Sec. 8, H. M.-188.002 Inscrip. 9.ª
N.I.F. B-78510163

Auditors' Report on the Financial Statements

(Translation from the original in Spanish)

To the Executive Committee of

Fondo de Garantía de Depósitos en Cajas de Ahorro

We have audited the financial statements of the Deposit Guarantee Fund for Savings Banks (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 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 31 January, 2006, we issued our unqualified audit report 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 Savings Banks 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 Savings Banks.

KPMG AUDITORES, S.L.

(Signed by)

Julio Álvaro Esteban

26 January, 2007