

Financial-economic information



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Economic and financial situation in 2010

The 2010 financial year was noted for being a year of stabilisation of the economic and financial crisis which began in 2008. This stabilisation process arose as a consequence of the coordinated action of world authorities who were responsible for the greatest, widest and fast response ever known in the history of modern economics.

One of the most striking features of the stabilisation process, however, was its fragility. Recovery rested excessively on the action of public authorities, many of which witnessed how their limited scope of action was exhausted much sooner than desired. The most visible elements of this fragility were the reduction of international commercial exchanges and the loss of confidence in the debt issued by European countries, which resulted in a crisis concerning the credibility of certain European Union member states (Greece and Ireland), with additional effects on Portugal, Spain and Italy among others. There was a very significant upward fluctuation of the risk premiums of their foreign debt, increasing the cost of financing in international markets, to the point of conditioning the rate of recovery or their way out of the crisis.

This has all called into question the stability of the international financial system, affecting in particular the euro itself and generating an incipient currency war in the second half of the financial year which reflected the tensions experienced in international trade. All in all, the challenges posed by the 2010 financial year point towards the need to regain the growth potential of the economy, to learn from the current crisis and to maximise the available economic policy instruments, etc. The combination of traditional monetary policy, regulation instruments and the design of better automatic stabilizers for fiscal policy proved to be some of the options requiring greater development.

The large blocs of countries, however, behaved in an uneven rather than homogenous way. It was therefore possible to distinguish on one side the emerging economies lead by China, India and Brazil, and on the other, the developed countries (USA and EU mainly) and within these, a group of Southern European countries with the previously mentioned special difficulties. While the first group displayed very high economic growth rates which may affect their macroeconomic balances in the long term, the EU revealed a path of moderate recovery, more cautious in intensity and with risks of relapse. These countries included those in greatest difficulty requiring thorough structural reform, such as in the case of Spain.

This dual and divergent behaviour between the main international blocs got progressively worse as the financial year progressed. This resulted in an acceleration of world trade growth rates and in turn of the economic growth of developing countries, which contrasted with the more discrete progress of developed economies, particularly of the European Union, since there was substantial improvement in US registers as the year went on.

Developed economies did in fact start to show clear signs of recovery with average growth rates of over 3%. US growth rates, meanwhile, showed signs of slowing down in the second quarter followed by stabilisation in the third. American growth was based on corporate investment and on public expenditure, compensated for by the behaviour of the foreign sector which combined the strong increase in imports with a moderation of exports. The recovery of the fourth quarter was based on the increase in consumption to reach an annual growth of 2.8%. In terms of prices, annual inflation was moderate reaching around 1.5% and was spurred by energy prices, and the underlying annual inflation stood at a moderate 0.8%.

Japan, on the other hand, presented restrained growth rates, which increased in the third quarter to 0.9%, although growth over the year reached 4.3%. This was due to the 1% growth in domestic demand in particular, and private consumption benefitted from temporary factors such as government subsidies for the purchase of certain types of vehicles and the greater demand for tobacco before higher taxes came into effect towards the end of the year. The level of consumer prices has fallen in recent quarters. Inflation was positive in October for the first time in the last two years, spurred by the higher greater tax on tobacco and energy. The CPI rose by 0.1% over the year but underlying inflation fell by 1.0%.

The differences in the behaviour of the large blocs did not end there but continued into the Eurozone which also began to recover (GDP rose by 1.8%). This recovery was less pronounced and was affected by the harsh climatological conditions of the winter which interrupted various infrastructural works which would in turn affect the rate of recovery. In countries within the European Union, it was possible to observe a geographical dichotomy between those of the north with important growth rates (Germany, Sweden, Poland, Slovakia and the United Kingdom) in contrast to the results of southern countries (France and Italy) and the recession of certain periphery countries (Ireland, Greece, Romania and Spain). Other EU Central and Eastern European Countries (CEEC) displayed signs of recovery which was spurred by external demand and restocking, with a weak internal demand which did not find the necessary impulse in the labour or credit market to take off.

Emerging countries displayed a strong dynamism in their growth rates (+7.1%), despite the deceleration recorded at the end of the cycle as a result of the withdrawal of monetary and financial support policies and of the smaller contribution of the external sector. The increase in food and raw material prices lead to the general rise in prices, which remained high. All in all, the international centre of gravity continued to shift towards emerging countries, gaining a share in the generation of the GDP and in the majority of economic, commercial and financial variables at the expense of developed countries. This lead to important changes in international economic governance whereby the G7 handed over to the G20 as an international leadership forum in the economic field. In this process, the major emerging economies comprising the BRIC group (i.e. Brazil, Russia, India and China) assumed a more important role. These countries demonstrated a growing weight in the world economy and in general a high growth potential, although they also displayed important productive, commercial, financial and institutional differences.

Within the emerging countries, China acquired a special importance. Its GDP was based on solid external demand and a strong trade surplus. Its growth rate stood at

around 10% in real terms. Inflationary pressures meant that the monetary authority shifted the focus of attention for its policies towards containing prices, raising reference interest rates of loans and deposits to 2.5% and 5.56%, respectively and attempting to remove pressure from the evolution of residential properties and foodstuffs, together with liquidity-absorbing measures for the financial system in order to avoid economic overheating.

Latin America was also considered within the group of emerging countries, although differences could be observed in the behaviour of its main economies. In general, starting from high growth rates, there was a moderation in progression rates throughout 2010 (GDP growth was 5.9%) and inflationary pressures were increasingly evident due to the increase in food prices. The economic dynamism stemmed from the stimulation policies which were being applied and the affluence of external capital, which was evident from the strong dependence of foreign markets. More specifically, in Mexico the year-on-year real GDP grew by 5.3% in the third quarter of 2010 (7.3% in Q2 2010). In Brazil, industrial production increased by almost 8% on the year-on-year rate in the third quarter of 2010 (14.3% Q2 2010). In Argentina, industrial production grew at a year-on-year rate of 9.3% in the third quarter (10% Q2 2010). In the three cases, inflationary pressures were high.

In 2010, international financial markets once again played a leading role. The renewed tensions, associated with fears about the sustainability of public finances in certain Eurozone countries, notwithstanding abundant liquidity conditions, culminated in the crisis of confidence in the sovereign debt markets.

This lead firstly to the intervention in Greece in May and then in Ireland in November. The establishment by the European Union of a financial stability mechanism to safeguard countries in difficulties and to meet their sovereign debt due dates, with the creation of a rescue fund, together with the direct purchase by the ECB of the sovereign bonds and continuing with the exceptional liquidity injections, initially removed tensions from the markets. This release, however, was short-lived, and after the difficulties which lead to the rescue of Ireland due to the serious deterioration of its banking system and the imbalances of public finances, Portugal became the centre of attention with Spain earmarked as the next point of focus.

This significantly raised the sovereign debt differentials of countries submitted to the scrutiny of the markets in relation to the German 10-year bond which acted as the reference. Correspondingly, the public debt differential in Spain reached a peak of 300 basic points, hovering around 250 points.

Both the USA and EU maintained a lax monetary policy profile as a way of aiding economic recovery and unleashing expansion. It was foreseeable that the extension of monetary policies would delay American fiscal consolidation with its deficit for all public administrations standing at around 10% of the GDP. There was no variation in official ECB interest rates after 13th May 2009, with the price of the main financing operations standing at 1%, that of the marginal lending facility at 1.75% and that of the deposit facility at 0.25%, therefore applying a non-restrictive monetary policy to spur economic recovery.

Exchange rates were affected by the application in certain cases of extraordinarily expansive economic policies such as occurred in the USA. This resulted in an excessive weakening of currency, thereby supporting the exporting potential of its products and discouraging potential imports. These fluctuations in exchange rates and in capital flows attracted protest by countries such as Brazil which experienced strong currency appreciation. The reflex movement veered towards protectionism at times, after generating a "currency war" between countries. For the time being, the post-crisis protectionary reflex was extremely moderate, since the World Trade Organization continued to set the rules for international exchanges. Despite this, the risk of the currency war remained latent. Exchange rates decisively affect foreign trade movements to the extent that the relation between currencies strengthens or weakens the level of a country's competitiveness of transaction products in trade.

The yield of long-term public debt with an AAA credit rating for the Eurozone and USA continued to rise in both cases. After reaching historically low levels in the Eurozone at the end of August, by the end of the financial year, the real yield of long-term public debt had risen significantly, possibly as a reflection of the positive underlying boost of economic recovery. There was a moderate drop in the long-term expectations indicators for financial markets. Meanwhile, increasing strains in the Eurozone's sovereign debt markets were responsible for raising the differentials of certain sovereign issuers to new highs. On 1st December, the yield differential in relation to German bonds stood at 910 basis points for Greece, 605 for Ireland, 400 for Portugal, 260 for Spain and 170 for Italy.

European private fixed income behaved worse than US corporate bonds as they felt the impact of the European sovereign debt. Assets issued by the financial sector were worst affected and especially subordinated debt placed last in the priority order in the

case of issuer bankruptcy. Certain financial institutions also acknowledged the need to increase capital in order to strengthen their own resources.

After an initially high growth rate and more moderate growth towards the end of the financial year, the evolution of investment funds was conditional on the flattening of the yield curve and the intensification of tensions in the sovereign debt market, which reduced the incentive to transfer funds from more liquid and safer monetary assets to longer term and greater risk assets.

In the variable income markets, the evolution of stock markets indexes revealed a high volatility in the first part of the financial year to follow an upward path in the second part. This was applicable both in the Eurozone and the USA. In the first case, this development was supported by robust actual and expected growth of corporate profits and on the publication of generally positive macroeconomic data. At the same time, share prices were probably negatively affected by renewed tensions in the Eurozone sovereign debt market, although the impact varied throughout the different countries and sectors, with the banking sector being the most affected. Uncertainty of Eurozone variable markets declined during most of the period in question.

Short-term bank loans granted to non-financial companies by financial institutions dropped sharply after March 2009 and continued to fall albeit at more controlled rates. According to the ECB, empirical evidence available about loans to this sector suggests that it trailed behind the economic cycle. The fact that decline rates slowed down in the third quarter of 2010 suggests that a point of inflection was reached in the previous months. They also point towards the substitution of financing sources by companies with a greater tendency for financing themselves on markets on one hand together with the greater availability of domestic financial resources on the other. The funding gap which the difference between expenditure in real investment and gross domestic savings (the real financing contributed by the company) was positive throughout the first half of the year, which also explained the reduction in loans to companies due to their ability to finance themselves.

On the other hand, the recovery of the housing market resulted in an increase in the number of home loans after Q3 2010 after the moderate levels of previous months. There was a slight increase in the level of debt in relation to household income although there was no change in the interest burden.

Despite the fact that inflationary pressures were controlled in the medium term, greater international demand for raw materials and the evolution of energy prices indicated that this situation could change. As far as the evolution of prices was concerned, according to the preliminary Eurostat estimate, the HICP-measured year-on-year inflation rate for the Eurozone stood at 2.2% in December, exceeding the ECB's objective of 2%.

These were the general lines defining the performance of the Spanish economy which was suffering from a crisis of confidence by international markets which undermined the effectiveness of the reforms instigated to overcome this and to begin a clear path of recovery. The additional premium applied to new sovereign debt issues suggest this and calls for fiscal consolidation in order to restore confidence and the financial margins of financial institutions, and to return the flow of credit to the system, since these represent the basis for financing productive investment which is a prerequisite for the competitiveness of the Spanish economy.

All of this is essential in order to return to economic growth rates which are capable of creating employment and therefore to redirect unemployment levels towards standard European Union levels, starting from clearly unfavourable comparative positions following the almost doubling of the European unemployment rate. This process would suppose activating a new positive spiral which would generate wealth and welfare for citizens and the different economic and social agents.

At the beginning of 2010, Spain was one of the worst placed EU economies with an economic cycle which presented a greater delay in recovery and where limited increases in productivity impeded exit through innovation. In addition to its high structural deficit (9% of the GDP at the beginning of the year and 3.7% in November), there was a high level of overleveraging by companies, families and financial institutions alike and an excessive external deficit. Correspondingly, the IMF warned that Spain had a dysfunctional labour market, with anaemic growth productivity, low competitiveness and a weakened banking sector.

In view of this situation, a series of packages were implemented in 2010 to boost activity directed at increasing budgetary austerity and reforming the labour market, collective negotiation and pensions, to activating extraordinary infrastructure plans. The financial system was restructured with the creation of the Fund for the Orderly Restructuring of the Banking Sector (FROB), with a special focus on savings banks with the passing of the Law for the Governing Bodies of Savings Banks (LORCA) after the stress tests were conducted and published on a European level. The VAT system was then reformed in the middle of the year with the general rate being raised from 16% to 18%.

The Spanish economy embarked on a path of gentle recovery in 2010, dropping by -1.4% in Q1 2010, to 0.6% in Q4 2010, reaching 0% in the second quarter and 0.2% in the third quarter. There was a contraction of domestic demand which was associated with the drop in confidence indicators both for consumers and companies and with high unemployment rates. More specifically, the consumer confidence index remained at lower levels than the all-time average which was a sign of the sluggish recovery of consumption.

Private consumption showed signs of recovery in the second quarter, but this was not consolidated in subsequent quarters. Modifications in the fiscal framework and the VAT increase in July were probably responsible for advance purchases by economic agents. Fiscal consolidation meant that the contribution of the public sector was negative in 2010.

There was a sharp drop in investment and construction-related investment in particular, and this was one of the main characteristics of the Spanish economic model. The cuts in infrastructures were largely responsible for this behaviour. By way of contrast, there was a slight improvement in the growth rates for investment in capital equipment associated with renovations and new investment in industrial productive equipment. For the first time since the month of June, there was a positive variation rate in the registration of goods vehicles. The drop in domestic demand was compensated for by a positive contribution of foreign markets, which was particularly intense in the first and third quarters.

The foreign sector therefore acquired a renewed importance, linking itself to the recovery of the more developed economies of the European Union (Northern European and Germany mainly), the favourite destination for Spanish exports and whose demand pull positively contributed to Spanish growth. Unlike what happened in 2009, where foreign contribution originated from the greater contraction of imports in relation to exports rather than the greater thrust of the export-import ratio, it might be said that in 2010 the foreign contribution to the growth of the Spanish economy followed a more orthodox pattern and arose from the greater thrust of exports.

In terms of supply, industrial activity was not particularly dynamic, although there was a slight improvement in the industrial confidence indicators associated with the greater foreign market demand.

Services also behaved in a particularly tenuous way with few signs of any revival in the demand for information and communication and professional, scientific and technical activities.

From the perspective of corporate results, a certain improvement was apparent in relation to those of the previous quarter which coincided with the most serious moments of the crisis. This might suggest that the worst of the crisis for companies was over and that they were beginning to recover. While this was positive, it was not strong enough to create net employment.

The labour market evolved in such a way that it was impossible to prevent the destruction of employment, with widespread losses in most sectors. The average monthly number of those covered by the Social Security system reached 16.4 million people, a figure which was lower than that expected for the month of December. Unemployment figures for December exceeded 4.1 million people, after a 4.5% increase in relation to the same month of the previous year. There was therefore further deterioration of the labour market, although to a lesser extent than previously.

According to the Spanish Treasury, the Spanish Consumer Price Index (CPI) registered a year-on-year variation rate of 3% in December. The annual inflation average for 2010 stood at 1.8%, 2.1 percentage points higher than in 2009. All the major CPI components contributed to this transitory upturn in inflation, although it was energy and food which were the most unpredictable and had the greatest effect. As a result, there was a smaller increase in the underlying CPI component than in the general CPI. The average annual rate of inflation stood at 0.6%, two tenths lower than in 2009.

After the deterioration experienced in the first part of the previous year, the trade balance displayed a change in trend and presented a deficit of 3,880 million € (November) after three consecutive improvements. It should be pointed out, however, that the deficit increase in the energy component of the balance resulted in a slowing down of the overall rate of recovery. The current account deficit in November stood at 48,667 million €, which was lower than 5% of the GDP.

Basque and Navarran economy

Throughout 2010, the climate for the Basque and Navarran economies was both complicated and extremely volatile, and although they showed signs of recovery, this was still hesitant and in need of consolidation. Correspondingly, the GDP grew by 0.3% in the ACBC and 1.2% in Navarra. In the case of Navarra, growth bottomed out in the second quarter of 2009 to a lesser extent than it did in Spain and there was then a faster rate of recovery from this moment on to follow a positive path in the first quarter of 2010 with a complete upturn.

The Basque economy, meanwhile, was slower to recover than the other two and reached its minimum a quarter later in Q3 2009 and its economic recovery was between that of Spain and that of Navarra. The Basque economy moved between two opposing forces which determined its evolution: on one side, Eurozone recovery which rose to 1.8%, and on the other, the -0.1% drop in the Spanish economy. The first absorbed 31% of the exports of Basque goods, whereas almost half (46%) went to the second, and was therefore extremely important for the Basque economy.

	2007		2008		2009		2010	
	ACBC	NAVARRA	ACBC	NAVARRA	ACBC	NAVARRA	ACBC	NAVARRA
REAL GDP	3,9	3,8	2,0	1,9	-3,3	-2,5	0,3	1,2
ACTIVITY RATE	57,76	60,31	58,15	60,65	57,4	59,7	57,9	59,76
UNEMPLOYMENT	5,73	4,28	8,33	8,12	11,5	10,5	10,9	11,6
CPI	4,20	4,20	1,90	1,20	1	0,5	2,8	2,8

Source: Eustat, Instituto de Estadística Navarra, own compilation

According to the latest available data, the lack of confidence among agents and the uncertainty of unemployment, together with the VAT increase and the elimination of the fiscal consumption incentives which were available in the first six months of the year meant that private consumption slowed down to reach 1.2%, while public consumption stood at 1% in Q4.

From the perspective of the indicators associated with the performance of the public sector, the recovery of activity brought with it an improvement in total tax collection which reached 8.4% last December with a special impact on indirect taxes which rose by 19.5% and the contraction of direct tax collection (-2.5%) at the same time. Total Basque Government expenditure had grown by 1.5% by the end of November, contrasting the increase in current expenditure (+2.5%) with the reduction in capital expenditure (-7.3%).

Investment continued to fall although at an increasingly slower rate from -14.6% in Q4 2009 to -3.2% in Q4 2010. One of the reasons for this smaller contraction in investment was the recovery of official tendering in the ACBC, with increases in both edification and civil works. Housing indicators, however, still showed no signs of recovery. According to data from the Spanish Ministry of Development, at the close of Q3 2010 both houses under construction (-69%) and those completed (-5%), and also the reduction in the number (-6%) and volume of mortgages (-1%) in November, reflected the adjustment which was occurring in the sector in view of the housing oversupply. This was reflected in the stagnation of second-hand house prices.

Throughout 2010, there was a drop in the contribution of the foreign sector to ACBC growth. It fell from 1.8 percentage points in the first quarter to 0.7 percentage points in Q4 2010. This contribution arose from a similar dynamism of exports to Spain and the rest of the world, in terms of growth rate (+12.8%) and imports (+12.2%). The total balance of the first amounted to 10,324 million €, while imports totalled 10,676 million €. The net balance had a deficit of 352 million €, with a coverage rate of 96.7%. The volume of transactions (exports plus imports) recovered and presented growth of 15.4%.

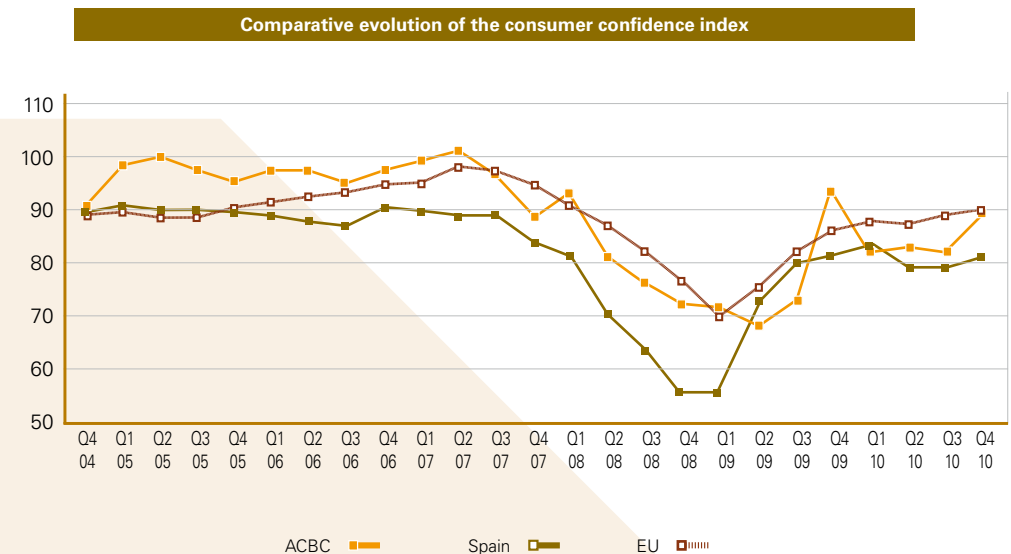
At the close of the financial year, ACBC employment figures totalled 975,890. The unemployment rate, meanwhile, stood at 10.9%. As a result of the evolution of the working and unemployed population, the activity rate was 57.8% in the fourth quarter of 2010.

According to data from the Quarterly Accounts of Navarra which are compiled by the Institute of Statistics of Navarra, the Navarran economy followed a clear path to recovery in the three quarters of 2010 following the bottoming out in the second quarter of 2009. It therefore rose from -0.1% in Q1 2010 to 1.5% in Q2, to 1.6% in Q3 and 1.9% in Q4.

The favourable evolution of the Navarre economy arose from industrial growth and to a lesser extent from the recovery observed in market services which compensated for the estimated slowing down in non-market services and construction.

Consumer confidence

In a particularly unstable climate, Basque consumer confidence reached 89 points in Q4 2010 and regained ground towards the maximum levels marked in the recent period coinciding with the data for the close of 2009. The data for Basque consumers matched that of EU consumer confidence (89, +1) and was higher than Spanish consumer confidence (80, +2), with all three areas showing signs of index stabilisation.



This recovery in Basque consumer confidence was based not only on the improvement in saving expectations (107, +22) and unemployment expectations (72, +9) but also on the stability of expectations about the general economy (83, =) and home economics (95, +2). These indicators revealed that 22% of those surveyed believed that their family financial situation would worsen (compared with 40% in the 2nd quarter of 2009); that 44% believed that the general economic situation would get still worse (compared with 62% six months previously); that 53% believed that unemployment would rise (compared with 82% in the same period); and that 57% expected to save (compared with 45% previously). In other words, the Confidence Index components were better than previous data, and this reflected the improvement in confidence.

These consumer expectations were reflected in the areas of consumption, saving, and home and car purchases. The index for consumer demand expectations (76, -9) showed that 37% of consumers intended to reduce household good purchases, a percentage which was 15 points higher than the pre-crisis average. Although an improvement on 2008-2009 and showing signs of a slight improvement, the index was still 11 points lower than its pre-crisis average.

Consumption Indicators for Basque Consumers

	Q4 2010	Q3 2010	Q2 2010	Q1 2010	Q4, 2009	Q3 2009	Q2 2009	Q1 2009
1. Consumer Confidence Index	89	81	82	81	93	72	67	70
Expectations about the family financial situation	95	93	89	89	94	86	80	79
Expectations about the general economic situation	83	83	75	74	88	63	63	54
Unemployment expectations	72	63	74	60	81	43	39	45
Consumer saving expectations	107	85	89	99	108	94	86	103

Source: FCAVN

Recovery of the index began with the improvement in confidence, although it should be mentioned that it remained at slightly lower levels than before the crisis reaching 11 points below its pre-crisis average.

Financial regulation

The 2010 financial year was characterised by substantive reforms to Spanish legislation which explained why regulation was also profuse and far-reaching.

The observable difficulties in the Spanish financial system stemming from the context of the international crisis resulted in the reform of the legislative framework for savings banks, together with new legislation regarding solvency and liquidity to reinforce credit institutions' own funds, and also applicable fiscal regulations.

- **Directive 2009/111/CE, of 16th September** (DOUE of 17th November), amending directives 2006/48/CE, 2006/49/CE and 2007/64/CE6, as regards banks affiliated to central institutions, certain own funds items, supervisory arrangements, large exposures and crisis management.

- **CBE 2/2010, of 27th January** (BOE of 5th February), amending CBE 4/2004, of 22nd December, on public and confidential reporting rules and formats.

- **Royal Decree Law 6/2010, of 9th April** (BOE of 13th), on measures to promote economic recovery and employment

- **Royal Decree Law 628/2010, of 14th May** (BOE of 3rd June), amending Royal Decree 2606/1996, of 20th December, on credit institution deposit guarantee funds (DGF).

- **Royal Decree 948/2001, of 3rd August**, on investor compensation schemes (ICS).

- **Ministerial Order EHA/1718/2010, of 11th June** (BOE of 29th June), on the regulation and control of advertising for banking products and services.

- **Ministerial Order EHA/1717/2010, of 11th June** (BOE of 29th June), on the regulation and control of advertising for investment products and services.

- **Royal Decree 712/2010, of 28th May** (BOE of 29th May), on the legal regime of payment services and payment institutions.

- **Law 10/2010, of 28th April** (BOE of 29th April), on the prevention of money laundering and terrorist financing.

- **Council Regulation 407/2010, of 11th May** (DOUE of 12th May), establishing a European Financial Stabilization Mechanism (EFSM).

- **Royal Decree Law 11/2010, of 9th July** (BOE of 13th July), on governing bodies and other aspects of the legal regime of savings banks amending Law 13/1985, of 25th May, on the investment ratios, own resources and reporting obligations of financial intermediaries (equity units), and Law 31/1985, of 2nd August, on the regulation of the basic rules on governing bodies of savings banks.

- **CBE 3/2010, of 29th June (BOE of 13th July)**, amending CBE 4/2004, of 22nd December, on public and confidential financial reporting rules and format.

Evolution of the Member Savings Banks

The 2010 financial year was marked by a distinct dichotomy in the progress rates of emerging economies on one hand, with a specific weight of almost 50% of the world, and developed economies on the other. Within this last group what did stand out were the difficulties experienced in public finances of certain important countries, which had a very large impact on the evolution of the markets, on the need for sound public accounts, on the recomposition of the financial system and on the return to higher economic growth rates. In the same way, there was an accentuation of the imbalances between financial flows on a global level, so that the deficit of more advanced economies (such as the US economy) were financed with the available surpluses from emerging economies such as China. All of this affected monetary policy in recent months.

The sovereign debt crisis called into question not only the stability of the European system, but also the survival of the single currency in countries comprising the Economic and Monetary Union (EMU). Initially, it did not seem that the Greek debt crisis would continue or rapidly spread towards other EMU countries as occurred. This highlighted not only the vulnerability of prevention and control systems and the absence of tools for tackling systemic eventualities on a European level, but also the need to improve financial and economic governance mechanisms in Europe.

Interest rates - Monthly averages in annual percentage			
	Intervention rate	Three-month interbank	One-year Euribor
December 2009	1.00	0.71	1.24
December 2010	1.00	1.02	1.53
Variation in bp	0.00	0.31	0.28
Variation in bp	0.0%	43.5%	22%

Sources Bank of Spain and own compilation

In this context, both the Eurozone and other international institutions embarked on a series of reforms to address the situation. Of these, it is worth mentioning the creation of the European Systemic Risk Board, the establishment of a European Stability mechanism and the provision of a European rescue fund or the European Financial Stability Facility as instruments for the recovery of EMU market confidence. European governance improvements also included revising the Stability and Growth Pact, monitoring macroeconomic imbalances in a more transparent climate and implementing penalties in the event of non-compliance.

As far as financial regulation and supervision is specifically concerned, the Basilea III agreements established new liquidity and solvency requirements as an integral part of a series of actions for modifying the European financial architecture.

These reforms should also be supplemented with restructuring measures suitable for the banking system. According to the ECB, sound balance sheets, effective risk management and transparent, robust business models are key to strengthening credit institutions' resilience to shocks and thereby laying the foundations for sustainable growth and financial stability.

The monetary policy applied by the ECB was expansive and maintained the marginal interest of immovable auctions at 1% throughout the financial year. There were no remarkable variations in the interbank market. There was a moderate increase in the Euribor rate with the 3-month rate rising from 0.67% at the beginning of the year to 1.02% at the end and the 1-year rate rising from 1.23% to 1.53% for the same period.

Monetary and price stability was therefore one of the main objectives of ECB actions in 2010. The central bank made important purchases in the bond market, offering exceptional credit and liquidity facilities, and accepting a wider range of financial assets as collateral. This practice, however, was provisional and non-permanent and was slowly suspended as markets returned to normal.

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The foreign exchange market was characterised by the tensions between the most important currency exchange rates, which anticipated the possibility of entering a trade war and of the increase in protectionism in world trade. Problems did not so much stem from the volatility of the exchange rate, as to the tensions arising from China's refusal to reevaluate its currency, the renminbi, together with the expansive monetary policies of more advanced economies which propelled the flow of capital towards emerging countries with the resulting appreciatory pressure for their currencies. By the end of the year, the exchange rate between the euro and the dollar stood at 1.315% after a 7.9% appreciation of the American currency against a weak euro.

EMU inflation remained at the fixed variation rate set by the ECB, with a limit of over 2%, although there was still the threat of the pressure exerted by the strong rise in the prices of raw materials in international markets, spurred by the high growth rates of emerging countries and their growing demand for such raw materials.

There were also differences between the European and North American public debt market. The latter continued to reduce its rate of return towards the middle of the year which sparked a sharp recovery under the new tax stimulus package for economic growth and the recovery of the economic cycle and this had a favourable effect on agents' expectations.

The European sovereign debt crisis transferred demand towards variable income markets at the mercy of improvement in corporate profits of certain sectors. The evolution of European variable income markets was extremely volatile and erratic due to the fact that there was no clarification of the panorama of those countries trapped by the crisis and uncertainty. Sovereign debt offered protection at the beginning of the crisis, but as the crisis unfolded, there was a loss of value and funds were directed towards securities with higher risk-profitability ratios.

Credit activity, meanwhile, rose weakly, with a year-on-year growth rate for household loans of 2.3% in the EMU. Debt in relation to family assets continued to grow moderately, despite the economic recovery observed in the last quarters of 2010.

After an important drop in private sector credit interest rates which reached their lowest of around 3% at the end of the year, a certain recovery was observed in Spain

with an average of 3.57% as interbank rates rose and Spain's debt risk premium increased.

In real terms, however, the cost of financing continued to fall very gently. This explained the growth of private credit investment which was particularly directed towards companies. There was a slowing down of the drop in working capital financing through trade credit.

Nor was there any substantial improvement in household financing with its very moderate growth rates. The demand for home mortgages was influenced by the state of the sector which was severely affected by the excess of supply after the housing bubble burst. Consumer credit, meanwhile, was seriously affected by the VAT increase in the middle of the year, which encouraged consumer purchases in the months beforehand and a significant reduction after the summer. Demand for public sector financing grew and presented a year-on-year variation of 16% at the end of the financial year. The default rate of the private sector rose to 5.7%.

In terms of the evolution of deposits, the liquidity requirements of financial institutions unleashed a remuneration war of the funds obtained as liabilities. The average interest rate of term deposits reached 2.75%, which represented a growth of 3.2% of their balance.

Investment funds were particularly affected by market volatility and savers withdrew balances from this type of product, with a year-on-year drop of around -14%, having recorded a complete dip in the return of these according to the type of investment fund.

Summary of the main epigraphs

The contraction of the economic cycle, the financial crisis, the loss of agent confidence and market volatility also affected the group of Basque-Navarre Savings Banks. Liquidity strains in dealing with foreign debt maturity and the increasing number of new requirements of stricter supervisory control regulations also impacted on these financial institutions as did the restructuring of the financial system, and this resulted in a generalised contraction in the results of the financial institutions in general. In turn, the areas in which the Basque-Navarre Savings Banks operate were also affected. Pre-tax profits in 2010 for our institutions totalled 363 million €, which entailed a contraction of -0.28 pp on ATA on the previous financial year. The total balance of the Basque-Navarre Savings Banks stood at 75,878 million € at the close of 2010, which represented a drop of -3.2% in relation to the previous financial year.

Creditor resources amounted to 54,504 million €, after falling by 3,299 million € (-5.7%). This phenomenon was also apparent in the joint management of commercial resources administered (comprising creditor resources, client balances not directly reflected in the balance and operations conducted with collective investment institutions and voluntary social provision bodies) which dropped more moderately by -3.5% and were 2,217 million € down on the previous financial year to reach 61,192 million €.

ACBC SAVINGS BANKS (Absolute values)			BASQUE-NAVARRÉ FEDERATION SAVINGS BANKS (Absolute values)		
Concepto	2009	2010	Concepto	2009	2010
Own resources	6.109	6.296	Own Resources	7.319	6.968
Client deposits	44.571	41.440	Client deposits	57.803	54.504
Client loans	44.092	44.990	Client loans	57.720	58.056
Social work fund	328	290	Social Welfare Work Fund	343	307
Total Balance	59.012	58.261	Total Balance	78.396	75.879
Pre-tax Profits	440	309	Pre-tax Profits	576	363
No. Branches	883	878	No. Branches	1.219	1.214
No. Employees	5.642	5.476	No. Employees	7.536	7.330

Financial figures in Millions of €

Despite the difficulties in the market which were apparent throughout 2010, the Federation Savings Banks continued to undertake activities relating to economic development in their areas of operation either by funding local initiatives and projects or by providing financing to individuals and companies so that they could carry out their own initiatives. Correspondingly, client loans amounted to 58,056 million €, with an increase in financing of 336 million € on the previous year. This was equivalent to a year-on-year growth of 0.6%. Collateral-secured operations maintained a similar variation rate to that of the previous financial year, growing by 2.1%. Similarly, troubled assets on the balance sheets totalled 1,757 million €, after rising by 8.6%.

The securities portfolio of the Basque-Navarre Savings Banks included assets to the value of 12,206 million €, which was -2.0% lower than the previous year.

Own resources

One of the main challenges facing the international financial system and their main protagonists was capital reinforcement. At the end of 2010 and beginning of 2011, the monetary authority and the economic authority, had initiated a reform process for the Spanish savings banks, which culminated in a reduction in the number of institutions and in an alteration of the existing legal framework. These changes focused in particular on the composition and level of their own resources as elements which would guarantee their sturdiness and solvency. The closest reflection was to be found in the level of own

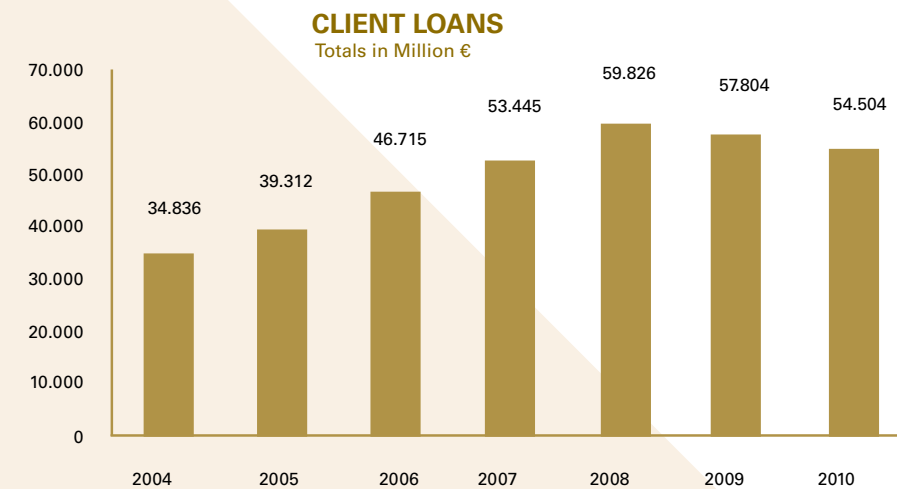
resources and in the guarantee coefficient which reached a minimum of 8% throughout 2010.

At the close of 2010, the Federation Savings Banks' own eligible resources totalled 6,968.9 million €, after dropping by 349.7 million €. Of these resources, 85.3% were classified as basic own or Tier 1 resources. The total figure of resources for the Basque Country Savings Banks represented a coverage ratio of 17.3%, which was almost twice that of the minimum requirements established by current legislation (8%), a clear demonstration of the Basque Savings Banks' high level of solvency.

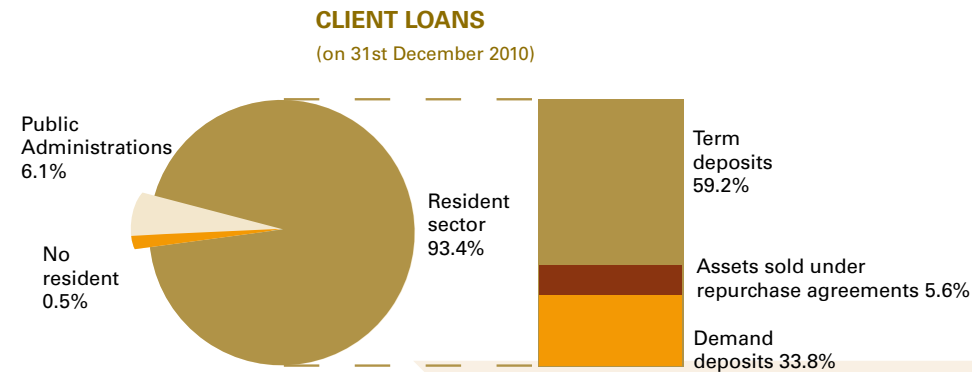
Creditors

The Basque-Navarre Savings Banks captured 54,504 million € from client deposits in 2010, which was 3,299 million € (-5.7%) lower than the previous year.

Additionally, and on account of the total net commercial resources administered, the total balance stood at 61,192 million €, which included all operations involving collective investment institutions and voluntary social provision bodies. This year's balance was 2,217 million lower (-3.5%) than the previous year.



The institutional group of Resident Public Administrations represented 6.1% of the total balance for client loans, with a significant increase during the year. Autonomous administrations were the most important of these. The other major component was private sector-captured balances which were of prime importance in balance capture activity and which represented the remaining 93.4%, since the contribution of non-residents lost representativity and was limited to an extremely small amount.



Looking at the main types of deposits (i.e. the balances of other resident sectors), it was apparent that term deposits remained the most important with 59.2%; demand deposits grew in importance to 33.8% to the detriment of repurchase agreements which represented 5.6% of the operations executed with the private sector.

The balances of resources managed by CII by the Basque-Navarre Savings Banks also dropped. The total captured by investment funds stood at 6,498 million €, which was -13% lower than the previous year, after falling by 975 million € during the year.

The performance of voluntary social protection schemes, on the other hand, was positive in 2010 with an aggregate balance of 5,281 million € at the end of the year, following a 2.1% increase of 113 million €. Client-managed portfolios totalled 462 million €, after an important 51% increase, and these were part of off-balance sheet resources.

These were complemented with insurance contracts which totalled 1,020 million at the close of the year.

Taking the latest figures published by the monetary authority for the close of Q3 2010 for Navarra and the Autonomous Community of the Basque Country into consideration, the Savings Banks held the greatest market share in terms of public administration and other resident sector deposits.

The distribution of market shares in terms of public administration and other resident sector deposits in the ACBC stood at 45.0% (-6.3pp) for the Savings Banks which held the largest proportion, followed by banks with 38.1% (+6.5pp) and then credit cooperatives with 16.9% (-0.2pp). In Navarra, on the other hand, Savings Banks were ranked first with 51.4% (-1.4pp), followed by credit cooperatives with 25.9% (-1.2pp), and finally banks with 22.6% (+2.5pp). This was a clear reversal of the ranking in Navarra where credit cooperatives gained ground to occupy second place.

PUBLIC ADMINISTRATION AND OTHER RESIDENT SECTOR DEPOSITS

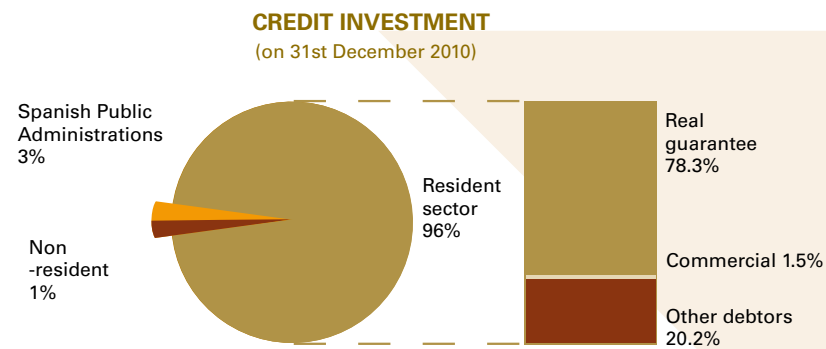
	Banks	Savings Banks	Credit Cooperatives
Araba	26.7%	49.4%	23.9%
Gipuzkoa	30.9%	49.1%	20.1%
Bizkaia	15.5%	41.4%	13.1%
ACBC	38.1%	45.0%	16.9%
Navarra	22.6%	51.4%	25.9%

Source: Bank of Spain, Statistical bulletin and own compilation
Data September 2010.

Credit investment

The crisis had an important impact on the property sector, particularly in terms of loans to property developers which is where the greatest difficulties were observed during 2010. The combination of excessive housing supply on one hand and low property demand on the other curbed the constant rise in property prices which had occurred in the pre-crisis years. This impacted on the financial side and on total resources channelled towards this branch and resulted in a moderation of credit investment growth rates in general and mortgage-guaranteed loans in particular. On the other hand, in keeping with the stabilisation of the drop, the default property growth rate also slowed down and there was an increase in allocations to the corresponding provident funds.

The Basque-Navarre Savings Banks operated in a similar way having granted credit to the sum of 60,704.6 million €, which represented an absolute growth of 561 million € (0.9%).



The private sector constituted the main receptor for such funds, representing 96% of the total whereas the private sector reached 3.0% of the investment, with the remaining 1% for the non-resident sector. An examination of the composition of the private sector revealed that 78.3% went towards secured loans (the majority for property), followed by other debtors with 20.2% and finally commercial credit with 1.5% of the total destined for the private sector.

In terms of the allocation of credit investment, loans for financing household spending represented 65.7% with an increase of 1.5pp, followed by loans for the financing of productive activities which again represented 33% of the total, while the remaining loans were allocated to institutions, etc.

Defaults and late payments were moderate during the financial year and represented 2.64% of the total, while those relating to other resident sectors reached 3.06%. In the first case, the increase amounted to 0.22 hundredths and in the second 0.20 hundredths in relation to the previous year. The total coverage rate stood at 77.8%, while that of other resident sectors reached 107.9%.

PUBLIC ADMINISTRATION AND OTHER RESIDENT SECTOR LOANS

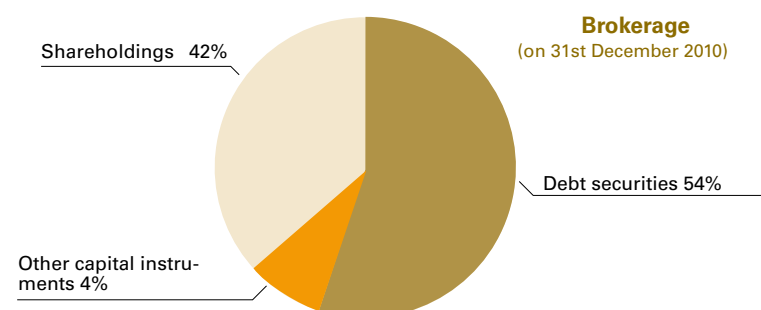
	Banks	Savings Banks	Credit Cooperatives
Araba	32.3%	49.0%	18.7%
Gipuzkoa	34.1%	46.6%	19.3%
Bizkaia	42.2%	45.6%	12.2%
ACBC	38.3%	46.4%	15.3%
Navarra	25.7%	47.9%	26.4%

Sources: Bank of Spain, Statistical bulletin and own compilation
Data for December 2010.

According to information published by the Bank of Spain for the close of 2010, an analysis of credit activity directed towards the private sector revealed a quota allocation where Savings Banks maintained the highest level with 46.4% (-0.4%), followed by banks with 38.3% (+0.7pp), and credit cooperatives with 15.3% of the market total for lending to the public and private sector in the ACBC. The market in Navarra revealed a different situation with Savings Banks being responsible for 47.9% (-0.2%), followed by credit cooperatives with a market share of 26.4% (+0.2%), which was slightly higher than banks with 25.7% (-0.4pp).

Brokerage

The brokerage portfolio for the Basque-Navarre Savings Banks totalled 12,206.9 million €, after a 2% drop on the close of the year.



The lower value resulted from the debt securities which dropped by -3.5% to reach 6,591 million €, and shareholdings in associates, multigroup companies and group companies which fell by -1.0% drop to reach a balance of 5,088 million €. Other capital instruments increased by 7% to reach 526.8 million €.

Liquid assets

Throughout the financial year, liquidity strains in the markets resulted in a reduction in more liquid balancing, so that total liquid assets for the Basque-Navarre Savings Banks fell by 26.3% to reach a balance of 8,673 million €. Among the liquid asset components were the positions of cash and central bank deposits which experienced the greatest adjustment and fell by -74.5% to 649.1 million €; similarly the positions of interbank markets dropped more than a quarter (-40.3%) to reach 1,432.6 million €.

FCAVN	Absolute values		Variation on previous year	
	2009	2010	2009	2010
1. Cash and central bank deposits	2,548.4	649.1	112%	-74.5%
2. Government debts	6,828.6	6,591.3	1.1%	-3.5%
3. Credit institutions	2,398.7	1,432.6	-32.3%	-40.3%
TOTAL	11,775.7	8,673.0	2.4%	-26.3%

Total in million €. Source: FCAVN

Finally, Government debt presented the least negative effect with a drop of -3.5% on the close of the previous financial year to reach 6,591.3 million €.

Balance sheet

In terms of the monetary and financial evolution in the Eurozone, there was a constant yet modest recovery of monetary growth and lending in a context in which the underlying monetary expansion was more moderate with no discerning inflationary pressures to unbalance the situation. Loans to households and non-financial corporations were responsible for the increase in private sector lending.

Under these premises, the Basque-Navarre Savings Banks' interest receivable and similar income amounted to the sum of 1,708.6 million € in 2010, which was 838.3 million € down on the previous financial year. This was equivalent to a drop in income of -32.9%. Measured in relation to average total assets (ATA), the relative percentage stood at 2.21%, which represented a -1.09 percentage point drop on the previous 3.3% throughout the financial year.

FCA.VN. PUBLIC PROFIT AND LOSS ACCOUNT 2009	Totals absolut	% on ATA	variation in % on ATA
Interest receivable and similar income	1,708,547	2.21	-1.09
Interest payable and similar charges	817,149	1.06	-0.74
INTEREST MARGIN	891,398	1.15	-0.36
Yield from capital instruments	266,953	0.35	0.06
Commission received	377,255	0.49	-0.03
Commission paid	33,591	0.04	0.00
Results from financial operations (net)	220,080	0.28	-0.08
Exchange rate differences (net)	39,626	0.05	0.06
Other operating products	56,966	0.07	0.03
Other operating charges	115,372	0.15	0.11
GROSS MARGIN	1,703,316	2.20	-0.37
Administrative costs	786,888	1.02	-0.03
Amortisation	105,496	0.14	0.00
Allocations to provisions (net)	107,707	0.14	-0.06
Losses due to deterioration of financial assets (net)	307,098	0.40	-0.02
RESULT OF OPERATING ACTIVITY	396,128	0.51	-0.26
Losses due to deterioration of other assets (net)	68,915	0.09	0.00
Profits (losses) from non-current assets classified as held for sale	78,793	0.10	0.04
Loss difference on trading combinations	0.00	0.00	0.00
Profits (losses) from current assets not classified as held for sale Interrupted operations	-43,364	-0.06	-0.05
PRE-TAX RESULT	362,643	0.47	-0.28
Tax on profits	-48,018	-0.06	-0.09
Obligatory allocation to social welfare work and funds	13,347	0.02	0.02
RESULT FOR CONTINUED OPERATIONS FROM THE PREVIOUS FINANCIAL YEAR	397,313	0.51	-0.21
Results of uninterrupted operations (net)	0.00	0.00	0.00
RESULT FOR THE FINANCIAL YEAR	397,313	0.51	-0.21

Total in million €. Source: FCAVN

In the same way, the interest payable and similar charges also dropped to 817.1 million €, which was 565.5 million € lower than the total obtained in the same period of the previous year. The relative evolution revealed how the percentage on ATA fell to 1.06%, after reaching 1.79% in 2009. This drop was equivalent to -0.74 percentage points.

The combination of the main components of the interest margin resulted in a greater drop in income than in financial expenditure thereby resulting in its continued contraction. This has been a recurring tendency throughout the entire financial system for several financial years now. The balance of this interest margin stood at 891.4 million € with a drop of 272.7 million €. This was equivalent to the interest margin falling from 1.51% in 2009 to 1.15% in 2010.

Capital instruments evolved positively. They totalled 266.9 million €, which was 50.7 million € higher than previous data. Growth stood at 23.5% which represented 0.35% of ATA and an improvement of 0.06 percentage points in the period.

The net contribution attributable to the difference between income resulting from commission received and commission paid totalled 343.7 million €, with an increase of 7.4% and 0.45 percentage points on ATA to reach 0.45%.

After the strong rise of the previous financial year, the net results on financial operations represented a contribution of 220.1 million €, which was lower than in 2009. The difference implied a reduction in income of -21.8%; in relative terms, the contribution amounted to 0.28% or a drop of 0.08 percentage points. Among its components, it is worth mentioning the positive contribution obtained from the management of non-valued financial instruments at fair value through profit and loss (0.32% on ATA). The remaining components, the negotiation portfolio and other financial instruments, meanwhile, were negative to the sum of -0.05pp of ATA.

The gross margin totalled 1,703.3 million €, after falling by 281.2 million € (-14.2%), dropping from 2.58% on ATA in 2009 to 2.2%, which entailed a narrowing of the margin by 0.37 percentage points in the year.

The epigraph Administrative Costs covers both personnel costs and general administration costs. The first group totalled 538.9 million €, after dropping by -0.02 percentage points to reach 0.70 on ATA. The second group reached a balance of 247.9 million €, with a drop in their contribution in ATA terms of 0.01 percentage points to reach 0.32%. Collectively, administrative costs amounted to 786.9 million €, having fallen by three tenths to reach 1.02% on ATA.

In terms of the remaining expenditure components during the year, amortisations maintained their relative contribution to the average balance (0.14), whereas the remaining epigraphs showed evidence of the containment efforts instigated by the Fe-

deration Savings Banks. Correspondingly, the greatest cut in expenditure was obtained in the Allocations to provisions with -0.06 percentage points to reach 0.14% on ATA. Losses due to deterioration of financial assets, meanwhile, fell by -0.02 percentage points to reach 0.40% on ATA.

Taking into account the accumulated effect of the previous epigraphs, the aggregate scale balance sheet presented a Result of Operating Activity of 396.1 million € which was equivalent to a lower figure of -0.26 percentage points to reach 0.51% of average total assets.

After net profit and loss in the various asset-related items, the pre-tax results totalled 362.6 million euros, with a 0.28 percentage point drop on the previous financial year to reach 0.47% of average total assets. The net tax result, after the relevant obligatory allocation social welfare work and funds totalled 397.3 million € which was 0.51% of the average balance and 0.21 percentage points lower than the previous financial year and equivalent to a reduction of -28.8%.

Comparison with the sector

A comparison of the 2010 balance sheet for the Basque-Navarre Savings Banks with the average sector balance sheet reveals that unlike the previous financial year, the financial margin of the first (1.15%) exceeded that of the Savings Banks sector (1.11%). This was due to the better cost structure (1.06%) of the Federation Savings Banks in relation to the sector average (1.44%). The effort made to reduce costs associated with Interest payable and similar charges was slightly greater (-0.74pp) in the first case against -0.66pp for the sector.

In the following epigraphs of the scale balance sheet, the Federation Savings Banks behaved better than the sector average except in the case of Other operating charges. The Federation Savings Banks' capital instruments (0.35%) were 0.09pp higher than the sector average, net commission (0.49%) was 0.05pp higher, results from financial operations (0.28%) were 0.05pp higher, and other operating products (0.05%) widened the gap by a further tenth.

PUBLIC PROFIT AND LOSS ACCOUNT DECEMBER 2010	FCAVN		CECA	
	% on ATA	% variation on ATA	adjusted % on ATA	% variation on ATA
Interest receivable and similar income	2.21	-1.09	2.56	-1.07
Interest payable and similar charges	1.06	-0.74	1.44	-0.66
INTEREST MARGIN	1.15	0.36	1.11	-0.41
Yield from capital instruments Commission received	0.35	-0.06	0.24	-0.08
Commission paid	0.49	-0.03	0.44	-0.01
Results from financial operations (net) Exchange rate differences (net)	0.04	-0.00	0.06	0.00
Other operating products	0.28	0.08	0.23	-0.01
Other operating charges	0.05	0.06	0.02	0.00
GROSS MARGIN	2.20	-0.37	1.97	-0.39
Administrative expenses	0.15	0.03	0.06	-0.01
Amortisation	1.02	-0.03	0.95	-0.03
Allocations to provisions (net)	0.14	0.00	0.10	0.00
Losses due to deterioration of financial assets (net)	0.14	-0.06	0.19	0.16
RESULT OF OPERATING ACTIVITY	0.51	-0.03	0.32	-0.15
Losses due to deterioration of other assets (net)	0.40	-0.02	0.40	-0.38
Profits (losses) in the drop in assets not classified as non-current assets for sale	0.09	0.04	0.13	0.00
Loss difference on trading combinations	0.10	0.04	0.04	-0.02
Profits (losses) from assets not classified as non-current assets held for sale	0.00	0.00	0.00	0.00
PRE-TAX RESULT	0.47	-0.28	0.22	-0.15
Tax on profits	-0.06	-0.09	0.04	-0.07
Obligatory allocation to social welfare work and funds (only Savings Banks)	0.02	0.02	0.00	0.00
RESULT FOR CONTINUED OPERATIONS FROM THE PREVIOUS FINANCIAL YEAR	0.51	-0.21	0.26	-0.08
Result of uninterrupted operations (net)	0.00	0.00	0.00	0.00
RESULT FOR THE FINANCIAL YEAR	0.51	-0.21	0.26	-0.08

*Omitting DGF savings banks from the sector total

Source: own compilation

All these differences were transferred over to the gross margin which in the first case reached 2.20% on ATA, which was 0.23pp higher than for the CECA as a whole. This epigraph evolved in a similar way in both cases, falling between 0.37pp and 0.39pp, respectively.

Both administrative costs (1.02%) and repayments (0.14%) were higher for the Basque-Navarre Savings Banks than those of the sector (0.95% and 0.10pp, respectively). As a result of the Federation Savings Banks making fewer allocations to provisions (0.14% against 0.19% for the sector), more write-downs were necessary. Losses due to deterioration of financial assets, on the other hand, were identical (0.40% on ATA) in both cases.

By calculating these figures, the Result of Operating Activity is obtained and this represented 0.51% on ATA for the Basque-Navarre Savings Banks and 0.32% on ATA for the sector. The contraction which was apparent in the sector in terms of percentage points (-0.15pp) was five times higher than in the Basque-Navarre Savings Banks (-0.03pp).

Lower losses due to the deterioration of other assets, the greater increase in profits from non-current assets resulted in the differential in terms of the pre-tax result rising by a quarter point (0.47% in comparison with the 0.22% on ATA). There was greater contraction in this epigraph in the Basque-Navarre Savings Banks (-0.28pp against -0.15pp for the sector) due to the former's previous financial year being slightly better (more than double).

This difference was also reflected in the net operating result and after taxes had been settled and allocations made for social welfare work, this represented 0.51% for the Basque-Navarre Savings Banks and 0.26% for the sector as a whole.

All things considered, and using the slightly higher intermediation margins for the Basque-Navarre Savings Banks as a starting point, better results in financial operations (and a favourable financial cost structure) narrowed the difference in relation to the CECA average in favour of the former, to the point that they represented almost twice the figure in relative terms in the Results of the Financial Year. Despite the enormous complexity of the current situation and the difficulties associated with a climate of depleted confidence (e.g. problems of obtaining liquidity) and with the changing legislative framework, the assessment of the joint performance of the Federation Savings Banks throughout 2010 was extremely positive.

Branches-Employees

The staff of the Basque-Navarre Savings Banks totalled 7,330 people. Of these, 69% worked locally within the area of origin of the Savings Bank and 31% worked outside. Staff numbers dropped by 206 people (-2.7%) as a result of cost cutting measures implemented by these institutions.

At the close of 2010, there were 1,214 branches of the Basque-Navarre Savings Banks which were 5 fewer than the previous year. This was equivalent to a reduction of -0.4%. In terms of their distribution, 53.5% were located in the territories of origin, while the remaining 46.5% corresponded to the extended network in other regions.

The Basque-Navarre Savings Banks continued their commitment to the modernisation of methods of payment, within their philosophy of facilitating client transactions to the maximum by providing a wide range of alternatives. The most used products were the cards issued which (not counting smart cards) totalled 1,877,755, including the main payment systems on the market (EURO 6000, MasterCard, VISA, Maestro, etc.). Additionally, a wide network of 2,299 cashpoints and 26,736 POS terminals at commercial outlets.

