BANCO COOPERATIVO ESPAÑOL, S.A.
AND SUBSIDIARIES

Consolidated Annual Accounts and Directors' Report

31 December 2010

(With Auditors' Report Thereon)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

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

Auditors' Report on the Consolidated Annual Accounts

(Translation from the original in Spanish. In the event of discrepancy,
the Spanish-language version prevails.)

To the Shareholders of
Banco Cooperativo Español, S.A.

We have audited the consolidated annual accounts of Banco Cooperativo Español, S.A. (the "Bank") and subsidiaries (the "Group"), which comprise the consolidated balance sheet at 31 December 2010, the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated statement of total changes in equity, the consolidated statement of cash flows for the year then ended and the notes thereto. As mentioned in note 1 to the accompanying consolidated annual accounts, in accordance with International Financial Reporting Standards as adopted by the European Union, and other provisions of financial reporting legislation applicable to the Group, preparation of the Group's annual accounts is the responsibility of the Bank's directors. Our responsibility is to express an opinion on the consolidated annual accounts taken as a whole, based on our audit, which was conducted in accordance with prevailing legislation regulating the audit of accounts in Spain, which requires examining, on a test basis, evidence supporting the amounts and disclosures in the annual accounts and evaluating whether their overall presentation, the accounting principles and criteria used and the accounting estimates made comply with the applicable financial reporting legislation.

In our opinion, the accompanying consolidated annual accounts for 2010 present fairly, in all material respects, the consolidated equity and consolidated financial position of Banco Cooperativo Español, S.A. and subsidiaries at 31 December 2010 and the consolidated results of their operations and consolidated cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and other provisions of applicable financial reporting legislation.

KPMG Auditores S.L., a limited liability Spanish company, is a subsidiary of KPMG Europe LLP and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

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The accompanying consolidated directors' report for 2010 contains such explanations as the Directors consider relevant to the situation of the Group, the evolution of its business and other matters, and is not an integral part of the consolidated annual accounts. We have verified that the accounting information contained therein is consistent with that disclosed in the consolidated annual accounts for 2010. Our work as auditors is limited to the verification of the consolidated 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 Banco Cooperativo Español, S.A. and subsidiaries.

KPMG Auditores, S.L.

Julio Álvaro Esteban

25 March 2011

BANCO COOPERATIVO ESPAÑOL AND SUBSIDIARIES

Notes to the consolidated annual accounts prepared in accordance with the revised Spanish Companies Act and the Spanish Code of Commerce

Consolidated annual accounts authorised by the Board of Directors of ***Banco Cooperativo Español, S.A.***
at their meeting held on 23 February 2011

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Consolidated balance sheets at 31 December 2010 and 2009 (Notes 1 to 4)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)

ASSETS	NOTE	2010	2009(*)
1. CASH AND BALANCES WITH CENTRAL BANKS	5	387,498	1,147,071
2. FINANCIAL ASSETS HELD FOR TRADING	6	528,131	2,916,359
2.1. Loans and advances to credit institutions		-	-
2.2. Loans and advances to other debtors		-	-
2.3. Debt securities		245,553	2,568,093
2.4. Equity instruments		9,653	11,337
2.5. Trading derivatives		272,925	336,929
Memorandum item: Loaned or pledged		152,425	658,434
3. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
3.1. Loans and advances to credit institutions		-	-
3.2. Loans and advances to other debtors		-	-
3.3. Debt securities		-	-
3.4. Equity instruments		-	-
Memorandum item: Loaned or pledged		-	-
4. AVAILABLE-FOR-SALE FINANCIAL ASSETS	7	2,162,063	1,758,636
4.1. Debt securities		2,151,205	1,746,678
4.2. Equity instruments		10,858	11,958
Memorandum item: Loaned or pledged		1,099,008	329,686
5. LOANS AND RECEIVABLES	8	7,230,058	5,742,195
5.1. Loans and advances to credit institutions		6,872,382	5,062,676
5.2. Loans and advances to other debtors		357,676	679,519
5.3. Debt securities		-	-
Memorandum item: Loaned or pledged		-	-
6. HELD-TO-MATURITY INVESTMENTS		-	-
Memorandum item: Loaned or pledged		-	-
7. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
8. HEDGING DERIVATIVES		-	-
9. NON-CURRENT ASSETS HELD FOR SALE		-	-
10. EQUITY INVESTMENTS	9	12,489	13,390
10.1. Associates		12,489	13,390
10.2. Jointly controlled entities		-	-
11. INSURANCE CONTRACTS LINKED TO PENSIONS		-	-
12. TANGIBLE ASSETS, REINSURANCE ASSETS		-	-
13. TANGIBLE ASSETS	10	17,148	17,439
13.1. Tangible assets		17,148	17,439
13.1.1. For own use		17,148	17,439
13.1.2. Leased out under operating leases		-	-
13.1.3. Assigned to welfare projects (savings banks and credit cooperatives)		-	-
13.2. Investment property		-	-
Memorandum item: Acquired under a finance lease		-	-
14. INTANGIBLE ASSETS	11	1,867	1,946
14.1. Goodwill		-	-
14.2. Other intangible assets		1,867	1,946
15. TAX ASSETS	19	12,564	1,930
15.1. Current		539	428
15.2. Deferred		12,025	1,502
16. OTHER ASSETS	13	47,686	63,920
16.1. Inventories		-	-
16.2. Other		47,686	63,920
TOTAL ASSETS		**10,399,504**	**11,662,886**

LIABILITIES AND EQUITY	NOTE	2010	2009(*)
LIABILITIES			
1. FINANCIAL LIABILITIES HELD FOR TRADING	6	418,601	372,920
1.1. Deposits from central banks		-	-
1.2. Deposits from credit institutions		145,091	31,017
1.3. Deposits from other creditors		-	-
1.4. Debt certificates including bonds		-	-
1.5. Trading derivatives		273,510	341,903
1.6. Short positions		-	-
1.7. Other financial liabilities		-	-
2. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-
2.1. Deposits from central banks		-	-
2.2. Deposits from credit institutions		-	-
2.3. Deposits from other creditors		-	-
2.4. Debt certificates including bonds		-	-
2.5. Subordinated liabilities		-	-
2.6. Other financial liabilities		-	-
3. FINANCIAL LIABILITIES AT AMORTISED COST	12	9,676,483	10,985,659
3.1. Deposits from central banks		1,218,562	1,435,454
3.2. Deposits from credit institutions		4,388,480	5,642,861
3.3. Deposits from other creditors		1,571,481	2,317,957
3.4. Debt certificates including bonds		2,461,596	1,555,078
3.5. Subordinated liabilities		20,611	20,605
3.6. Other financial liabilities		15,753	13,704
4. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK		-	-
5. HEDGING DERIVATIVES	14	10,384	6,013
6. LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE		-	-
7. LIABILITIES UNDER INSURANCE CONTRACTS		-	-
8. PROVISIONS	15	858	493
8.1. Provisions for pensions and similar obligations		-	-
8.2. Provisions for taxes and other legal contingencies		-	-
8.3. Provisions for contingent exposures and commitments		858	493
8.4. Other provisions		-	-
9. TAX LIABILITIES	19	4,529	5,796
9.1. Current		2,607	2,510
9.2. Deferred		1,922	3,286
10. WELFARE FUNDS		-	-
11. OTHER LIABILITIES	13	19,328	16,173
12. CAPITAL REFUNDABLE ON DEMAND		-	-
TOTAL LIABILITIES		**10,130,183**	**11,387,054**
EQUITY			
1. SHAREHOLDERS' EQUITY		291,576	272,153
1.1. Share capital or assigned capital	17	91,009	77,455
1.1.1. Registered		91,009	90,998
1.1.2. Less: Uncalled capital (-)		-	13,543
1.2. Share premium	17	85,972	85,948
1.3. Reserves	18	102,745	97,212
1.3.1. Accumulated reserves (losses)		99,364	92,446
1.3.2. Reserves (losses) of entities accounted for using the equity method		3,381	4,766
1.4. Other equity instruments		-	-
1.4.1. Equity component of compound financial instruments		-	-
1.4.2. Non-voting equity units and associated funds		-	-
1.4.3. Other equity instruments		-	-
1.5. *Less: Treasury shares*		-	-
1.6. Profit for the year attributed to the parent company	18	14,850	14,538
1.7. Less: Dividends and remuneration	3	(3,000)	(3,000)
2. VALUATION ADJUSTMENTS	16	(22,468)	3,432
2.1. Available-for-sale financial assets		(22,547)	3,351
2.2. Cash flow hedges		-	-
2.3. Hedges of net investments in foreign operations		-	-
2.4. Exchange differences		-	-
2.5. Non-current assets held for sale		-	-
2.6. Entities accounted for using the equity method		79	81
2.7. Other valuation adjustments		-	-
3. MINORITY INTERESTS		213	247
3.1. Valuation adjustments		-	-
3.2. Other		213	247
TOTAL EQUITY		**269,321**	**275,832**
TOTAL LIABILITIES AND EQUITY		**10,399,504**	**11,662,886**
MEMORANDUM ITEM			
1. CONTINGENT EXPOSURES	20	107,266	73,467
2. CONTINGENT COMMITMENTS	20	407,292	136,138

Notes 1 to 37 and Appendices I to III to the accompanying consolidated annual accounts form an integral part of the consolidated balance sheet at 31 December 2010.

(*) Presented solely and exclusively for comparison purposes

Consolidated income statements for the years ended 31 December 2010 and 2009 (Notes 1 to 4)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	NOTE	2010	2009(*)
1. INTEREST AND SIMILAR INCOME	**24**	219,896	193,202
2. INTEREST EXPENSE AND SIMILAR CHARGES	**25**	190,023	163,109
3. EQUITY REFUNDABLE ON DEMAND		-	-
A) INTEREST MARGIN		29,873	30,093
4. DIVIDEND INCOM	**26**	776	1,049
5. SHARE OF PROFIT OR LOSS OF ENTITIES ACCOUNTED FOR USING THE EQUITY		458	(13)
METHOD	**27**	26,222	26,256
6. FEE AND COMMISSION INCOME	**28**	15,548	15,226
7. FEE AND COMMISSION EXPENSE	**29**	4,536	3,157
8. GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES (NET)	**30**	2,551	1,309
8.1. Trading portfolio		-	-
8.2. Other financial instruments at fair value through profit or loss		1,985	1,848
8.3. Financial instruments not carried at fair value through profit or loss		-	-
8.4. Other		103	249
9. EXCHANGE DIFFERENCES (NET)	**30**	3,373	2,951
10. OTHER OPERATING INCOME		-	-
10.1. Insurance and reinsurance income		3,146	2,736
10.2. Sales and income from the provision of non-financial services		227	215
10.3. Other operating income		486	131
11. OTHER OPERATING EXPENSES		-	-
11.1 Insurance and reinsurance expenses		-	-
11.2. Changes in inventories		486	131
11.3. Other operating expenses	**1 (h)**		
B) GROSS MARGIN		49,307	48,385
12. ADMINISTRATIVE EXPENSES		23,264	22,912
12.1. Personnel expenses	**31**	14,976	14,671
12.2. Other administrative	**32**	8,288	8,241
13. AMORTISATION AND DEPRECIATION	**10, 11**	1,733	1,712
14. PROVISIONING EXPENSE (NET)	**15, 36**	416	(38)
15. IMPAIRMENT LOSSES ON FINANCIAL ASSETS (NET)	**36**	3,788	3,746
15.1. Loans and receivables		3,689	3,262
15.2. Other financial instruments not carried at fair value through profit or loss		99	484
C) PROFIT ON OPERATING ACTIVITIES		20,106	20,053
16. IMPAIRMENT LOSSES ON OTHER ASSETS (NET)		-	-
16.1. Goodwill and other intangible assets		-	-
16.2. Other assets		-	-
17. GAINS/(LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE		(2)	(44)
18. NEGATIVE DIFFERENCES ON BUSINESS COMBINATIONS		-	-
19. GAINS/(LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS		-	-
D) PROFIT BEFORE TAX		20,104	20,009
20. INCOME TAX	**19**	5,198	5,380
21. MANDATORY TRANSFER TO WELFARE FUNDS		-	-
E) PROFIT FROM CONTINUING OPERATIONS		14,906	14,629
22. PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (NET)		-	-
F) CONSOLIDATED PROFIT FOR THE YEAR		14,906	14,629
F.1) Profit attributed to the Parent company	**18**	14,850	14,538
F.2) Profit attributed to minority interests		56	91
Earnings per share (Euros)	**3**	9.81	9.60

Notes 1 to 37 and Appendices I to III to the accompanying consolidated annual accounts form an integral part of the consolidated income statement for 2010.
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CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE for the years ended 31 December 2010 and 2009 (Notes 1 to 4)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	NOTE	2010	2009(*)
A) CONSOLIDATED PROFIT FOR THE YEAR	**18**	14,906	14,629
B) OTHER RECOGNISED INCOME AND EXPENSE		(25,900)	1,312
1. **Available-for-sale financial assets**	**16**	(36,998)	1,876
1.1. Revaluation gains/(losses)		(33,623)	4,883
1.2. Amounts transferred to the income statement		3,375	(3,007)
1.3. Other reclassifications		-	-
2. Cash flow hedges		-	-
2.1. Revaluation gains/(losses)		-	-
2.2. Amounts transferred to the income statement		-	-
2.3. Amounts transferred to the initial carrying amount of hedged items		-	-
2.4. Other reclassifications		-	-
3. Hedges of net investments in foreign operations		-	-
3.1. Revaluation gains/(losses)		-	-
3.2. Amounts transferred to the income statement		-	-
3.3. Other reclassifications		-	-
4. Exchange differences		-	-
4.1. Revaluation gains/(losses)		-	-
4.2. Amounts transferred to the income statement		-	-
4.3. Other reclassifications		-	-
5. Non-current assets held for sale		-	-
5.1. Revaluation gains/(losses)		-	-
5.2. Amounts transferred to the income statement		-	-
5.3. Other reclassifications		-	-
6. Actuarial gains/(losses) on pension plans		-	-
7. Entities accounted for using the equity method	**16**	(2)	-
7.1. Revaluation gains/(losses)		(2)	-
7.2. Amounts transferred to the income statement		-	-
7.3. Other reclassifications		-	-
8. Other recognised income and expense		-	-
9. Income tax		11,100	(564)
C) TOTAL RECOGNISED INCOME AND EXPENSE (A+B)		(10,994)	15,941
C 1) Attributed to the parent company		(11,050)	15,850
C 2) Attributed to minority interests		56	91

Notes 1 to 37 and Appendices I and III to the accompanying consolidated annual accounts form part of the consolidated statement of recognised income and expense at 31 December 2010.
(*) Presented solely and exclusively for comparison purposes

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY for the years ended 31 December 2010 and 2009 (Notes 1 to 4)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

	Share capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit attributed to the Parent company	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	TOTAL	Minority interests	TOTAL EQUITY
1. Closing balance at 31 December 2009	77,455	85,948	92,447	4,766	-	-	14,538	3,000	272,154	3,432	275,586	247	275,833
1.1 Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted opening balance	77,455	85,948	92,447	4,766	-	-	14,538	3,000	272,154	3,432	275,586	247	275,833
3. Total recognised income and expense	-	-	-	-	-	-	14,850	-	14,850	(25,900)	(11,050)	56	(10,994)
4. Other changes in equity	13,554	24	6,917	(1,385)	-	-	(14,538)	-	4,572	-	4,572	(90)	4,482
4.1 Increases in share capital/assigned capital (b)	13,554	24	-	-	-	-	-	-	13,578	-	13,578	-	13,578
4.2 Capital decreases	-	-	-	-	-	-	-	-	-	-	-	-	-
4.3 Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4.4 Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5 Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.6 Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
4.7 Distribution of dividends/shareholder remuneration (c)	-	-	-	-	-	-	(9,000)	-	(9,000)	-	(9,000)	(90)	(9,090)
4.8 Operations with own equity instruments (net)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.9 Transfers between equity items	-	-	-	-	-	-	-	-	-	-	-	-	-
4.10 Increases (decreases) due to business combinations	-	-	6,917	(1,379)	-	-	(5,538)	-	-	-	-	-	-
4.11 Discretional contributions to welfare funds (savings banks and credit cooperatives only)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.12 Equity-settled payments	-	-	-	-									
4.13 Other equity increases/(decreases)	-	-	-	(6)	-	-	-	-	(6)	-	(6)	-	(6)
5. Closing balance at 31 December 2010	91,009	85,972	99,364	3,381	-	-	14,850	3,000	291,576	(22,468)	269,108	213	269,321

Notes 1 to 37 and Appendices I to III to the accompanying consolidated annual accounts form part of the consolidated statement of total changes in equity at 31 December 2010.
(*) Presented solely and exclusively for comparison purposes

CONSOLIDATED STATEMENT OF TOTAL CHANGES IN EQUITY for the years ended 31 December 2010 and 2009 (Notes 1 to 4)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	Share capital	Share premium	Accumulated reserves (losses)	Reserves (losses) of entities accounted for using the equity method	Other equity instruments	Less: Treasury shares	Profit attributed to the Parent company	Less: Dividends and remuneration	Total shareholders' equity	Valuation adjustments	TOTAL	Minority interests	TOTAL EQUITY
1. Closing balance at 31 December 2008	72,938	49,008	86,815	2,192	-	-	14,773	(3,000)	222,726	2,120	224,846	286	225,132
1.1 Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-	-	-
1.2 Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted opening balance	72,938	49,008	86,815	2,192	-	-	14,773	(3,000)	222,726	2,120	224,846	286	225,132
3. Total recognised income and expense	-	-	-	-	-	-	14,538	-	14,538	1,312	15,850	91	15,941
4. Other changes in equity	4,517	36,940	5,631	2,574	-	-	(14,773)	-	34,889	-	34,889	(130)	34,759
4.1 Increases in share capital/assigned capital (b)	4,517	36,940	-	-	-	-	-	-	41,457	-	41,457	-	41,457
4.2 Capital decreases	-	-	-	-	-	-	-	-	-	-	-	-	-
4.3 Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-	-	-
4.4 Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.5 Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.6 Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-
4.7 Distribution of dividends/shareholder remuneration (c)	-	-	-	-	-	-	(3,000)	(3,000)	(6,000)	-	(6,000)	(130)	(6,130)
4.8 Operations with own equity instruments (net)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.9 Transfers between equity items	-	-	-	-	-	-	-	-	-	-	-	-	-
4.10 Increases (decreases) due to business combinations	-	-	5,629	3,144	-	-	(11,773)	3,000	-	-	-	-	-
4.11 Discretional contributions to welfare funds (savings banks and credit cooperatives only)	-	-	-	-	-	-	-	-	-	-	-	-	-
4.12 Equity-settled payments	-	-	-	-	-	-	-	-	-	-	-	-	-
4.13 Other equity increases/(decreases)	-	-	2	(570)	-	-	-	-	(568)	-	(568)	-	(568)
5. Closing balance at 31 December 2009	77,455	85,948	92,446	4,766	-	-	14,538	(3,000)	272,153	3,432	275,585	247	275,832

Notes 1 to 37 and Appendices I to III to the accompanying consolidated annual accounts form part of the consolidated statement of total changes in equity at 31 December 2010.
(*) Presented solely and exclusively for comparison purposes

CONSOLIDATED STATEMENTS OF CASH FLOWS for the years ended 31 December 2010 and 2009 (Notes 1 to 4)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	NOTE	2010	2009(*)
A). CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES		(772,372)	372,804
1. Consolidated profit for the year	**18**	14,906	14,629
2. Adjustments to obtain cash flows from operating activities	**10, 11**	10,719	10,838
2.1. Amortisation and depreciation		1,733	1,712
2.2. Other adjustments		8,986	9,126
3. Net increase/ decrease in operating assets		(467,250)	2,814,586
3.1. Financial assets held for trading	**6**	(2,388,228)	1,068,927
3.2. Other financial assets at fair value through profit or loss		-	-
3.3. Available-for-sale financial assets	**7**	429,327	616,221
3.4. Loans and receivables	**8**	1,491,651	1,129,438
3.5. Other operating assets		-	-
4. Net increase/(decrease) in operating liabilities		(1,259,124)	3,161,923
4.1. Financial liabilities held for trading	**6**	45,681	143,924
4.2. Other financial liabilities at fair value through profit or loss		-	-
4.3. Financial liabilities at amortised cost	**12**	(1,309,176)	3,011,986
4.4. Other operating liabilities		4,371	6,013
5. Income tax received/paid	**19**	(6,123)	(6,892)
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES		5,137	(2,950)
6. Payments		1,364	4,335
6.1. Tangible assets	**10**	348	477
6.2. Intangible assets	**11**	1,016	1,132
6.3. Equity investments		-	-
6.4. Other business units		-	-
6.5. Non-current assets and associated liabilities held for sale		-	-
6.6. Held-to-maturity investments		-	-
6.7. Other payments relating to investing activities		-	2,726
7. Collections		6,501	1,385
7.1. Tangible assets		-	-
7.2. Intangible assets		-	-
7.3. Equity investments	**9**	901	1,385
7.4. Other business units		-	-
7.5. Non-current assets and associated liabilities held for sale		-	-
7.6. Held-to-maturity investments		-	-
7.7. Other collections relating to investing activities		5,600	-
C) CASH FLOWS FROM FINANCING ACTIVITIES		7,662	25,749
8. Payments		9,090	15,708
8.1. Dividends	**3, 17**	9,090	6,130
8.2. Subordinated liabilities		-	-
8.3. Redemption of own equity instruments		-	-
8.4. Acquisition of own equity instruments		-	-
8.5. Other payments relating to financing activities		-	9,578
9. Collections		16,752	41,457
9.1. Subordinated liabilities		-	-
9.2. Issuance of own equity instruments	**18**	13,578	41,457
9.3. Disposal of own equity instruments		-	-
9.4 Other collections relating to financing activities	**12**	3,174	-
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS		-	-
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)		(759,573)	395,603
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,147,071	751,468
G) CASH AND CASH EQUIVALENTS AT END OF THE YEAR		387,498	1,147,071
MEMORANDUM ITEM			
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**5**		
1.1. Cash		445	439
1.2. Cash equivalents at central banks		387,053	1,146,632
1.3. Other financial assets		-	-
1.4. Less: Bank overdrafts repayable on demand		-	-
Total cash and cash equivalents at end of the year		387,498	1,147,071

Notes 1 to 37 and Appendices I to III to the accompanying consolidated annual accounts form part of the consolidated statement of cash flows at 31 December 2010.
(*) Presented solely and exclusively for comparison purposes

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

1. Introduction, Basis of Presentation, Consolidation Principles and Other Information

a) Introduction

Banco Cooperativo Español, S.A. (hereinafter the Bank or the Entity) is a private-law entity subject to the rules and regulations applicable to banks operating in Spain.

The Bank was incorporated on 31 July 1990. The share capital of the Bank is held by seventy-two Spanish credit cooperatives and a German bank. The Bank operates from two offices in Madrid.

The Bank contributes to the Deposit Guarantee Fund (created by Royal Decree Law 18/1982 of 24 September 1982). It has also been entered in the Bank of Spain's Special Registry of Banks and Bankers with number 0198**.**

The Bank is the parent company of a group of financial entities that engage in various business activities, which it controls directly or indirectly and with which it forms the Banco Cooperativo Group (hereinafter the Group). After harmonisation of accounting principles, adjustments and consolidation eliminations, the Bank represents 99.77% and 99.83% of the Group's total assets at 31 December 2010 and 2009, respectively. It is therefore obliged to prepare the Group's consolidated annual accounts, in addition to its own individual annual accounts.

The balance sheets of Banco Cooperativo Español S.A at 31 December 2010 and 2009 and the corresponding income statements, statements of recognised income and expense, statements of changes in equity and statements of cash flows for the years then ended are presented in Appendix I.

b) Basis of presentation of the consolidated annual accounts

The consolidated annual accounts of the Bank and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards adopted by the European Union (EU-IFRS), taking into consideration Bank of Spain Circular 4/2004 of 22 December 2004 and subsequent amendments.

As permitted by IAS 1.81, the Group has opted to present separate statements, one displaying the components of consolidated profit or loss, entitled the "consolidated income statement", and another reflecting the components of other comprehensive income for the year, based on the consolidated profit or loss for the year, entitled the "consolidated statement of recognised income and expense", using the name given by Bank of Spain Circular 4/2004.

The Group's consolidated annual accounts have been prepared by the Bank's directors to present fairly the consolidated equity and consolidated financial position at 31 December 2010 as well as the results of its operations, the changes in consolidated equity and consolidated cash flows for the year then ended.

These consolidated annual accounts have been prepared on the basis of the individual accounting records of the Entity and each of the subsidiaries which, together with the Entity, form the Group. The consolidated annual accounts include certain adjustments and reclassifications necessary to harmonise the accounting principles and presentation used by the companies forming the Group with those used by the Entity. The directors of the Entity consider that the consolidated annual accounts for 2010 and the individual accounts of the Bank and the subsidiaries will be approved by the shareholders at their respective annual general meetings with no significant changes.

The consolidated annual accounts for 2009 were approved by the shareholders at the annual general meeting held on 30 June 2010.

c) Significant accounting principles

The generally accepted accounting principles and measurement criteria described in the note on significant accounting principles were applied in the preparation of the consolidated annual accounts. There are no mandatory accounting principles which have not been applied that would have a significant effect on preparation of the consolidated annual accounts.

The following standards and interpretations adopted by the European Union and the Group came into force in 2010, with no significant impact on the consolidated annual accounts:

- *Amendment to IFRS 2 Share-based Payment:* The amendment refers to the recognition of share-based payment schemes within a group. The main changes entail the inclusion in IFRS 2 of the matters discussed in IFRIC 8 and IFRIC 11, and these interpretations are therefore revoked as their contents are included in the main body of the standard. This amendment clarifies that the entity receiving the services of the employees or suppliers should recognise the transaction irrespective of whether the entity paying for the services is another group company or whether payment is made in cash or shares.

- *IFRIC 15 Agreements for the Construction of Real Estate:* This interpretation deals with the recognition of income and expenses associated with the construction of real estate, providing guidance on determining whether a real estate construction contract falls within the scope of IAS 11 Construction Contracts or IAS 18 Revenue, and, based on the nature of the agreement, when and how revenue should be recognised.

- *IFRIC 16 Hedges of a Net Investment in a Foreign Operation:* This interpretation considers three main aspects. One of these aspects stipulates that the risk of exchange differences between the functional currency of the foreign operation and the presentation currency of the parent cannot be hedged, only the risk of exchange differences between the functional currencies of both may be hedged. The interpretation also clarifies that the hedging instrument for the net investment can be held by any group entity, not necessarily by the parent of the foreign operation, and specifies how to determine the amounts to be reclassified from equity to profit or loss when the entity disposes of the foreign investment.

- *IFRIC 17 Distributions of Non-cash Assets to Owners:* This interpretation considers the accounting treatment of distributions of assets other than cash when an entity pays dividends to its owners, although distributions of assets within the group or amongst entities under common control are not addressed. According to this interpretation, an entity should measure the dividend payable at the fair value of the net assets to be distributed and recognise any difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss.

- *Revised IFRS 3 Business Combinations and IAS 27 Consolidated and Separate Financial Statements:* Revised IFRS 3 and the amendments to IAS 27 bring about relevant changes in various aspects of accounting for business combinations, generally placing greater emphasis on the use of fair value. The most relevant changes include the treatment of acquisition costs as an expense, rather than as an increase in the cost of the business combination; in business combinations achieved in stages, on the date control is obtained the acquirer should remeasure the previously held interest at fair value ; and the option of measuring non-controlling interests in the acquiree at fair value, rather than reflecting the proportionate interest in the fair value of the net assets acquired, as is currently the case.

- *Amendment to IAS 39 on eligible hedged items:* This amendment aims to clarify two specific hedge accounting issues: (a) when inflation risk can be hedged and (b) under what circumstances options purchased can be designated as hedges. The amendment specifies that inflation risk can only be hedged to the extent that it is a contractually identified portion of the cash flows to be hedged, and that only the intrinsic value of the options, not the time value, can be designated as a hedging instrument.

- *IFRIC 18 Transfers of Assets from Customers:* This interpretation deals with the recognition of agreements in which an entity receives an asset from a customer which must then be used to give the customer access to a supply of goods or services.

  The interpretation stipulates that the items of property, plant and equipment must be recognised at their transfer date fair value in the financial statements of the recipient, when the items meet the definition of an asset from the recipient’s perspective, and the related revenue is recognised in profit and loss based on the nature of the service specifically agreed with the customer.

At the date of preparation of the accompanying annual accounts, the most significant standards and interpretations published by the IASB but not yet applied, either because the effective date is subsequent to the balance sheet date or because they have not yet been adopted by the European Union, are as follows:

- *IFRS 9 Financial Instruments: Classification and Measurement:* This standard will replace the existing classification and measurement section of IAS 39 and contains certain relevant differences affecting financial assets compared to the current standard, including the approval of a new classification model comprising just two categories, amortised cost and fair value. The held-to-maturity investments and available-for-sale financial assets categories currently in IAS 39 are not included in IFRS 9. Furthermore, impairment testing will only be applicable to assets measured at amortised cost and embedded derivatives will no longer be separated from host contracts.

  The criteria proposed by IFRS 9 for classifying financial liabilities are similar to the current criteria set forth in IAS 39.

- *Amendment to IAS 32 on the Classification of Rights Issues:* This amendment relates to the classification of rights issued to acquire shares (rights, options or warrants) denominated in foreign currency. This amendment states that when these rights are granted to all shareholders to acquire a fixed number of shares for a fixed amount, they are considered as equity instruments, irrespective of the currency of the fixed amount and provided that other requirements of this standard are met.

- *Revised IAS 24 Related Party Disclosures:* The revised IAS 24 introduces a partial exemption from certain disclosure requirements for transactions between entities controlled, jointly controlled or significantly influenced by the state or equivalent governmental institution, and amends the scope of disclosure requirements by including in the definition of a related party certain relations between jointly controlled entities and associates of the same investor that were not explicitly encompassed in the standard previously.

- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments:* This interpretation addresses the accounting by the debtor entity when that entity issues equity instruments to a creditor to extinguish all or part of the financial liability. The interpretation does not apply to these types of operations when the creditor is also a shareholder or related party and is acting in this capacity, or when the extinguishment of the financial liability by issuing equity shares is in accordance with the terms of the original contract. For all other cases, the equity instruments issued are measured at fair value at the date the liability is extinguished and any difference between that amount and the carrying amount of the liability is recognised in profit and loss.

The impact of the application of these standards has not yet been evaluated.

d) Judgments and estimates used

In the Group's consolidated annual accounts for 2010 senior management of the Group made estimates, which were later ratified by the directors, in order to quantify certain of the assets, liabilities, income, expenses and commitments reported herein. These estimates relate basically to the following:

- The impairment losses on certain assets (notes 7 and 8)
- The assumptions used in the actuarial calculation of post-employment benefit liabilities and commitments (note 2 m).
- The useful lives of tangible and intangible assets (notes 10 and 11)
- The measurement of goodwill arising on consolidation (note 9)
- The fair value of certain financial assets not quoted on official markets (notes 6 and 7)
- Estimates used in the calculation of other provisions (note 15)
- Calculation of income tax and deferred tax assets and liabilities (note 19)

The above-mentioned estimates are based on the best information available at 31 December 2010 regarding the analysed events. However, events arising in the future could require these estimates to be significantly increased or decreased in coming years. Any required updates would be made prospectively in accordance with EU-IFRS, recognising the effect of the change in estimates in the consolidated income statement in the year in which they arise.

e) Consolidation principles

The following accounting principles and measurement criteria, which reflect those set out in EU-IFRS, have been used in the preparation of the consolidated annual accounts of the Group for 2010:

I. Subsidiaries

Subsidiaries are defined as entities over which the Bank has the capacity to exercise management control. This capacity is, in general but not exclusively, presumed to exist when the parent directly or indirectly owns half or more of the voting rights of the investee or, even if this percentage is lower or zero, when, for example, there are agreements with other shareholders of the investee that give the Bank control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The annual accounts of the subsidiaries are fully consolidated with those of the Bank. Accordingly, all material balances and transactions between consolidated entities and between consolidated entities and the Bank are eliminated on consolidation.

On acquisition of a subsidiary, its assets, liabilities and contingent liabilities are recognised at fair value at the date of acquisition. Any positive differences between the acquisition cost and the fair values of the identifiable net assets acquired are recognised as goodwill. Negative differences are charged to the income statement on the date of acquisition.

Third-party interests in the Group's equity are presented under "Minority interests" in the consolidated balance sheet and their share of the profit for the year is presented under "Profit attributed to minority interests" in the consolidated income statement.

The results of subsidiaries acquired during the year are included in the consolidated income statement from the date of acquisition to year end.

II. Interests in joint ventures

Joint ventures are deemed to be ventures that are not subsidiaries but which are jointly controlled by two or more unrelated entities. This is evidenced by contractual arrangements whereby two or more entities (venturers) undertake a business activity which is subject to joint control so as to share the power to govern the financial and operating policies of an entity, or another business activity, in order to benefit from its operations. Therefore, any strategic financial or operating decision affecting the joint venture requires the unanimous consent of the venturers.

The financial statements of investees classified as joint ventures are proportionately consolidated with those of the Bank and, therefore, the aggregation of balances and subsequent eliminations are carried out only in proportion to the Group's ownership interest in the capital of these entities.

III. Associates

Associates are entities over which the Bank is in a position to exercise significant influence, but not control or joint control, usually because it holds 20% or more of the voting rights of the investee.

In the consolidated annual accounts, investments in associates are accounted for using the equity method, i.e. reflecting the Group's share of net assets of the investee, after taking into account the dividends received therefrom and other equity eliminations. In the case of transactions with an associate, the related profits or losses are eliminated to the extent of the Group's interest in the associate.

Relevant information on subsidiaries and associates are shown in Appendix II.

f) Comparison of information

In accordance with prevailing Spanish legislation, these consolidated annual accounts for 2010 also include, for each individual caption in the consolidated balance sheet, consolidated income statement, consolidated statement of recognised income and expense, consolidated statement of changes in equity, consolidated statement of cash flows and the notes thereto, comparative figures for the previous year.

g) *Capital management objectives, policies and processes*

Bank of Spain Circular 3/2008 of 22 May 2008 to credit institutions, on determination and control of minimum capital requirements, and subsequent amendments, regulate the minimum capital requirements of Spanish credit institutions, on an individual and consolidated group basis, the way in which such capital should be determined, the different capital self-assessment processes to be implemented by entities and the public information these entities should submit to the market.

The Circular and subsequent amendments reflect the final adaptation to credit institutions of legislation governing capital and the supervision of consolidated financial institutions, based on Law 36/2007 of 16 November 2007, which amends Law 13/1985 of 25 May 1985 on investment ratios, capital and reporting requirements of financial intermediaries and other financial system regulations, and also encompasses Royal Decree 216/2008 of 15 February 2008, on capital of financial institutions. The Circular also completes the adaptation of Spanish legislation to European Community directives 2006/48/EC of the European Parliament and of the Council, of 14 June 2006, and 2006/49/EC of the European Parliament and of the Council, of 14 June 2006.

Group management has established the following strategic objectives in relation to its capital management:

- Consistently comply with applicable legislation on minimum capital requirements, at both individual and consolidated level.

- Seek maximum capital management efficiency in order for capital consumption to be considered, alongside other return and risk variables, as a fundamental parameter in analyses associated with the Group's investment decision making.

- Reinforce the proportion of tier I capital with respect to Group capital as a whole.

The Group has implemented a number of capital management policies and processes to meet these objectives, with the following main characteristics:

- The Group has a monitoring and control unit that analyses levels of compliance with Bank of Spain capital regulations, to guarantee compliance with applicable legislation and the coherency of decisions made by the different areas and units of the Entity with the objectives set, to ensure that minimum capital requirements are met.

- The impact of this unit on the Group's capital base is considered a key decision-making factor in the Group's strategic and commercial planning and in the analysis and monitoring of Group transactions.

The Entity therefore considers capital and the capital requirements established by the aforementioned legislation as a fundamental management aspect of the Group, affecting Entity investment decisions, analysis of transaction feasibility, the profit distribution strategy of the subsidiaries and the Entity and Group issuance strategy, etc.

Bank of Spain Circular 3/2008 of 22 May 2008 and subsequent amendments stipulate which items should be considered as capital for compliance with the minimum capital requirements set out in the Circular. For the purposes of the aforementioned Circular, capital is classified as tier I capital and tier II capital. This differs from capital calculated in accordance with EU-IFRS, which consider certain items as such and require other items not considered under EU-IFRS to be deducted. The methods for consolidation and measurement of subsidiaries to be applied when calculating the Group's minimum capital requirements differ under prevailing legislation from those applied in the preparation of these consolidated annual accounts. This situation also leads to differences in the calculation of capital under the Circular and under EU-IFRS.

The Group's capital management is in line with Bank of Spain Circular 3/2008 and subsequent amendments, in terms of conceptual definitions. The Group calculates its capital base in accordance with standard 8 of Bank of Spain Circular 3/2008 and subsequent amendments.

The minimum capital requirements established by the aforementioned Circular and subsequent amendments are calculated based on the Group's exposure to credit and dilution risk (based on the assets, commitments and other off-balance sheet items associated with these risks, and in line with their amounts, characteristics, counterparties, guarantees, etc.), counterparty, position and settlement risk relating to items held for trading, exchange rate risk and gold position (based on the global net position in foreign currency and the net position in gold) and operational risk. The Group is also required to comply with the risk concentration limits set out in the Circular and with internal corporate governance, capital self-assessment and interest rate risk measurement obligations, as well as obligations regarding public information to be issued to the market, also specified in the aforementioned Circular. To guarantee that these objectives are met, the Group has implemented an integrated risk management process based on the above-mentioned policies.

Details of Group capital at 31 December 2010 and 2009 classified as tier I capital and tier II capital, calculated in accordance with Bank of Spain Circular 3/2008 of 22 May 2008 and subsequent amendments, which, as mentioned previously, reflects consolidated "capital for management purposes", are as follows:

	Thousands of Euros	
	2010	2009
Share capital	91,009	77,455
Reserves	190,334	183,894
Deductions	(3,471)	(3,501)
Tier 1 capital	277,872	257,848
Asset revaluation reserves	4,446	4,455
Subordinated financing	4,000	8,115
Other resources	7,546	8,411
Deductions	(977)	(928)
Other eligible capital	15,015	20,053
Total eligible capital	292,887	277,901

At 31 December 2010 and 2009, and during both years, the eligible capital of the Group and the Group entities subject to this requirement, considered on an individual basis, exceeded the requirements of the aforementioned Circular.

h) Deposit Guarantee Fund

The Bank participates in the Deposit Guarantee Fund. The contributions made to this fund in 2010 amounted to approximately Euros 62 thousand (Euros 79 thousand in 2009) and have been recognised under "Other operating expenses – Other operating expenses" in the accompanying consolidated income statement.

i) Environmental impact

In view of the business activity carried out by the Group, it does not have any environmental liabilities, expenses, assets, provisions or contingencies that might be material with respect to its equity, financial position or consolidated results. Therefore, no specific disclosures relating to environmental issues are included in these notes to the consolidated annual accounts.

j) Subsequent events

No events have taken place between the date of preparation of the annual accounts and year end which could have a significant effect on the annual accounts for 2010.

2. Significant Accounting Principles

The accounting principles and measurement criteria applied in preparing the Group's consolidated annual accounts are as follows:

a) Definitions and classification of financial instruments

I. Definitions

A financial instrument is any contract that gives rise to a financial asset in one entity and to a financial liability or equity instrument in another entity.

An equity instrument is any agreement that evidences a residual interest in the assets of the issuing entity after deducting all of its liabilities.

A financial derivative is a financial instrument the value of which fluctuates in response to changes in an observable market variable (such as an interest rate, foreign exchange rate, financial instrument price or market index), for which the initial investment is very small compared with other financial instruments with a similar response to changes in market factors, and which is generally settled at a future date.

Hybrid financial instruments are contracts that simultaneously include a non-derivative host contract together with a derivative, known as an embedded derivative, that is not separately transferable and has the effect that some of the cash flows of the hybrid contract vary in a way similar to a stand-alone derivative.

Compound financial instruments are contracts that simultaneously create for their issuer a financial liability and an own equity instrument (such as convertible bonds, which entitle their holders to convert them into equity instruments of the issuer).

The following transactions are not treated for accounting purposes as financial instruments:

- Investments in associates (see note 9)

- Rights and obligations under employee benefit plans (see note 2 m)

- Rights and obligations under insurance contracts

II. Recognition and classification of financial assets for measurement purposes

Financial assets are initially recognised at fair value, which is taken to be the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Subsequent to initial recognition, financial assets are included for measurement purposes in one of the following categories:

- Financial assets at fair value through profit and loss
    - Financial assets held for trading: this category includes financial assets acquired for the purpose of generating a profit in the short term from fluctuations in their prices, and financial derivatives that are not designated as hedging instruments.
    - Other financial assets at fair value through profit or loss: comprising financial assets designated as such on initial recognition for which the fair value can be reliably estimated and which meet at least one of the following conditions:
        - When, in the case of hybrid financial instruments for which the embedded derivative must be separated from the host contract, it is not possible to reliably estimate the fair value of the embedded derivative or derivatives.
        - In the case of hybrid financial instruments for which the embedded derivative must be separated, the hybrid financial instrument as a whole has been classified in this category on initial recognition, provided they met the conditions specified in prevailing accounting standards whereby the embedded derivative significantly changes the cash flows that would have been associated with the host financial instrument had it been considered separately from the embedded derivative, and whereby the embedded derivative must be separated from the host financial instrument for accounting purposes.

- When more relevant information is obtained through classification of a financial asset in this category, as such classification eliminates or significantly reduces recognition or measurement inconsistencies (also known as accounting mismatches) that would otherwise arise from using different criteria to measure assets and liabilities or recognise the gains and losses thereon.

- When more relevant information is obtained through classification of a financial asset in this category, as a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel.

- Held-to-maturity investments:

This category includes debt securities traded on organised markets with fixed maturity and fixed or determinable cash flows, which the Group has the positive intention and ability to hold to maturity.

- Loans and receivables:

This category consists of unquoted debt instruments, financing granted to third parties in connection with ordinary lending activities carried out by the consolidated entities, and receivables from purchasers of goods and users of services. This category also includes finance leases in which the consolidated entities act as lessors.

- Available-for-sale financial assets:

This category includes Group debt instruments not classified as held-to-maturity investments, loans and receivables, or at fair value through profit and loss, as well as Group equity instruments related to entities which are not subsidiaries, joint ventures or associates and which have not been classified at fair value through profit and loss.

III. Recognition and classification of financial liabilities for measurement purposes

Financial liabilities are initially recognised at fair value.

Subsequent to initial recognition, financial liabilities are classified for measurement purposes into one of the following categories:

- Financial liabilities at fair value through profit and loss

    - Financial liabilities held for trading: includes financial liabilities issued with the intention to repurchase them in the near future or which form part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; short positions deriving from the sale of assets purchased under obligatory resale agreements or borrowed and derivatives not designated as hedging instruments, including separated hybrid financial instruments, pursuant to IAS 39.

    - Other financial liabilities at fair value through profit or loss: include financial liabilities designated as such on initial recognition, the fair value of which can be reliably estimated, and which meet any of the following conditions:

        - When, in the case of hybrid financial instruments for which the embedded derivative must be separated from the host contract, it is not possible to reliably estimate the fair value of the embedded derivative or derivatives.

        - In the case of hybrid financial instruments for which the embedded derivative must be separated, the hybrid financial instrument as a whole has been classified in this category on initial recognition, provided they met the conditions specified in prevailing accounting standards whereby the embedded derivative significantly changes the cash flows that would have been associated with the host financial instrument had it been considered separately from the embedded derivative, and whereby the embedded derivative must be separated from the host financial instrument for accounting purposes.

        - When more relevant information is obtained through classification of a financial liability in this category, as such classification eliminates or significantly reduces recognition or measurement inconsistencies (also known as accounting mismatches), that would otherwise arise from using different criteria to measure assets or liabilities or recognise gains or losses thereon.

- When more relevant information is obtained through classification of a financial liability under this category, as a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided on that basis to the Group's key management personnel.

- Financial liabilities at amortised cost

  Financial liabilities not included in any of the above categories which arise from the ordinary deposit-taking activities carried out by financial institutions, irrespective of their nature and maturity.

IV. Reclassifications between financial instrument portfolios

Financial instruments are only reclassified between portfolios in the following cases:

a) Items classified as financial instruments at fair value through profit or loss can only be reclassified into or out of this financial instrument category after they are acquired, issued or assumed in the event of the exceptional circumstances described in section d) of this note.

b) If a financial asset ceases to be classified as held to maturity due to a change in intention or financial ability, it is reclassified to available-for-sale financial assets. In this case, all financial assets classified as held to maturity are treated similarly, except where reclassification falls within one of the scenarios permitted by applicable legislation (sales close to maturity or when practically the entire principal of the financial asset has been collected, etc.).

   In 2010 and 2009 no items have been reclassified as described in the preceding paragraph.

c) Due to a change in intention or financial ability of the Group, or upon expiry of the two-year penalty period established under prevailing legislation for the sale of financial assets held to maturity, items (debt instruments) classified as available-for-sale financial assets can be reclassified to held to maturity. In this case, the fair value of these instruments at the transfer date is considered as the new amortised cost and the difference between this amount and the recoverable amount is recognised in the consolidated income statement over the residual life of the instrument using the effective interest method.

   In 2010 and 2009 no items have been reclassified as described in the preceding paragraph.

d) As mentioned in preceding sections, financial assets that are not derivative financial instruments can be reclassified from held for trading if they are no longer held for the purpose of being sold or repurchased in the near term, provided that one of the following circumstances arise:

  - In rare and exceptional circumstances, except in the case of assets eligible for classification as loans and receivables. Rare and exceptional circumstances are those arising from a particular event which is unusual, and which is highly unlikely to reoccur in the foreseeable future.

  - When the entity has the intention and financial ability to hold the financial asset in the foreseeable future or to maturity, provided that it meets the definition of loans and receivables on initial recognition.

  Should these circumstances arise, the asset is reclassified at its fair value at the reclassification date, with no reversal of results, and this value is considered as the asset's amortised cost. Assets reclassified in this way may not be further reclassified as held for trading.

b) Measurement and recognition of financial assets and liabilities

In general, financial instruments are initially recognised at fair value which, in the absence of evidence to the contrary, is deemed to be their acquisition cost, and are subsequently measured at each year end as follows:

I. Measurement of financial assets

Financial assets are measured at fair value, without deducting any transaction costs that may be incurred on their sale or other form of disposal, except for loans and receivables, held-to-maturity investments, equity instruments for which the fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those equity instruments as their underlying asset and are settled by delivery of those instruments.

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

If there is no market price for a given financial instrument, its fair value is estimated on the basis of the price established in recent transactions involving similar instruments and, in the absence thereof, based on proven valuation techniques used by the international financial community, taking into account the specific features of the instrument to be measured and, particularly, the various types of risk associated with it. However, the inherent limitations of the valuation techniques used and the possible inaccuracies of the assumptions made under these techniques may result in a fair value of a financial instrument which does not exactly reconcile with the price at which the instrument could be bought or sold at the measurement date.

Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest method. Amortised cost is understood to be the acquisition cost of a financial asset or liability plus or minus, as appropriate, the principal repayments and the cumulative amortisation (as reflected in the consolidated income statement) of the difference between the initial cost and the maturity amount. In the case of financial assets, amortised cost also includes any reductions for impairment. In the case of loans and receivables hedged in fair value hedges, the changes in the fair value of these assets related to the risk or risks being hedged are recognised.

The effective interest rate is the discount rate that exactly matches the initial amount of a financial instrument to its estimated cash flows during its estimated life, based on the contractual terms, without taking into account future losses on credit exposure. For fixed rate financial instruments, the effective interest rate coincides with the contractual interest rate established on the acquisition date plus, where applicable, the fees that can be equated with a rate of interest, in light of their nature. In the case of floating rate financial instruments, the effective interest rate coincides with the rate of return prevailing until the date on which the reference interest rate will be revised.

Equity instruments of other entities whose fair value cannot be determined in a sufficiently objective manner and financial derivatives that have those instruments as their underlying asset and are settled by delivery of those instruments are measured at acquisition cost adjusted, where appropriate, for any related impairment loss.

II. Measurement of financial liabilities

In general, financial liabilities are measured at amortised cost, as defined above, except for those included under financial liabilities at fair value through profit or loss, which are measured at fair value.

III. Valuation techniques

A summary of the various valuation techniques used by the Group to measure the financial instruments included in the financial assets held for trading, available-for-sale financial assets, and financial liabilities held for trading categories at 31 December 2010 and 2009 is as follows:

	2010		**2009**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Quoted price in active markets	82.5%	-	92.5%	8.3%
Internal valuation models	17.5%	100.0%	7.5%	91.7%
	100.0%	**100.0%**	**100.0%**	**100.0%**

The main techniques used in the internal measurement models are as follows:

- The present value method is used to measure financial instruments which enable static hedging (mainly forwards and swaps).

- The Black-Scholes model is applied to certain plain vanilla derivative products (calls, puts, caps/floors).

- The Monte Carlo simulation method is used for the remaining derivative financial instruments.

- The effect of credit risk on fair value is calculated based on the credit curves for issuers with different credit ratings and economic sectors.

The Bank's directors consider that financial assets and financial liabilities in the balance sheet and gains and losses on these financial instruments are reasonable and reflect their market value.

IV. Recognition of changes in fair value

As a general rule, changes in the fair value of financial instruments are recognised in the consolidated income statement, distinguishing those arising from the accrual of interest or dividends, which are recognised under “Interest and similar income”, “Interest expense and similar charges” and “Dividend income”, as appropriate, from those arising on impairment of an asset’s credit rating or for other reasons, which are recognised at their net amount under “Gains/losses on financial assets and liabilities” in the accompanying consolidated income statement.

Adjustments due to changes in fair value arising from available-for-sale financial assets are recognised temporarily under “Valuation adjustments” in consolidated equity, unless they relate to exchange differences on monetary financial assets, in which case they are recognised in the consolidated income statement. Items debited or credited to “Valuation adjustments” remain in the Group’s consolidated equity until the asset giving rise to them is removed from the consolidated balance sheet, or when it is considered that the asset is impaired, at which time they are recognised in the consolidated income statement.

V. Hedging transactions

The Group measures and recognises individual hedges (which are designated to hedge a specifically identified risk) depending on their classification, based on the following criteria:

- Fair value hedge: hedge of the exposure to changes in fair value. The gains or losses attributable to both the hedging instrument and the hedged item are recognised directly in the consolidated income statement.

- Cash flow hedge: hedge of the exposure to variations in cash flows that is attributable to a particular risk associated with an asset or liability or a forecast transaction. Gains or losses arising on measurement of the hedging instruments qualifying as an effective hedge are recognised temporarily in "Valuation adjustments" under consolidated equity, for the lesser of the cumulative gain or loss on the hedging instrument from inception of the hedge and the cumulative change in the present value of the expected future cash flows on the hedged item from inception of the hedge.
  The cumulative gains or losses on each hedge are taken to the consolidated income statement in the periods in which the hedged items affect the income statement, unless the hedge relates to a forecast transaction that results in the recognition of a non-financial asset or liability, in which case the gains or losses are included in the cost of that asset or liability.

- Hedge of a net investment in a foreign operation: hedge of the foreign currency risk on an investment in subsidiaries, associates, joint ventures and branches of the Entity whose activities are based or conducted in a country or functional currency other than that of the reporting Entity. Gains or losses attributable to the portion of the hedging instrument that qualifies as an effective hedge is recognised directly in "Valuation adjustments" under consolidated equity until the instruments are disposed of or derecognised, at which time they are recognised in the consolidated income statement. The rest of the gain or loss is recognised directly in the consolidated income statement.

Derivatives embedded in other financial instruments or in other host contracts are accounted for separately as derivatives if their risks and characteristics are not closely related to those of the host contracts, provided that the host contracts are not classified as other financial assets/liabilities at fair value through profit or loss or as financial assets/liabilities held for trading.

Financial derivatives that do not qualify for hedge accounting are treated for accounting purposes as trading derivatives.

c) Derecognition of financial assets and liabilities

The accounting treatment of transfers of financial assets depends on the extent to which the risks and rewards associated with the transferred assets are transferred to third parties:

I. When substantially all the risks and rewards are transferred to third parties, the transferred financial asset is derecognised and any right or obligation retained or created in the transfer is recognised separately.

II. When substantially all the rights and rewards associated with the transferred financial asset are retained, the transferred financial asset is not derecognised and continues to be measured by the same criteria used before the transfer. However:

    - An associated financial liability is recognised for an amount equal to the consideration received. This liability is subsequently measured at amortised cost.

    - The income from the transferred financial asset not derecognised and any expense incurred on the new financial liability are recognised in the consolidated income statement.

III. When substantially all the risks and rewards associated with the transferred financial asset are neither transferred nor retained, the following distinction must be made:

- If the transferor does not retain control, the transferred financial asset is derecognised and any right or obligation retained or created in the transfer is recognised separately.

- If the transferor retains control, it continues to recognise the transferred financial asset for an amount equal to its exposure to changes in value and recognises a financial liability associated with the transferred financial asset. The net carrying amount of the transferred asset and the associated liability is the amortised cost of the rights and obligations retained, if the transferred asset is measured at amortised cost, or the fair value of the rights and obligations retained, if the transferred asset is measured at fair value.

d) Impairment of financial assets

I. Definition

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

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

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

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

Balances are considered impaired if there is reasonable doubt as to the recovery of the full amount and/or the collection of corresponding interest in the amounts and at the dates initially agreed, after considering the guarantees received by the Bank to (fully or partially) ensure that the operations materialise. Collections relating to non-performing loans and credit facilities are applied in the recognition of accrued interest and any excess is applied to reduce the outstanding amount of the principal. The amount of financial assets that would have been impaired had their terms not been renegotiated is not significant to the financial statements of the Bank taken as a whole.

When the recovery of any recognised impairment is considered unlikely, the amount of the impairment is derecognised, without prejudice to any initiatives that the consolidated entities may undertake to seek collection of the amount receivable until their contractual rights are extinguished by expiry of the statute-of-limitations period, pardoning of debt or any other cause.

II. Debt instruments measured at amortised cost

Allowances and provisions for credit risk have been based on the Group's best estimate of impairment of the portfolio of debt instruments and other assets and commitments due to the credit risk to which the Bank is exposed, considering the methods contained in Appendix IX of the Bank of Spain's Circular 4/2004 and subsequent amendments, based on past experience and information on the financial sector.

Valuation adjustments for instruments classified as doubtful due to customer arrears not carried at fair value through profit or loss have been calculated specifically based on their age, guarantees or collateral provided and the expected recovery of these balances.

A general provision has been made to cover impairment of the remaining debt instruments not measured at fair value through profit or loss and contingent exposures classified as performing.

III. Debt or equity instruments classified as available for sale

Impairment losses on these instruments are the difference between the acquisition cost of the instruments (net of any principal repayment or amortisation, in the case of debt instruments) and their fair value less any impairment loss previously recognised in the consolidated income statement.

When there is objective evidence that the losses arising on measurement of these instruments are due to impairment, they are no longer recognised in equity under "Valuation adjustments – Available-for-sale financial assets" and are recorded in the consolidated income statement. If all or part of the impairment losses are subsequently reversed, the reversed amount would be recognised in the consolidated income statement for the year in which the reversal occurred (under "Valuation adjustments – Available-for-sale financial assets" in the consolidated balance sheet in the case of equity instruments).

IV. Equity instruments measured at cost

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

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

e) Tangible assets

Tangible assets for own use are measured at cost, revalued as permitted by specific legislation and the new accounting standards, less accumulated depreciation and any impairment losses.

Depreciation of tangible assets is provided on a straight-line basis over their estimated useful lives. The land on which the buildings and other structures stand is deemed to have an indefinite life and, therefore, is not depreciated.

Depreciation is recognised in the consolidated income statement and is calculated using the following rates (based on the average years of estimated useful life of the various assets):

	Annual rate	Estimated useful life (years)
Real estate	2%	50
Furniture and fixtures	6-10%	16.7-10
IT equipment	16-33%	6.3-3

Depreciation methods and useful lives of each tangible asset are reviewed at least at the end of each financial year.

The cost of maintenance and repairs of tangible assets which do not improve the related assets or lengthen their useful lives are charged to the consolidated income statement when incurred.

f) Intangible assets

Goodwill

Goodwill represents the payment made by the Group in anticipation of the future economic benefits from assets of acquired entities that cannot be individually identified and separately recognised. Goodwill is only recognised if acquired in a business combination. Any negative goodwill is assigned to specific assets or liabilities and remaining amounts are recognised in the consolidated income statement in the year of acquisition.

Goodwill acquired after 1 January 2004 is measured at cost while goodwill acquired prior to that date is measured at the carrying amount at 31 December 2003. In both cases, at each year end the Group tests goodwill for impairment reducing its recoverable value to an amount below the carrying amount. In this event, the carrying amount is restated and the impairment loss is recognised with a balancing entry under "Impairment of assets – Goodwill" in the consolidated income statement.

Impairment losses on goodwill are not reversed.

II. Other intangible assets

Intangible assets are identifiable non-monetary assets without physical substance which arise as a result of a legal transaction or which are developed internally by the consolidated entities. Only assets whose cost can be estimated reliably and from which the consolidated entities consider it probable that future economic benefits will be generated are recognised.

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

g) Leases

I. <u>Finance leases</u>

Finance leases are leases that transfer to the lessee substantially all the risks and rewards incidental to ownership of the leased asset.

When the consolidated entities act as lessors of an asset, the sum of the present value of the lease payments receivable from the lessee plus the guaranteed residual value, which is generally the exercise price of the purchase option available to the lessee at the end of the lease term, is recognised as financing to third parties and is therefore included under "Loans and receivables" in the consolidated balance sheet.

When the consolidated entities act as lessees, they recognise the cost of the leased assets in the consolidated balance sheet according to the nature of the asset that is the subject matter of the contract, and simultaneously recognise a liability for the same amount (which is the lower of the fair value of the leased asset and the sum of the present value of the lease payments to be made to the lessor, plus the exercise price of the purchase option, where applicable). The depreciation policy for these assets is consistent with that for tangible assets for own use.

In both cases, the finance income and finance expense arising from these contracts is credited or debited, respectively, to the consolidated income statement so as to achieve a constant rate of return over the life of the lease contracts.

<u>II. Operating leases</u>

In operating leases ownership of the leased asset and substantially all the risks and rewards incidental to it remain with the lessor.

When the consolidated entities act as lessors, they recognise the acquisition cost of the leased assets under "Tangible assets" in the consolidated balance sheet. The depreciation policy for these assets is consistent with that for similar tangible assets for own use and income from operating leases is recognised in the consolidated income statement on a straight-line basis.

When the consolidated entities act as lessees, lease expenses, including any incentives granted by the lessor, are charged to the consolidated income statement on a straight-line basis.

h) Financial guarantees and related provisions made

A contract is considered a financial guarantee if it requires an entity to pay specific amounts on behalf of a third party in the event that the latter is unable to do so, irrespective of the manner in which the obligation is instrumented: guarantee deposits, financial guarantee deposit, irrevocable documentary credit issued or confirmed by the entity, etc.

In accordance with EU-IFRS and as a general rule, the Group considers contracts for financial guarantees extended to third parties as financial instruments within the scope of IAS 39.

On initial recognition, the Group records financial guarantees extended as a liability at fair value plus directly attributable transaction costs, which is generally equivalent to the premium received plus the present value of any fees and commissions and returns to be received throughout the term of these contracts, with a balancing entry under assets equivalent to the amount of fees and commissions and similar income collected at the outset of operations and the present value of fees and commissions and similar income receivable. Subsequently, these contracts are recognised under liabilities at the higher of the following amounts:

- The amount determined in accordance with IAS 37, whereby financial guarantees, irrespective of the holder, arrangement or any other circumstances, are analysed periodically to determine the credit risk to which they are exposed and, where applicable, to estimate the provisions required. This amount is calculated applying criteria similar to those used to quantify impairment losses arising on debt instruments measured at amortised cost.

- The amount at which these instruments are initially recognised, less amortisation which, as established by IAS 18, is calculated on a straight-line basis over the term of these contracts.

Provisions made for these instruments, are recorded under "Provisions – Provisions for contingent exposures and commitments" in the consolidated balance sheet. Allowances and reversals of these provisions are recognised with a balancing entry under the income statement caption "Provisioning expense (net)".

In the event that provisions are required for these financial guarantees, based on the above, unaccrued commissions on these operations, which are recognised under "Financial liabilities at amortised cost – Other financial liabilities", are reclassified to the corresponding provision.

i) Foreign currency transactions

<u>I. Functional currency</u>

The Group's functional currency is the Euro. Therefore, all balances and transactions denominated in currencies other than the Euro are deemed to be denominated in foreign currency.

<u>II. Translation of foreign currency balances</u>

Foreign currency balances are translated as follows:

- Monetary assets and liabilities, at the average exchange rate prevailing on the Spanish spot foreign exchange market at year-end.

- Income and expenses, at the exchange rate on the transaction date.

<u>III. Recognition of exchange differences</u>

Exchange differences arising on the translation of foreign currency balances are recognised in the consolidated income statement (see notes 30 and 36).

j) *Equity instruments*

Instruments issued by the Bank are only considered as own equity when the following conditions are met:

- They do not include any type of obligation that requires the issuing entity to:

- deliver cash or any other financial asset to a third party; or

  - exchange financial assets or financial liabilities with a third party under conditions that are potentially unfavourable to the Entity.

- If they may or will be settled in the issuing entity's own equity instruments:

  - in the case of a non-derivative financial instrument, the Entity is not obliged to deliver a variable number of its own equity instruments; or

  - in the case of a derivative, it must be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Entity's own equity instruments.

A financial instrument that will or may result in the future receipt or delivery of the issuer's own equity instruments, but does not meet the conditions described in the two preceding paragraphs, is not an equity instrument.

Business carried out with own equity instruments, including issuance and redemption, is recognised directly in equity of the Entity. No profit or loss on own equity instruments can be recognised. Costs of transactions with own equity instruments are deducted directly from equity, after deduction of any associated tax effect.

Changes in value of instruments classified as own equity are not recognised in the financial statements. Consideration received or conveyed in exchange for these instruments is added to or deducted directly from equity of the Entity.

k) *Recognition of income and expense*

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

<u>I. Interest income, interest expenses and similar items</u>

As a general rule, interest income, interest expenses and similar items are recognised on the basis of their period of accrual using the effective interest method. Dividends received from other companies are recognised as income when the consolidated entities' right to receive them arises.

II. Commissions, fees and similar items

Fee and commission income and expenses are recognised in the consolidated income statement using criteria that vary according to their nature. The most significant fee and commission items are as follows:

- Those relating to financial assets and financial liabilities at fair value through profit or loss, which are recognised when collected.

- Those arising from transactions or services that are provided over a period of time, which are deferred over the life of these transactions or services.

- Those relating to the provision of a service in a single act, which are recognised when the single act is carried out.

III. Non-finance income and expenses

These items are recognised for accounting purposes on an accruals basis.

l) Assets under management

Assets owned by third parties and managed by the consolidated entities are not disclosed in the consolidated balance sheet. Management fees are included in "Fee and commission income" in the consolidated income statement (see note 28). The details of third-party assets managed by the Group at 31 December 2010 and 2009 are disclosed in note 21.

m) Post-employment benefits

The Group recognises the present value of defined benefit pension commitments, net of the fair value of the plan assets and the cost of past services, the recognition of which is deferred, in "Provisions - Provisions for pensions and similar obligations" under liabilities (or in "Other assets - Others" under assets, depending on whether the difference is positive or negative and provided that the recognition conditions set out in Bank of Spain Circular 4/2004 of 22 December 2004 and subsequent amendments are met), as explained below.

Plan assets are assets linked to a specific defined benefit commitment that will be used to directly settle these obligations. They have the following characteristics: they are not owned by the Group, but rather by a legally separate third party not related to the Group; they are only available to settle or finance post-employment benefits payable to employees; they can only be returned to the Group when the remaining assets in the plan are sufficient to meet all obligations of the plan or the Entity relating to current or former employee benefits or to reimburse employee benefits already settled by the Group.

If the Group is able to demand payment from an insurer of part or all of the disbursement required to settle the defined benefit obligation, and it is practically certain that the insurer will reimburse some or all of the disbursements required to settle the obligation, but the insurance policy does not meet the conditions to be considered a plan asset, the Group recognises this reimbursement right in "Insurance contracts linked to pensions", under assets in the balance sheet. This right is treated as a plan asset in all other respects.

Actuarial gains and losses are deemed to be those arising from differences between previous actuarial assumptions and what has actually occurred in the plan and from changes in the actuarial assumptions used.

The Group recognises any actuarial gains and losses arising on post-employment commitments with employees in the year in which they are generated or incurred, with a debit or credit to the income statement.

The cost of past services, incurred due to modifications to existing post-employment benefits or on the introduction of new benefits, is recognised in the income statement on a straight-line basis over the period between the date the new commitments arise and the date these benefits are vested.

Post-employment benefits are recognised in the income statement as follows:

- Current service cost, defined as the increase in the present value of the obligations resulting from employee service in the current period, are recorded under "Administrative expenses - Personnel expenses".

- Interest cost, defined as the increase during the year in the present value of the obligations as a result of the passage of time, are recognised under "Interest expense and similar charges". When the obligations are presented in liabilities net of the plan assets, the cost of the liabilities recognised in the income statement relates solely to the obligations recognised under liabilities.

- The expected return on plan assets and gains or losses on the value of the plan assets, less any plan administration costs and less any applicable taxes, are recorded under "Interest and similar income".

Under the collective labour agreement currently in force, the Bank has undertaken to supplement the public social security system benefits accruing to certain employees, and to their beneficiary right holders, for retirement, permanent disability, death of spouse or death of parent, and other benefits.

In accordance with Royal Decree 1588/1999, in 2000 the Bank externalised its pension commitments through an insurance contract with Seguros Generales Rural, S.A. de Seguros y Reaseguros.

Actuarial gains and losses are deemed to be those arising from differences between previous actuarial assumptions and what has actually occurred in the plan and from changes in the actuarial assumptions used.

Details of the present value of the Group's post-employment benefit obligations at 31 December 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	**2009**
Present value of obligations	408	366
Fair value of plan assets	443	423
Positive difference	**35**	**57**

The amount of the obligations was determined by independent actuaries using the following actuarial techniques:

1. *Valuation method:* projected unit credit method, which considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately.

2. *Actuarial assumptions used:* unbiased and mutually compatible. Specifically, the most significant actuarial assumptions used in the calculations were as follows:

	2010	**2009**
Technical interest rate	4.10%	4.40%
Mortality tables	PERM/F 2000P	PERM/F 2000P
Cumulative annual CPI growth	2%	2%
Annual salary increase rate	3%	3%
Annual Social Security pension increase rate	2%	2%

n) Termination benefits

In accordance with prevailing legislation, the Group pays compensation to those employees whose services are discontinued without just cause. Indemnities are accounted for as a provision for pensions and similar obligations and as personnel expenses when the Entity has clearly undertaken a commitment to dismiss an employee or group of employees before their retirement date or to compensate an employee or group of employees to encourage their departure from the company.

o) Income tax

The current income tax expense is recognised in the consolidated income statement, except when it results from a transaction recognised directly in consolidated equity, in which case the related income tax charge is also recognised in consolidated equity.

The current income tax expense is calculated as the tax payable with respect to the taxable profit for the year, adjusted for the amount of the changes in the year arising from temporary and permanent differences and from tax credits and tax loss carryforwards.

Deferred tax assets and liabilities include the temporary differences, identified as the amounts expected to be paid or recovered for the differences between the carrying amount of the assets and liabilities and their related tax bases (tax value).

Deferred tax assets, tax credits and tax loss carryforwards are only recognised when it is probable that the consolidated entities will obtain sufficient future taxable profit against which they can be utilised.

Deferred tax assets and liabilities are quantified by applying the expected recovery or settlement tax rate to temporary differences or credits.

Deferred tax liabilities are always recognised, except when goodwill is recognised or when they arise in accounting for investments in subsidiaries, associates or joint ventures where the investor is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the future. Nevertheless, deferred tax assets and liabilities are not recognised if they arise from the initial recognition of an asset or liability other than a business combination that at the time of recognition affects neither accounting profit nor taxable profit.

The deferred tax assets and liabilities recognised are reassessed at year end in order to ascertain whether they still exist, and the appropriate adjustments are made on the basis of the findings of the analyses performed.

Income and expenses recognised directly in consolidated equity are accounted for as temporary differences.

p) Consolidated statement of cash flows

The Group reports its consolidated cash flows using the indirect method, using the following expressions and classification criteria:

- Cash flows: inflows and outflows of cash and cash equivalents, the latter being short-term, highly liquid investments subject to a low risk of changes in value.

- Operating activities: typical activities of credit institutions and other activities that cannot be classified as investing or financing.

- Investing activities: the acquisition, sale or other disposal of non-current assets and other investments not included in cash and cash equivalents.

- Financing activities: activities that result in changes in the size and composition of consolidated equity and of liabilities that do not form part of operating activities.

For the preparation of the consolidated statement of cash flows, “Cash and balances with central banks” have been considered as cash and cash equivalents.

Consolidated statement of recognised income and expense

This statement includes income and expenses generated or incurred by the Group during the year in the ordinary course of business, distinguishing between amounts recognised in the consolidated income statement for the year and those recognised directly in consolidated equity, in accordance with prevailing legislation.

This statement therefore comprises the following:

a) Consolidated profit for the year

b) Net income and expenses recognised temporarily as valuation adjustments in consolidated equity.

c) Net income and expenses recognised permanently in consolidated equity.

d) Accrued income tax payable in respect of the items mentioned in points b) and c) above, except on valuation adjustments arising from interests in associates or jointly controlled entities accounted for using the equity method, which are disclosed as net balances.

e) Total consolidated recognised income and expense calculated as the sum of the preceding points, presenting the amounts attributable to the parent and to minority interests separately.

Any type of income and expenses attributable to entities accounted for using the equity method recognised directly in equity is disclosed in this statement under “Entities accounted for using the equity method”.

Changes in income and expenses recognised in consolidated equity during the year, such as valuation adjustments, are disclosed as follows:

a) Revaluation gains/(losses) reflect income, net of expenses incurred during the year, recognised directly in consolidated equity. Amounts recognised in this caption during the year continue to be carried at the initial value of other assets or liabilities, even when they are transferred to the consolidated income statement in the same year, or they are reclassified to another caption.

b) Amounts transferred to the income statement reflect revaluation gains or losses previously recognised in consolidated equity, even in the same year, which are accounted for in the consolidated income statement.

c) Amounts transferred to the initial carrying amount of hedged items comprise valuation gains or losses previously recognised in consolidated equity, even in the same year, which are accounted for in the initial value of assets or liabilities as a result of cash flow hedges.

d) Other reclassifications reflect transfers between valuation adjustments during the year in accordance with criteria established under prevailing legislation.

Amounts disclosed in these captions are gross and the associated tax effect is recognised in "Income tax", except in the case of valuation adjustments of entities accounted for using the equity method, as mentioned previously.

r) Consolidated statement of total changes in equity

This consolidated statement of total changes in equity presents all changes, including those arising from changes in accounting principles and corrections of errors. This statement therefore shows a reconciliation of the opening and closing carrying amounts of all items comprising consolidated equity, grouping movements according to their nature, as follows:

a) Adjustments for changes in accounting principles and corrections of errors reflect changes in consolidated equity due to the retrospective restatement of balances in the financial statements as a result of changes in accounting principles or corrections of errors.

b) Consolidated income and expenses recognised during the year comprise the aggregate amount of the aforementioned items recognised in the consolidated statement of recognised income and expense.

c) Other changes in equity comprise the remaining items recognised in consolidated equity, such as increases or decreases in share capital, distribution of profit or application of losses, transactions with own equity instruments, equity-settled payments, transfers between consolidated equity items and any other increases or decreases in consolidated equity.

3. Distribution of Profit and Earnings per Share

Distribution of profit

The distribution of the Bank's net profit for 2010 that the board of directors will propose for approval by the shareholders at the annual general meeting is as follows:

	Thousands of Euros
Net profit for **2010**	15,334
Distribution:	
Dividends	9,000
Reserves	6,334
Legal reserves	1,533
Voluntary reserves	4,801

Interim dividends

At their meeting held on 24 November 2010, the Bank's board of directors agreed to distribute an interim dividend of Euros 3,000 thousand for 2010. The provisional accounting statement prepared by the directors on that date in accordance with article 277 of the revised Spanish Companies Act, which shows sufficient cash flow to cover the payment of this dividend, is as follows:

	Thousands of Euros
Profit before income tax at 31 October 2010	17,579
Corporate income tax	(4,610)
Provisional profit for the year	12,969
Legal reserve	1,297
Liquidity	2,127,849
Interim dividend	3,000
Payment date	3-12-2010

Earnings per share

Earnings per share are calculated by dividing the net profit or loss attributable to the Group by the number of ordinary shares of the Bank outstanding during the year.

	2010	2009
Net profit for the year attributed to the Group (thousands of Euros)	14,850	14,538
Number of ordinary shares outstanding (note 17)	1,514,297	1,514,107
Earnings per share (Euros)	9.81	9.60

4. **<u>Information on Directors and Senior Management</u>**

Remuneration of directors

Details of gross remuneration received by members of the Bank's board of directors for allowances in 2010 and 2009 are as follows:

	Thousands of Euros		
Director	**2010**	**2009**	
Mr. José Luis García Palacios (Chairman)	30	31	
Mr. Román Suárez Blanco (1) (Vice-chairman)	13	11	
Mr. Wolfgang Kirsch	1	2	
Mr. Ignacio Arrieta del Valle (2)	10	8	
Mr. Nicanor Bascuñana Sánchez	9	9	
Mr. Bruno Catalán Sebastián	8	8	
Mr. José Antonio Claver Carrió	-	6	Director until 27.05.09
Mr. Luis Esteban Chalmovsky	10	11	
Mr. Luis Díaz Zarco	8	9	
Mr. José Luis García-Lomas Hernández	9	9	
Mr. Andrés Gómez Mora	9	9	
Mr. Carlos Martínez Izquierdo	9	9	
Mr. Carlos de la Sierra Torrijos	9	9	
Mr. Antonio Alayeto Aguarón	8	9	
Mr. Dimas Rodríguez Rute (3)	9	9	
Mr. Tobías Popovic	-	5	Director until 27.05.09
Mr. Vicente Cervera Doval (4)	-	4	Director until 27.05.09
Mr. Fernando Palacios González	9	5	Director since 27.05.09
Mr. Eduardo Ferrer Perales	8	4	Director since 27.05.09
Mr. Juan Antonio Gisbert García	12	6	Director since 27.05.09
Mr. Antonio Abelló Dalmases	9	5	Director since 27.05.09
Mr. Pedro García Romera	10	4	Director since 27.05.09
Mr. Cipriano García Rodríguez (5)	9	5	Director since 27.05.09
Total	**199**	**187**	

(1) Appointed vice-chairman on 27 May 2009
(2) Amount received by Caja Rural de Navarra
(3) Amount received by Caja Rural de Granada
(4) Amounts received by Caja Rural de "La Vall – San Isidro Vall D'Úxó"
(5) Amount received by Caja Rural de Zamora

Loans

The Group has extended no loans to the Bank's directors at 31 December 2010 or 2009.

Details of the directors' investments in companies with similar business activities

In compliance with article 229 (iii) of the revised Spanish Companies Act, introduced by Law 26/2003 of 17 July 2003 which amends Law 24/1988 of 28 July 1988 governing the securities market, in order to increase the transparency of listed companies details of the direct or indirect shareholdings held by the directors in companies with identical, similar or complementary statutory activities to that of Banco Cooperativo Español, S.A., as well as any positions held or duties performed in such companies, are provided in Appendix III.

We also confirm that the members of the board have not had any conflicts of interest with the Bank in 2010.

Remuneration of senior management

For the purposes of preparing the accompanying consolidated annual accounts, senior management comprises the 11 members of the Bank's steering committee in 2010 and 2009, considered to be key management personnel within the Group.

Details are as follows:

	Short-term remuneration					
	Thousands of Euros					
	Fixed		Variable		Total	
	2010	2009	2010	2009	2010	2009
Senior management	1,514	1,467	549	538	2,063	2,005

Gender distribution of the board of directors

At 31 December 2010 and 2009 all the members of the board of directors are male.

5. Cash and Balances with Central Banks

Details are as follows:

	Thousands of Euros	
	2010	2009
Cash	445	439
Bank of Spain	386,235	1,145,821
Current account	386,235	1,145,821
Time deposits	--	--
Valuation adjustments	818	811
Total	**387,498**	**1,147,071**

Amounts deposited in central banks at 31 December 2010 and 2009 earned interest at an average rate of 1.01% and 1.21%, respectively.

Details of residual maturity and the interest rate repricing matrix for the items recorded in this caption of the consolidated balance sheet are provided under Risk Management (see note 36).

6. Financial Assets and Financial Liabilities Held for Trading

Details of financial assets and financial liabilities held for trading by counterparty and type of instrument are as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2010	2009	2010	2009
Counterparty				
Credit institutions	202,435	1,450,229	395,826	349,762
Resident general government	153,555	1,198,258	--	--
Other resident sectors	165,361	264,295	22,775	23,158
Other non-resident sectors	6,780	3,578	--	--
Total	**528,131**	**2,916,359**	**418,601**	**372,920**
Instrument				
Deposits from credit institutions	--	--	145,091	31,017
Debt securities	245,553	2,568,093	--	--
Other equity instruments	9,653	11,337	--	--
Trading derivatives	272,925	336,929	273,510	341,903
Total	**528,131**	**2,916,359**	**418,601**	**372,920**

Loaned or pledged securities amount to Euros 144,395 thousand at 31 December 2010 (Euros 658,434 thousand at 31 December 2009).

Trading portfolio. Debt securities

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Spanish government debt securities	153,555	1,198,258
Issued by credit institutions	84,437	1,365,222
Other Spanish fixed-income securities	3,466	3,250
Other non-resident fixed-income securities	4,095	1,364
Total	**245,553**	**2,568,093**

Debt securities held for trading earned interest at an average annual rate of 1.59% in 2010 (2.50% in 2009).

Trading portfolio. Deposits from credit institutions

Deposits from credit institutions accrued interest at an average annual rate of 2.28% in 2010 (2.15% in 2009).

Trading portfolio. Other equity instruments

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Shares in credit institutions	1,845	3,315
Shares in Spanish companies	5,123	5,808
Shares in foreign companies	2,685	2,214
Total	**9,653**	**11,337**

Trading portfolio. Trading derivatives

Details of the fair value of trading derivatives at 31 December 2010 and 2009, by type of instrument, are as follows:

	Thousands of Euros			
	Assets		Liabilities	
	2010		2009	
Purchase of foreign currencies	3,067	2,113	2,086	1,404
Interest rate derivatives	198,352	280,714	207,594	283,598
Equity price risk derivatives	69,975	50,463	63,830	56,863
Other risk derivatives	1,531	3,639	- -	38
Total	**272,925**	**336,929**	**273,510**	**341,903**

The notional values of derivatives held for trading at 31 December 2010 and 2009, by maturity date, are as follows:

	2010			
	Thousands of Euros			
	Up to 1 year	1 to 5 years	Over 5 years	Total
Purchase of foreign currencies	162,779	--	--	162,779
Interest rate derivatives	2,844,181	2,396,065	16,470,202	21,710,448
Equity price risk derivatives	494,402	2,954,521	78,397	3,527,320
Other risk derivatives	--	239,000	1,000	240,000
Total	**3,501,362**	**5,589,586**	**16,549,599**	**25,640,547**

	2009			
	Thousands of Euros			
	Up to 1 year	1 to 5 years	Over 5 years	Total
Purchase of foreign currencies	112,100	5,007	--	117,107
Interest rate derivatives	1,165,489	2,478,251	18,915,739	22,559,479
Equity price risk derivatives	761,353	1,967,870	39,286	2,768,509
Other risk derivatives	--	--	240,000	240,000
Total	**2,038,942**	**4,451,128**	**19,195,025**	**25,685,095**

Information on credit, liquidity and market risks assumed by the Group in relation to financial assets included in this category is provided under Risk Management (see note 36).

7. Available-for-sale Financial Assets

Details of available-for-sale financial assets, based on the nature of the operations, are as follows:

	Thousands of Euros	
	2010	**2009**
Counterparty		
Credit institutions	1,028,863	1,539,515
Resident general government	1,088,755	149,937
Other resident sectors	39,285	55,186
Non-resident general governments	--	10,026
Other non-resident sectors	5,319	4,679
Impairment losses	(159)	(707)
Total	**2,162,063**	**1,758,636**
Instrument		
Debt securities	2,151,205	1,746,678
Spanish government debt securities	1,088,755	149,937
Issued by credit institutions	1,026,913	1,537,603
Other Spanish fixed-income securities	30,877	46,408
Non-resident general governments	--	10,026
Other non-resident fixed-income securities	4,819	3,411
Impairment losses	(159)	(707)
Other equity instruments	10,858	11,958
Shares in credit institutions	1,950	1,912
Shares in Spanish companies	1,511	1,502
Shares in foreign companies	78	78
Mutual fund units	7,319	8,466
Total	**2,162,063**	**1,758,636**

Available-for-sale debt securities earned interest at an average rate of 1.64% in 2010 (2.74% in 2009).

Loaned or pledged debt securities amounted to Euros 1,099,008 thousand at 31 December 2010 (Euros 329,686 thousand at 31 December 2009).

Information on credit, liquidity and market risks assumed by the Bank in relation to financial assets included in this category is provided under Risk Management in note 36, whereas certain information on the fair value of these assets is provided in note 22.

Available-for-sale financial assets. Past-due impaired assets

At 31 December 2010 there were no individual available-for-sale financial assets which could have been considered impaired due to credit risk (Euros 337 thousand in 2009).

8. Loans and Receivables

Details of loans and receivables by type of instrument are as follows:

	Thousands of Euros	
	2010	**2009**
Loans and advances to credit institutions	6,783,656	5,008,663
Loans and advances to other debtors	367,217	686,555
Subtotal	**7,150,873**	**5,695,218**
Valuation adjustments		
Impairment losses	(9,152)	(7,094)
Other valuation adjustments	88,337	54,071
Total	**7,230,058**	**5,742,195**

Information on credit, liquidity and market risks assumed by the Group in relation to financial assets included in this category is provided under Risk Management in note 36, whereas certain information on the fair value of these assets is provided in note 22.

Loans and receivables. Loans and advances to credit institutions

Details by instrument are as follows:

	Thousands of Euros	
	2010	**2009**
Instrument		
Time deposits	4,975,559	3,840,765
Resale agreements	1,025,393	1,061,361
Other accounts	782,704	106,537
Subtotal	6,783,656	5,008,663
Valuation adjustments	88,726	54,013
Total	**6,872,382**	**5,062,676**

Loans and advances to credit institutions earned interest at an average annual rate of 2.36% in 2010 (2.32% in 2009).

Loans and receivables. Loans and advances to other debtors

Details by instrument, status and borrower sector are as follows:

	Thousands of Euros	
	2010	**2009**
Instrument and status		
Commercial credit	55,898	46,809
Secured loans	91,079	89,502
Resale agreements	--	310,998
Other term loans	163,182	160,784
Finance leases	19,388	27,184
Receivable on demand and others	10,406	3,616
Other accounts	26,838	46,239
Doubtful assets	426	1,423
Subtotal	367,217	686,555
Impairment losses	(9,152)	(7,094)
Other valuation adjustments	(389)	58
Total	**357,676**	**679,519**
Counterparty		
Spanish general government	41	3
Other resident sectors	364,439	683,537
Other non-resident sectors	2,737	3,015
Subtotal	367,217	686,555
Impairment losses	(9,152)	(7,094)
Other valuation adjustments	(389)	58
Total	**357,676**	**679,519**

Loans and advances to other customers earned interest at an average annual rate of 2.33% in 2010 (2.92% in 2009).

9. Equity Investments: Associates

Details of this caption are as follows:

	Thousands of Euros	
	2010	**2009**
Espiga Capital Inversión, S.C.R. de R.S., S.A.	8,856	9,855
Espiga Capital Inversión II, S.C.R. de R.S., S.A.	1,052	1,052
Mercavalor, S.V., S.A.	2,581	2,483
Total	**12,489**	**13,390**

Equity investments in Mercavalor S.V. S.A. include goodwill of Euros 626 thousand at 31 December 2010 and 2009.

There have been no additions or disposals in associates in 2010 and 2009.

Movement in 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	**2009**
Opening balance	**13,390**	**14,775**
Dividends received	(1,357)	(1,372)
Effect of equity accounting	456	(13)
Closing balance	**12,489**	**13,390**

10.

11. Tangible Assets

Movement in 2010 and 2009 is as follows:

	Thousands of Euros			
	Real estate	Furniture and fixtures	IT equipment	Total
Cost				
Balance at 31 December 2008	17,749	3,213	2,105	23,067
Additions	--	653	80	733
Disposals	--	(263)	(3)	(266)
Balance at 31 December 2009	17,749	3,603	2,182	23,534
Additions	--	196	158	354
Disposals	--	--	(121)	(121)
Balance at 31 December 2010	17,748	3,799	2,339	23,886
Accumulated depreciation				
Balance at 31 December 2008	(2,116)	(1,880)	(1,493)	(5,489)
Additions	(170)	(190)	(256)	(616)
Disposals	--	7	3	10
Balance at 31 December 2009	(2,286)	(2,063)	(1,746)	(6,095)
Additions	(168)	(234)	(243)	(645)
Disposals				
Balance at 31 December 2010	(2,453)	(2,297)	(1,988)	(6,738)
Net tangible assets				
Balance at 31 December 2009	**15,463**	**1,540**	**436**	**17,439**
Balance at 31 December 2010	**15.295**	**1.502**	**351**	**17.148**

In accordance with EU-IFRS, the Group revalued its real estate in an amount of Euros 6,638 thousand. An appraisal at 1 January 2004, prepared by an independent surveyor, was used as the fair value for this revaluation. The resulting adjustments were recognised under “Accumulated reserves” (Euros 4,466 thousand) and “Tax liabilities” (Euros 2,172 thousand) (see note 18).

At 31 December 2010 and 2009 the cost of fully-depreciated tangible assets for own use in service amounts to Euros 2,625 thousand and Euros 2,049 thousand, respectively.

12. Intangible Assets

Movement in 2010 and 2009 is as follows:

	Thousands of Euros
Cost	**Other intangible assets**
Balance at 31 December 2008	5,476
Additions	1,132
Disposals	(67)
Balance at 31 December 2009	6,541
Additions	1,008
Disposals	(121)
Balance at 31 December 2010	7,429
Accumulated amortisation	
Balance at 31 December 2008	(3,566)
Additions	(1,096)
Disposals	67
Balance at 31 December 2009	(4,595)
Additions	(1,087)
Disposals	121
Balance at 31 December 2010	(5,562)
Net intangible assets	
Balance at 31 December 2009	**1,946**
Balance at 31 December 2010	**1,867**

At 31 December 2010 and 2009 the cost of fully-amortised intangible assets for own use in service amounts to Euros 3,566 thousand and Euros 2,633 thousand, respectively.

13. Financial Liabilities at Amortised Cost

Details by type of counterparty are as follows:

	Thousands of Euros	
	2010	**2009**
Deposits from central banks	1,218,562	1,435,454
Deposits from credit institutions	4,388,480	5,642,861
Deposits from other creditors	1,571,481	2,317,957
Debt certificates including bonds	2,461,596	1,555,078
Subordinated liabilities	20,611	20,605
Other financial liabilities	15,753	13,704
Total	**9,676,483**	**10,985,659**

Details of residual maturity and the interest rate repricing matrix for the items recorded in this caption of the consolidated balance sheet are provided under Risk Management (see note 36).

Note 22 includes information on the fair value of financial instruments included in this caption.

Deposits from central banks and from credit institutions

Details by nature are as follows:

	Thousands of Euros	
	2010	**2009**
Nature		
Time deposits	3,070,269	3,753,826
Repurchase agreements	506,709	298,786
Other accounts	2,010,761	3,007,735
Valuation adjustments	19,303	17,968
Total	**5,607,042**	**7,078,315**

At 31 December 2010 time deposits include Euros 454,750 thousand (Euros 572,202 thousand in 2009) for intermediary loans received from the Spanish Official Credit Institute. These loans have been secured by pledging state debt securities amounting to Euros 127,000 thousand (Euros 221,000 thousand in 2009).

These instruments accrued interest at an average rate of 1.08% in 2010 (1.49% in 2009).

Deposits from other creditors

Details by nature and currency are as follows:

	Thousands of Euros	
	2010	**2009**
Nature		
Demand deposits	1,078,183	1,261,314
Time deposits	37,693	50,310
Repurchase agreements	454,330	1,005,549
Valuation adjustments	1,275	784
Total	**1,571,481**	**2,317,957**

These instruments accrued interest at an average rate of 0.49% in 2010 (1.00% in 2009).

Debt certificates including bonds

Pursuant to Ministry of Economy and Finance Order EHA/3364/2008, of 21 November 2008, which enacts article 1 of Royal Decree 7/2008 of 13 October 2008 on urgent economic-financial measures regarding the agreed action plan for eurozone countries, on 2 December 2008 Banco Cooperativo Español, S.A., as the managing entity of a group of entities comprising the Bank and its shareholder rural savings banks, filed an application with the Spanish Public Treasury for a state guarantee for fixed-income issues amounting to Euros 2,797 million, relating to the total market share of the Bank and its shareholder rural savings banks.

As authorised by the shareholders at their general meeting held on 27 June 2007, the Bank's board of directors, at its meeting held on 17 December 2008, approved the fixed-income security issue programme encompassing the issues guaranteed by the Spanish State under aforementioned Royal Decree 7/2008.

The State guarantee was approved by Ministry of Economy and Finance Orders dated 29 December 2008 and 30 September 2009 and extended to the Bank for the issue of private fixed-income securities for Euros 2,797 million and Euros 1,795 million, respectively. The following issues were carried out under these programmes:

					Thousands of Euros	
					Amortised cost	
	Currency	**Issue date**	Maturity date	**Interest rate**	**2010**	**2009**
Ordinary bonds. First issue in 2008 under State guarantee	Eur	02,04.09	02,04.12	3.125%	1,400,000	1,400,000
Ordinary bonds. Second issue in 2008 under State guarantee	Eur	15,10.09	17,10.12	2.420%	161,000	161,000
Ordinary bonds. Third issue in 2009 under State guarantee	Eur	22,01.10	22,01.15	3.125%	900,000	--
Valuation adjustments					596	(5,922)
Total					**2,461,596**	**1,555,078**

These bonds are listed on the AIAF (Spanish association of securities dealers) organised market.

Interest accrued on debt certificates including bonds totalled Euros 98,236 thousand in 2010 (Euros 45,081 thousand in 2009) (see note 25).

Subordinated liabilities

Details are as follows:

	Date of grant	Final maturity date	Interest rate	Thousands of Euros 2010	Thousands of Euros 2009
Subordinated loan	20,04,01	29,03,11	EUR 3m +0.75%	10,575	10,575
Subordinated loan	23,12,08	30,12,13	EUR 12m +2.50%	10,000	10,000
Valuation adjustments				36	30
Total				**20,611**	**20,605**

Subordinated loans rank behind ordinary creditors for the purposes of payment priority.

Interest accrued on subordinated liabilities during 2010 amounts to Euros 542 thousand (Euros 823 thousand in 2009) (see note 25).

Other financial liabilities

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Obligations payable	2,501	1,443
Guarantee deposits received	7,415	99
Tax collection accounts	1,568	2,432
Special accounts	4,210	9,717
Financial guarantees	59	13
Total	**15,753**	**13,704**

Information on deferred payments to suppliers. Third Additional Provision of Law 15/2010 of 5 July 2010: “Reporting Obligation”

In accordance with Law 15/2010 of 5 July 2010, amending Law 3/2004 of 29 December 2004, which sets forth measures to combat late payment on commercial transactions and which is implemented through the ruling issued by the Spanish Institute of Accountants and Auditors (ICAC) on 29 December 2010, the following should be noted:

- In light of the activities in which it is engaged, the Group does not conduct direct trade operations that would have a relevant effect on consolidated figures. The information on debt deferrals disclosed in this note therefore reflects primarily payments to service providers and sundry suppliers, rather than payments to depositors and holders of securities issued by the Group, which have been settled in strict compliance with the legal and contractual terms established in each case, for both on-demand and deferred payments.

- Pursuant to the reporting obligation stipulated in Law 15/2010 of 5 July 2010 in relation to the Group's trade suppliers and service providers, and taking into account the second transitional provision of the ICAC ruling of 29 December 2010, at 31 December 2010 no payables exceed the maximum legal payment term.

14. Other Assets and Liabilities

Details are as follows:

	Thousands of Euros	
	Other assets	
	2010	2009
Inventories	-	-
Prepayments and accrued income	1,761	2,748
Amounts received and other settled documents pending application	40,795	44,285
Other	5,130	16,887
Total	**47,686**	**63,920**

	Other liabilities	
	2010	2009
Accrued expenses and deferred income	10,976	10,134
Operations in transit	22	40
Other	8,330	5,999
Total	**19,328**	**16,173**

15. Hedging Derivatives

The fair value of hedging derivatives is as follows:

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
Fair value hedges:				
Of which: hedging derivatives	--	10,384	--	6,103

The Bank hedges interest rate risk deriving from fixed-rate financial instruments. The purpose of this hedge is to maintain the fair value of hedged operations, which comprise fixed-income securities. At 31 December 2010 the nominal amount of derivatives contracted to hedge interest rates amounted to Euros 318,300 thousand (Euros 259,600 thousand at 31 December 2009).

Gains or losses on hedging instruments and the hedged item attributable to the hedged risk are not significant in 2010 and 2009 and are recognised under "Gains or losses on financial assets and liabilities (net) – Hedge accounting not included in interest".

16. Provisions

This item comprises provisions for contingent exposures and commitments. Movement during 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	**2009**
Opening balance	**493**	**542**
Allowances charged to the income statement	416	--
Applications	(51)	(49)
Closing balance	**858**	**493**

17. Valuation Adjustments (Equity)

Valuation adjustments in the consolidated balance sheets include the amounts, net of the related tax effect, of adjustments to the assets and liabilities recorded temporarily in equity through the statement of total changes in equity until they are realised or extinguished, at which point they are transferred to shareholders' equity in the income statement. Amounts deriving from subsidiaries, jointly controlled entities and associates are disclosed on a line-by-line basis according to their nature.

Movement during 2010 and 2009 is as follows:

	Thousands of Euros	
	2010	**2009**
Opening balance	**3,432**	**2,120**
Net revaluation gains/(losses)	(33,625)	4,883
Amounts transferred to the income statement	(3,375)	(3,007)
Income tax	11,100	(564)
Closing balance	**(22,468)**	**3,432**

18. Share Capital and Share Premium

At their meeting held on 28 January 2009, the board of directors of the Bank, as authorised by the shareholders at their general meeting held on 28 June 2006, approved a share capital increase through the issue of 300,498 new shares of Euros 60.10 par value each and a share premium of Euros 122.93 per share. This increase was fully subscribed and 25% of the capital, i.e., Euros 15.03 per share, and 100% of the share premium were paid on 22 April 2009. Consequently, the amount paid totalled Euros 4,516 thousand of the share capital and Euros 36,940 thousand of the share premium.

At 31 December 2009 the Bank's share capital was represented by 1,514,107 registered shares of Euros 60.10 par value each, fully subscribed, and of which 1,213,609 were fully paid and 300,498 were 25% paid, with Euros 13,543 thousand payable.

The amount payable at 31 December 2009 was settled on 15 February 2010. On 15 March 2010 the share capital was increased by 190 shares with a share premium of Euros 122.93 per share. Therefore, at 31 December 2010 the share capital of the Bank was represented by 1,514,297 registered shares of Euros 60.10 par value each, subscribed and fully paid.

Shareholders holding more than 10% of share capital at 31 December 2010 and 2009 are as follows:

	% ownership	
Entity	**2010**	**2009**
DZ Bank AG	12.02	12.02
Caja Rural del Mediterráneo (Ruralcaja)	--	12.73

The Group held no treasury shares at 31 December 2010 and 2009.

19. Reserves and Profit and Loss Attributed to the Group

Definition

"Equity – Reserves – Accumulated reserves" in the consolidated balance sheets include the net amount of the accumulated profit and loss recognised in the consolidated income statement in previous years that was assigned to consolidated equity in the distribution of the profit. "Equity – Reserves of entities accounted for using the equity method" in the consolidated balance sheets include the net amount of the accumulated profit and loss generated in previous years by entities accounted for using the equity method and recognised in the consolidated income statement.

Breakdown

Details of these items at 31 December 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	**2009**
Accumulated reserves		
Legal reserves	12,283	10,705
Other reserves	68,192	62,991
Revaluation reserves (note 10)	4,446	4,457
Consolidation reserves attributed to the Bank	1	6
Reserves in subsidiaries	14,442	14,287
Total	**99,364**	**92,446**
Reserves of entities accounted for using the equity method		
Associates	3,381	4,766
Total	**3,381**	**4,766**

Movement

Details of changes in this caption of consolidated equity in 2010 and 2009 are shown in the consolidated statement of total changes in equity.

Legal reserve

Under the Revised Spanish Companies Act, entities must transfer 10% of profit for each year to their legal reserve until such reserve reaches an amount equal to 20% of the share capital of the entity. The legal reserve can be used to increase share capital provided that the remaining reserve balance is at least equal to 10% of the nominal value of the total share capital after the increase.

Except for the aforementioned purpose, unless the legal reserve exceeds 20% of the share capital it may only be used to offset losses if no other reserves are available.

Reserves (losses) of fully-consolidated entities

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Rural Informática, S.A.	4,616	4,520
Gescooperativo, S.A., S.G.I.I.C.	7,716	7,710
Espiga Capital Gestión, S.G.C.R., S.A.	506	661
Rural Inmobiliario, S.L.	731	595
BCE Formación, S.A.	591	553
Rural Renting, S.A.	282	248
Total	**14,442**	**14,287**

Reserves of entities accounted for using the equity method

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Espiga Capital Inversión, S.C.R. de R.S., S.A and subsidiaries	2,427	3,920
Mercavalor, S.V., S.A.	954	846
Total	**3,381**	**4,766**

Profit and loss attributed to the Group

Details of profit and loss attributed to the Group, taking into account consolidation adjustments, are as follows:

	Thousands of Euros	
	2010	**2009**
Banco Cooperativo Español, S.A.	12,339	12,589
Rural Informática, S.A.	501	211
Rural Inmobiliario, S.L.	137	109
Gescooperativo, S.A., S.G.I.I.C.	784	906
BCE Formación, S.A.	312	338
Espiga Capital Gestión, S.G.C.R., S.A.	223	365
Rural Renting, S.A.	96	33
Espiga Capital Inversión, S.C.R. de R.S., S.A and subsidiaries (note 27)	358	(121)
Mercavalor, S.V., S.A. (note 27)	100	108
Total	**14,850**	**14,538**

20. <u>Income Tax</u>

<u>Tax assets and liabilities</u>

Details at 31 December 2010 and 2009 are as follows:

	Thousands of Euros			
	Current		Deferred	
	2010	**2009**	**2010**	**2009**
Tax assets				
Temporary differences	--	--	12,025	1,502
VAT	207	205	--	--
Other	332	223	--	--
Total	**539**	**428**	**12,025**	**1,502**
Tax liabilities				
Temporary differences	--	--	1,922	3,286
Income tax	1,529	1,360	--	--
VAT	679	599	--	--
Other	399	551	--	--
Total	**2,607**	**2,510**	**1,922**	**3,286**

Movement in deferred tax assets and liabilities in 2010 and 2009 is as follows:

	Thousands of Euros	
	Assets	Liabilities
Balance at 31 December 2008	**894**	**2,725**
Additions	610	764
Disposals	(2)	(203)
Balance at 31 December 2009	**1,502**	**3,286**
Additions	10,524	368
Disposals	(1)	(1,732)
Balance at 31 December 2010	**12,025**	**1,922**

Additions to deferred tax assets are mainly non-deductible provisions for bad debts, pension obligations and the tax effect of decreases in the value of assets at fair value through equity. Disposals are tax recovered by applying non-deductible provisions for income that is not eligible for tax purposes, deriving from prepaid fees and commissions.

Additions to deferred tax liabilities mainly reflect the tax effect of increases in the value of liabilities at fair value through equity. Disposals are essentially the tax effect of decreases in the value of liabilities at fair value through equity.

Independently of income tax recognised in the consolidated income statement, the Group has recognised taxes relating to valuation adjustments to available-for-sale financial assets directly in equity, until these assets are sold, amounting to Euros 9,663 thousand and Euros 874 thousand at 31 December 2010 and 2009, respectively.

Income tax

Profits, determined in accordance with tax legislation, are subject to tax at a rate of 30%, which may be reduced by certain credits.

A reconciliation of accounting profit for 2010 and 2009 with the taxable income that the Group expects to declare after approval of the consolidated annual accounts is as follows:

	Thousands of Euros	
	2010	2009
Accounting profit for the year before income tax	20,104	20,009
Increase/(decrease) for permanent differences	(1,015)	(1,100)
Taxable accounting income	19,089	18,909
Temporary differences		
Increases (net)	2,617	2,026
Taxable income	21,706	20,935
Tax at 30%	6,512	6,281
Withholdings and payments on account	(4,567)	(4,679)
Credits and deductions	(276)	(251)
Effect of the Group’s share in net profit of associates	(140)	9
Income tax payable	**1,529**	**1,360**

Permanent differences reflect certain non-deductible expenses for donations, as well as the net effect of investments in an economic interest group.

Temporary differences primarily include tax adjustments to the general provision for credit risk for the year, the reversal of deferred commissions on the first-time application of Circular 4/2004, non-deductible provisions for bad debts and for pension commitments. The reductions in income tax payable are due to deductions for double taxation, donations, R&D&I expenses, training expenses and nursery school services.

The income tax expense for the year is calculated as follows:

	Thousands of Euros	
	2010	2009
Income tax expense for the year:		
Taxable accounting income at 30%	5,727	5,673
Credits and deductions	(276)	(251)
Effect of the Group's share in net profit of associates	(140)	9
Prior years' tax adjustments	(132)	(73)
Income tax expense	**5,179**	**5,358**
Foreign tax expense	19	22
Total	**5,198**	**5,380**

Prior years' tax adjustments reflect differences owing to adjustments between accounting balances recorded at 31 December of each year and the tax returns filed.

In accordance with current legislation, taxes cannot be considered definitive until they have been inspected and agreed by the taxation authorities or before the inspection period of four years has elapsed. At 31 December 2010 the Group has open to inspection by the taxation authorities all main applicable taxes since 2006.

The different tax benefits applied in the calculation of income tax payable for 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	2009
Income tax payable:		
Deductions for double taxation	113	155
Deduction for training expenses	1	3
Deduction for R&D&I expenses	135	50
Deduction for donations, nursery school service and reinvestment	27	43
Total	**276**	**251**

At 31 December 2010 the Group's balance sheet includes tangible assets for own use which were revalued in 2005 by Euros 6,638 thousand (see note 10) in accordance with the first transitional provision of Bank of Spain Circular 4/2004. Pursuant to article 135 of the Revised Spanish Income Tax Law, this amount has not been included in taxable income for 2010 and 2009.

21. <u>Off-Balance Sheet Items</u>

Off-balance sheet items comprise rights, obligations and other legal situations that in the future may have an impact on net assets, as well as any other balances necessary to reflect all transactions entered into by the consolidated entities, even where these do not impinge on their net assets.

a) Contingent liabilities

Contingent liabilities include all transactions under which the consolidated entities guarantee the obligations of a third party and which result from financial guarantees granted by the entities or from other types of contract. Contingent liabilities comprise the following items:

- <u>Financial guarantees</u>

Financial guarantees are the amounts that would be payable by the consolidated entities on behalf of third parties as a result of the commitments assumed by those entities in the course of their ordinary business, if the parties who are originally liable to pay fail to do so.

Details of contingent commitments at 31 December 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	**2009**
Financial guarantees	29,336	1,249
Irrevocable documentary credits	17,785	15,038
Other bank guarantees and indemnities provided	60,145	57,180
Total	**107,266**	**73,467**

A significant part of these amounts will expire without generating any obligations for the consolidated companies, and therefore the total balance of these commitments cannot be considered a requirement for future financing or cash to be extended to third parties.

Income from guarantee instruments is recognised under fee and commission income in the consolidated income statements and is calculated by applying the rate established in the related contract to the nominal amount of the guarantee (see note 28).

b) Contingent commitments

Contingent commitments include those irrevocable commitments that could give rise to the recognition of financial assets.

Details of contingent commitments at 31 December 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	**2009**
Drawable by third parties	365,092	132,988
Financial asset forward purchase commitments	16,502	760
Regular way financial asset purchase contracts	10,530	--
Unpaid subscribed capital	2,070	2,390
Other contingent commitments	13,098	--
Total	**407,292**	**136,138**

22. Off-Balance Sheet Funds Under Management

Details of off-balance sheet funds managed by the Group at 31 December 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	**2009**
Investment companies and mutual funds	1,818,807	1,933,196
Customer portfolios managed on a discretionary basis	653,004	674,352
Marketed but not managed by the Group	114,331	94,063
Total	**2,586,142**	**2,701,611**

23. Financial and Non-financial Assets and Liabilities Not Carried at Fair Value

a) Fair value of financial assets and financial liabilities

At 31 December 2010 and 2009 the fair value of the Group’s financial instruments, by type of financial asset and financial liability and level, is as follows:

- Level 1: financial instruments with fair value based on their quoted price in active markets, without making any modifications to these assets.

- Level 2: Financial instruments with fair value estimated on the basis of their quoted price in organised markets for similar instruments or through other valuation techniques in which all significant inputs are based on directly or indirectly observable market data.

- Level 3: Instruments with fair value estimated through valuation techniques in which certain significant input is not based on observable market data.

Input is considered significant if it is important in determining the fair value as a whole.

Financial assets	2010 Thousands of Euros – Financial assets held for trading		Available-for-sale financial assets		Loans and receivables		Total	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Level 1:								
Debt securities	179,255	179,255	1,586,650	1,586,650	--	--	1,765,905	1,765,905
Equity instruments	9,653	9,653	7,319	7,319	--	--	16,972	16,972
Level 2:								
Deposits with credit institutions and central banks	--	--	--	--	6,872,382	6,940,468	6,872,382	6,940,468
Loans and advances to other debtors	--	--	--	--	357,676	380,794	357,676	380,794
Debt securities	66,298	66,298	564,555	564,555	--	--	630,853	630,853
Derivatives	272,925	272,925	--	--	--	--	272,925	272,925
Level 3:								
Equity instruments	--	--	3,539	3,539	--	--	3,539	3,539
Total	**528,131**	**528,131**	**2,162,063**	**2,162,063**	**7,230,058**	**7,321,262**	**9,920,252**	**10,011,456**

Financial liabilities	2010 Thousands of Euros – Financial liabilities held for trading		Financial liabilities at amortised cost		Total	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Level 2:						
Deposits from central banks and credit institutions	145,091	145,091	5,607,042	5,462,341	5,752,133	5,607,432
Deposits from other creditors	--	--	1,571,481	1,567,133	1,571,481	1,567,133
Debt certificates including bonds	--	--	2,461,596	2,582,061	2,461,596	2,582,061
Subordinated liabilities	--	--	20,611	21,355	20,611	21,355
Derivatives	273,510	273,510	--	--	273,510	273,510
Other financial liabilities	--	--	15,753	15,753	15,753	15,753
Hedging derivatives	--	--	10,384	10,384	10,384	10,384
Total	**418,601**	**418,601**	**9,686,867**	**9,659,027**	**10,105,468**	**10,077,628**

Financial assets	2009							
	Thousands of Euros							
	Financial assets held for trading		Available-for-sale financial assets		Loans and receivables		Total	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Level 1:								
Debt securities	**2,568,093**	**2,568,093**	1,746,678	1,746,678	--	--	4,314,771	4,314,771
Equity instruments	**11,337**	**11,337**	8,467	8,467	--	--	19,804	19,804
Level 2:								
Deposits with credit institutions and central banks	--	--	--	--	5,062,676	5,141,559	5,062,676	5,141,559
Loans and advances to other debtors	336,929	336,929	--	--	679,519	698,245	1,016,448	1,035,174
Derivatives	--	--	--	--	--	--	--	--
Level 3:								
Equity instruments	--	--	3,491	3,491	--	--	3,491	3,491
Total	**2,916,359**	**2,916,359**	**1,758,636**	**1,758,636**	**5,742,195**	**5,839,804**	**10,417,190**	**10,514,799**

Financial liabilities	2009					
	Thousands of Euros					
	Financial liabilities held for trading		Financial liabilities at amortised cost		Total	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Level 2:						
Deposits from central banks and credit institutions	31,017	31,017	7,078,315	7,039,515	7,109,332	7,070,532
Deposits from other creditors	--	--	2,317,957	2,285,222	2,317,957	2,285,222
Debt certificates including bonds	--	--	1,555,078	1,630,001	1,555,078	1,630,001
Subordinated liabilities	--	--	20,605	21,822	20,605	21,822
Derivatives	341,903	341,903	--	--	341,903	341,903
Other financial liabilities	--	--	13,704	13,704	13,704	13,704
Total	**372,920**	**372,920**	**10,985,659**	**10,990,264**	**11,358,579**	**11,363,184**

b) Fair value of tangible assets

Tangible assets are carried at their appraisal value at 1 January 2004 (see note 10). The fair value has been estimated on the basis of external valuations (appraisals) and internal valuations compared to market.

24. Reclassifications of Financial Instruments

No financial instruments were reclassified in 2010 and 2009 (see note 2 a) IV).

25. Interest and Similar Income

Interest and similar income comprises the interest accrued in the year on all financial assets with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value. Interest is recognised gross, without deducting any tax withheld at source.

Details of the main interest and similar income earned by the Group in 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	**2009**
Balances with central banks	9,073	12,007
Loans and advances to credit institutions	149,916	88,880
Loans and advances to other debtors	7,248	11,229
Debt securities	53,592	81,044
Doubtful assets	5	3
Other interest	62	39
Total	**219,896**	**193,202**

26. Interest Expense and Similar Charges

Interest expense and similar charges include the interest accrued during the year on all financial liabilities with an implicit or explicit return, calculated by applying the effective interest method, irrespective of measurement at fair value.

Details of the main items of interest expense and similar charges accrued by the Group in 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	**2009**
Deposits from central banks	19,615	12,782
Deposits from credit institutions	52,891	73,034
Deposits from other creditors	9,991	17,536
Debt certificates including bonds (note 12)	98,236	45,081
Subordinated liabilities (note 12)	542	823
Rectifications as a result of hedging transactions	8,743	13,847
Other interest	5	6
Total	**190,023**	**163,109**

27. Dividend Income

Dividend income includes the dividends and remuneration from equity instruments deriving from profits generated by investees after the acquisition of the equity interest.

Details of dividend income are as follows:

	Thousands of Euros	
	2010	**2009**
Financial assets held for trading	416	669
Available-for-sale financial assets	360	380
Total	**776**	**1,049**

28. Share of Profit and Loss of Entities Accounted for Using the Equity Method

This caption comprises the amount of profit or loss attributable to the Group generated during the year by associates and jointly controlled entities accounted for using the equity method.

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Mercavalor, S.V., S.A. (note 18)	100	108
Espiga Capital Inversión, S.C.R. de R.S., S.A. and subsidiaries (note 18)	358	(121)
Total	**458**	**(13)**

29. Fee and Commission Income

Fee and commission income comprises the amount of all fees and commissions accrued by the Group during the year, except those forming an integral part of the effective interest rate on financial instruments.

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Contingent exposures (note 20)	498	352
Contingent commitments (note 20)	45	33
Foreign currency exchange	594	621
Collection and payment service	2,005	2,142
Transfers, giros and other payment orders	18,379	19,232
Asset management	1,322	509
Other fees and commissions	3,379	3,367
Total	**26,222**	**26,256**

30. Fee and Commission Expense

Fee and commission expense comprises all fees and commissions paid or payable by the Group in the year, except those forming an integral part of the effective interest rate on financial instruments.

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Fees and commissions assigned to other entities and correspondents	4,450	4,600
Fee and commission expenses on securities transactions	11,075	10,605
Other fees and commissions	23	21
Total	**15,548**	**15,226**

31. Gains or Losses on Financial Assets and Financial Liabilities and Exchange Differences (Net)

Gains or losses on financial assets and financial liabilities

Gains or losses on financial assets and financial liabilities include valuation adjustments to financial instruments, except those attributable to interest accrued as a result of applying the effective interest method and to impairment of assets recorded in the consolidated income statement, as well as gains or losses on the sale and purchase of financial instruments.

Details by type of instrument are as follows:

	Thousands of Euros	
	2010	**2009**
Trading portfolio	2,551	1,309
Available-for-sale financial assets	1,947	1,811
Loans and receivables	38	37
Total	**4,536**	**3,157**

Exchange differences (net)

Exchange differences include gains and losses on the purchase and sale of foreign currencies and differences arising from the conversion of the different monetary items in the consolidated balance sheet from foreign currency to Euros.

Total net exchange differences amount to Euros 103 thousand at 31 December 2010 (Euros 249 thousand at 31 December 2009) (see note 35-5).

32. Personnel Expenses

Personnel expenses comprise all remuneration of permanent and temporary personnel on the payroll, irrespective of their duties or activity, accrued during the year for all items, including the current service cost for pension plans.

Details are as follows:

	Thousands of Euros	
	2010	**2009**
Wages and salaries	12,354	11,749
Social Security	2,315	2,222
Charges to pension plans	11	8
Other personnel expenses	296	692
Total	**14,976**	**14,671**

The average number of employees in the Group, by professional category, is as follows:

	2010		**2009**	
	Male	**Female**	**Male**	**Female**
Management team	13	1	13	1
Directors	19	7	19	7
Department managers	16	9	16	9
Other line personnel	17	28	17	28
Administrative personnel	39	77	39	78
Total	**104**	**122**	**104**	**123**

33. Other Administrative Expenses

Other administrative expenses are as follows:

	Thousands of Euros	
	2010	2009
Property, fixtures and materials	857	836
Information technology	2,232	2,249
Communications	1,140	1,125
Advertising and publicity	190	228
Legal and lawyer expenses	99	100
Technical reports	523	567
Security and armoured cash transport services	210	208
Insurance premiums	237	269
Governing and control bodies	212	196
Entertainment and staff travel expenses	287	246
Association membership fees	178	196
Outsourced administrative services	873	920
Contributions and taxes	500	385
Other	750	716
Total	**8,288**	**8,241**

KPMG Auditores S.L., the auditors of the Group's consolidated annual accounts, have invoiced fees and expenses for professional services during the years ended 31 December 2010 and 2009, as follows:

	Thousands of Euros			
	Bank		Group	
	2010	2009	2010	2009
Audit services	24	24	58	57
Other services	141	--	141	--
Total	**165**	**24**	**199**	**57**

This amount includes the total fees for audit services rendered in 2010 and 2009, irrespective of the invoice date.

34. Segment reporting

Segmentation criteria

Segment reporting is based on the Group's different lines of business. Geographical distribution is not significant as almost all revenue is obtained in Spain. The following lines of business have been defined based on the Group's organisational structure, taking into account the nature of the products and services, as well as the clients.

The Group focused its activities on the following segments in 2010 and 2009:

- Commercial banking
- Asset management
- Markets
- Corporate activities

Bases and method of business segment reporting

Segment information is based on internal systems for calculating profitability by business area.

Interest income and revenue from lines of business are calculated by applying transfer prices in line with prevailing market rates to the corresponding assets and liabilities. Administrative expenses include direct expenses and certain allocated expenses of support service units.

	Thousands of Euros									
	Commercial banking		**Asset management**		**Markets**		**Corporate activities**		**Total Group**	
	2010	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Gross margin	9,482	10,192	7,470	7,879	21,513	21,021	10,842	12,792	49,307	48,385
Administrative expenses, amortisation and depreciation	4,999	5,417	4,496	4,432	5,124	2,955	10,378	11,820	24,997	24,624
Provisions and impairment losses on financial assets	3,904	3,224	--	--	--	--	300	484	4,204	3,708
Profit on operating activities	579	1,551	2,974	3,447	16,389	18,066	164	488	20,106	20,053
Other losses	--	--	--	--	--	--	(2)	(44)	(2)	(44)
Profit before income tax	579	1,551	2,974	3,447	16,389	18,066	162	444	20,104	20,009
Corporate income tax	149	417	768	927	4,240	4,858	41	119	5,198	5,380
Consolidated profit for the year	430	1,134	2,206	2,520	12,149	13,208	121	325	14,906	14,629

35. Related Parties

In addition to the information provided in note 4 on remuneration paid, details of balances and transactions with related parties during 2010 and 2009 are as follows:

	Thousands of Euros					
	Associates		Senior management		Other related parties	
Assets	**2010**	**2009**	**2010**	**2009**	**2010**	**2009**
Loans and advances to other debtors	--	--	1,405	1,072	--	--
Allowances and provisions for credit risk	--	--	(23)	(24)	--	--
Liabilities						
Deposits from other customers	9,084	36,701	661	829	1	2
Debt certificates including bonds	25,000	25,000	--	--	--	--
Other						
Contingent liabilities	948	2,642	--	--	--	--
Profit and loss						
Interest and similar income	--	--	29	30	--	--
Interest expense and similar charges	899	1,208	4	4	--	--
Share of profit or loss of entities accounted for using the equity method	458	(13)	--	--	--	--

36. Customer Service Department

In accordance with Article 17 of Ministry of Economy Order ECO/734/2004 of 11 March 2004 on customer service departments and the financial institution ombudsman, the 2010 Annual Report presented by the head of the service to the board of directors at their meeting held on 23 February 2011 is summarised below:

Customer service has received 23 claims and/or complaints, 19 of which have been resolved (15 relating to individual customers and four to corporate customers). In accordance with customer service regulations, two complaints were not accepted.

	Number	
Issue	**2010**	**2009**
Loans	--	1
Deposits	--	1
Other banking products	17	--
Collection and payment service	--	1
Investment services	--	3
Other	2	9
Total	**19**	**15**

The number of complaints resolved, by autonomous region, is as follows:

	2010	2009
Aragon	3	2
Andalusia	3	--
Balearic Islands	1	--
La Rioja	2	3
Madrid	2	3
Navarre	6	1
Basque Country	2	4
Castile and León	--	2

37. Risk Management

The Banco Cooperativo Español Group's risk exposure mainly relates to the assets and liabilities of the Entity, whose total assets account for 99.77% and 99.83% of the Group's total assets at 31 December 2010 and 2009, respectively (see note 1).

36.1 Credit risk

Credit risk is the risk of one party to a contract that meets the definition of a financial instrument ceasing to comply with its obligations, resulting in a financial loss for the other party.

Credit risk therefore represents the risk of loss assumed by the Group in the event that a customer or any counterparty fails to comply with its contractual payment obligations. This risk is inherent in traditional products of banking entities (loans, credit facilities, financial guarantees extended, etc.), as well as in other types of financial assets (fixed-income securities of the Group, derivatives, etc.).

Credit risk affects financial assets carried at amortised cost and assets recognised at fair value in the consolidated financial statements. The Group applies the same credit risk control policies and procedures to these financial assets irrespective of the recognition criteria used.

The Group's credit risk control policies and objectives have been approved by the Bank's board of directors. The Risk Committee, together with the Assets and Liabilities Committee, is in charge of implementing the Group's risk policies that enable compliance with the objectives set by the board. The risk control unit (under the General Audit and Risks Department and, therefore, independent of the business units in charge of implementing policies defined by the Entity) is responsible for establishing the control procedures required to continuously monitor the levels of risk assumed by the Group as well as strict compliance with the objectives set by the Group with respect to credit risks. Together with the Internal Audit Department (under the Internal Audit Committee), the risk control unit also monitors compliance with the Group's risk control policies, methods and procedures, ensuring that these are sufficient, implemented effectively and reviewed regularly, and providing the information required by higher-level governing bodies to implement the necessary corrective measures, where applicable.

The control unit monitors, on an ongoing basis, risk concentration levels, the default rate and the different warning systems in place that enable it to keep an eye on credit risk trends at all times. Any deviations from the forecast performance of any of these parameters are analysed to determine the causes. Once the causes of these deviations are known, they are analysed by the control unit which submits the corresponding reports to the Group's management bodies so that the necessary corrective measures may be taken; for example, defining or correcting established control mechanisms which may not have functioned satisfactorily, or amending policies and limits agreed by the Group. In particular, a more exhaustive analysis will be performed of operations which, for different reasons, have resulted in payment delays or defaults, to determine the effectiveness of the hedges contracted by the entity, in order to take any necessary measures to improve the Group's acceptance policies and credit risk analysis mechanisms.

36.1.1 Maximum credit risk exposure level

The following table shows the maximum credit risk exposure level assumed by the Group at 31 December 2010 and 2009 for each type of financial instrument, without deducting collateral or any other guarantees received to ensure repayment by borrowers:

	2010			
	Thousands of Euros			
Type of instruments	**Trading portfolio**	**Available-for-sale financial assets**	**Loans and receivables**	**Total**
Debt instruments				
Loans and advances to credit institutions	--	--	6,783,656	6,783,656
Marketable securities	245,553	2,151,364	--	2,396,917
Loans and advances to other debtors	--	--	367,217	367,217
Total debt instruments	**245,553**	**2,151,364**	**7,150,873**	**9,547,790**
Equity instruments	**9,653**	**10,858**	**--**	**20,511**
Contingent exposures				
Guarantee deposits	--	--	29,336	29,336
Other contingent exposures	--	--	77,930	77,930
Total contingent exposures	--	--	**107,266**	**107,266**
Other exposures				
Derivatives	272,925	--	--	272,925
Contingent commitments	--	--	407,292	407,292
Total other exposures	**272,925**	**--**	**407,292**	**680,217**
Maximum credit risk exposure level	**528,131**	**2,162,222**	**7,665,431**	**10,355,784**

	2009			
	Thousands of Euros			
Type of instruments	**Trading portfolio**	**Available-for-sale financial assets**	**Loans and receivables**	**Total**
Debt instruments				
Loans and advances to credit institutions	--	--	5,008,663	5,008,663
Marketable securities	2,568,093	1,747,385	--	4,315,478
Loans and advances to other debtors	--	--	686,555	686,555
Total debt instruments	**2,568,093**	**1,747,385**	**5,695,218**	**10,010,696**
Equity instruments	**11,337**	**11,958**	**--**	**23,295**
Contingent exposures				
Guarantee deposits	--	--	1,249	1,249
Other contingent exposures	--	--	72,218	72,218
Total contingent exposures	--	--	**73,467**	**73,467**
Other exposures				
Derivatives	336,929	--	--	336,929
Contingent commitments	--	--	136,138	136,138
Total other exposures	**336,929**	**--**	**136,138**	**473,067**
Maximum credit risk exposure level	**2,916,359**	**1,759,343**	**5,904,823**	**10,580,525**

The following should be taken into consideration in relation to the information shown in the above tables:

- Debt instruments recognised under assets in the consolidated balance sheet are reflected at their carrying amount, excluding valuation adjustments (impairment losses, deferred interest, arrangement costs and similar commissions pending deferral, etc.).

- Contingent commitments comprise available balances bearing no conditions for debtors.

- Contingent exposures are stated at the maximum amount guaranteed by the Group. In general, most of these balances are estimated to reach maturity without requiring any actual financing by the Entity (see note 20).

- Information on other credit risk exposures, such as counterparty risk related to the contracting of derivative financial instruments, is stated at the carrying amount.

36.1.2 Classification of credit risk exposure by counterparty

The maximum credit risk exposure level at 31 December 2010 and 2009, classified by counterparty, is as follows:

	2010							
	Thousands of Euros							
	Spanish general government	Financial institutions	Resident companies	Other resident sectors	Non-resident companies	Other non-resident sectors	Other operations	Total
Debt instruments								
Loans and advances to credit institutions	--	6,783,656	--	--	--	--	--	6,783,656
Marketable securities	1,242,311	1,111,349	34,343	--	8,914	--	--	2,396,917
Loans and advances to other debtors	41	--	254,896	82,757	2,685	--	26,838	367,217
Total debt instruments	**1,242,352**	**7,895,005**	**289,239**	**82,757**	**11,599**	--	**26,838**	**9,547,790**
Equity instruments	**--**	**3,801**	**13,525**	**--**	**3,185**	--	--	**20,511**
Contingent exposures								
Guarantee deposits	--	28,437	886	13	--	--	--	29,336
Other contingent exposures	--	4,552	62,007	9,593	1,778	--	--	77,930
Total contingent exposures	--	**32,989**	**62,893**	**9,606**	**1,778**	--	--	**107,266**
Other exposures								
Derivatives	--	116,154	143,555	13,216	--	--	--	272,925
Contingent commitments	200,000	43,684	158,562	4,807	239	--	--	407,292
Total other exposures	**200,000**	**159,838**	**302,117**	**18,023**	**239**	--	--	**680,217**
Total	**1,442,352**	**8,091,633**	**667,774**	**110,386**	**16,801**	--	**26,838**	**10,355,784**

	2009							
	Thousands of Euros							
	Spanish general government	Financial institutions	Resident companies	Other resident sectors	Non-resident companies	Other non-resident sectors	Other operations	Total
Debt instruments -								
Loans and advances to credit institutions	--	5,008,663	--	--	--	--	--	5,008,663
Marketable securities	1,358,221	2,902,824	49,658	--	4,775	--	--	4,315,478
Loans and advances to other debtors	3	--	559,441	77,936	--	2,964	46,211	686,555
Total debt instruments	**1,358,224**	**7,911,487**	**609,099**	**77,936**	**4,775**	**2,964**	**46,211**	**10,010,696**
Equity instruments	--	5,227	14,586	--	3,482	--	--	23,295
Contingent exposures								
Guarantee deposits	--	198	1,051	--	--	--	--	1,249
Other contingent exposures	--	20,651	49,058	557	1,952	--	--	72,218
Total contingent exposures	--	**20,849**	**50,109**	**557**	**1,952**	**--**	**--**	**73,467**
Other exposures								
Derivatives	--	81,692	236,915	18,322	--	--	--	336,929
Contingent commitments	--	1,561	129,650	4,684	--	243	--	136,138
Total other exposures	--	**83,253**	**366,565**	**23,006**	**--**	**243**	**--**	**473,067**
Total	**1,358,224**	**8,020,816**	**1,040,359**	**101,499**	**10,209**	**3,207**	**46,211**	**10,580,525**

36.1.3 Credit rating of credit risk exposures

The Group uses advanced models to measure credit risk. The credit rating of public entities, financial institutions and corporate customers is measured through rating systems, while the credit rating of the retail banking portfolio (individual customers, small companies and freelance professionals) is measured using scoring systems.

The distribution of risk at 31 December 2010 and 2009, based on ratings (external or internal, in line with the credit rating models developed by the Group) is as follows:

	2010		**2009**	
Credit rating	**Thousands of Euros**	**%**	**Thousands of Euros**	**%**
AAA	159,201	1.5	3,161,698	27.5
AA+	3,323,156	31.2	161,427	1.4
AA	325,937	3.1	262,773	2.3
AA-	851,372	8.0	881,785	7.7
A+	2,028,683	19.0	3,237,102	28.1
A	1,351,323	12.7	2,144,944	18.6
A-	916,148	8.6	954,724	8.3
BBB+	123,640	1.2	122,845	1.1
Below BBB+	375,090	3.5	153,572	1.3
Not rated	1,200,829	11.3	429,783	3.7
Total	**10,655,379**	**100.0**	**11,510,653**	**100.0**

36.1.4 Credit risk on real estate development and construction

At 31 December 2010 financing provided for real estate development and construction amounted to Euros 9,251 thousand, of which Euros 108 thousand were impaired assets. Total specific provisions at that date amounted to Euros 1,750 thousand.

The figures above reflect financing extended for real estate development and construction. Consequently, following Bank of Spain instructions, the purpose of the transaction has been taken into account, rather than the debtor’s activity. Loans in this table are classified in line with their purpose and not in accordance with the National Classification of Economic Activities (CNAE). As a result, if the debtor is: (a) a real estate company but uses the financing for a purpose other than real estate development or construction, the loan will not be included in these tables, and (b) if the company’s principal activity is not real estate development or construction but it uses the loan to finance property development, it will be included in the tables.

Quantitative information on real estate credit risk at 31 December 2010 is as follows:

	Thousands of Euros		
	Gross amount	Excess over guaranteed amount	Specific coverage
Loans recognised by Group credit institutions	9,251	3,251	1,750
Of which: Doubtful	108		61
Of which: Sub-prime	6,750	3,083	1,689
Memorandum item:			
- Total general coverage (total transactions)	--	--	7,516
- Defaulted assets	--	--	--

Total loans and advances to other debtors excluding Spanish general government at 31 December 2010 are as follows (Memorandum item: consolidated group figures):

	Thousands of Euros
Total loans and advances to other debtors excluding Spanish general government	357,635
Total consolidated assets	10,399,504

Details of credit risk on real estate development and construction by type of related guarantee are as follows:

	Thousands of Euros Loans: Gross amount
1. Not secured by collateral	108
2. Secured by collateral	9,143
2.1. Finished buildings	670
2.1.1. Homes	670
2.1.2. Other	--
2.2. Buildings under construction	1,722
2.2.1. Homes	1,722
2.2.2. Other	--
2.3. Land	6,750
2.3.1. Developed land	6,750
2.3.2. Other land	--
Total	**9,251**

Details of home purchase loans extended to individuals are as follows:

	Gross amount	Of which: Doubtful
Home purchase loans	57,558	--
Not secured by collateral	5,326	--
Secured by collateral	52,232	--

The following table shows a breakdown of mortgage loans extended to acquire homes by percentage of total risk on the latest available appraisal value (LTV):

	LTV bracket			
	LTV≤50%	**50%<LTV≤80%**	**80%<LTV≤100%**	**LTV>100%**
Gross amount	22,520	23,015	6,697	--
Of which: Doubtful	--	--	--	--

36.1.4 Assets impaired due to credit risk

Details at 31 December 2010 and 2009 are as follows:

	Thousands of Euros	
	2010	**2009**
Doubtful assets		
Loans and receivables	426	1,423
Available-for-sale financial assets	--	337

The Group has not recognised any foreclosed assets at 31 December 2010.

36.1.6. Movement in impairment losses

Movement in impairment losses recognised by the Group in 2010 and 2009 by type of financial asset is as follows:

	Thousands of Euros								
	Balance at 31 December 2008	**Net allowances charged to the income statement**	**Amounts used**	**Adjustments for exchange differences**	**Balance at 31 December 2009**	**Net allowances charged to the income statement**	**Amounts used**	**Adjustments for exchange differences and other**	**Balance at 31 December 2010**
Available-for-sale financial assets	**523**	184	--	--	**707**	(212)	(336)	--	**159**
Specific	**--**	336	--	--	**336**	--	(336)	--	**--**
General	**523**	(152)	--	--	**371**	(212)	--	--	**159**
Loans and receivables	**3,834**	3,263	(3)	--	**7,094**	3,689	(1,633)	2	**9,152**
Specific	**35**	1,221	(3)	--	**1,253**	2,993	(1,633)	--	**2,613**
General	**3,799**	2,042	--	--	**5,841**	696	--	2	**6,539**
Contingent exposures and commitments	**542**	(49)	--	--	**493**	416	(51)	--	**858**
Specific	--	--	--	--	--	40	--	--	**40**
General	**542**	(49)	--	--	**493**	376	(51)	--	**818**
Total	**4,899**	**3,398**	**(3)**	**--**	**8,294**	**3,893**	**(2,020)**	**2**	**10,169**

Details of specific and general provisions for credit risk, by counterparty and geographical location of risk, are as follows:

	Thousands of Euros			
	Specific		General	
	2010	2009	2010	2009
Counterparty				
Other resident private sectors	2,653	1,253	7,418	6,626
Other non-resident private sectors	--	336	98	79
Total	**2,653**	**1,589**	**7,516**	**6,705**
Geographical location of risk				
Spain	2,653	1,253	7,418	6,626
Europe	--	157	91	52
United States	--	179	7	4
Rest of world	--	--	--	23
Total	**2,653**	**1,589**	**7,516**	**6,705**

36.1.7. Impaired and derecognised financial assets

Movement in impaired financial assets not recognised in the consolidated balance sheet as their recovery is considered unlikely, although the Group continues its efforts to collect the amounts receivable, is as follows:

	Thousands of Euros	
	2010	2009
Opening balance	**414**	**704**
Additions		
Impairment	1,916	3
Other	89	--
Disposals		
Pardoning of debt	(397)	(292)
Other items	--	(1)
Closing balance	**2,022**	**414**

36.2 Liquidity risk

The Assets and Liabilities Committee of the Bank is directly responsible for managing and controlling liquidity risks in order to guarantee an optimal level of liquid assets and avoid imbalances when complying with the Group's commitments.

The Assets and Liabilities Committee uses the following measures to monitor liquidity:

- The liquidity gap, which reflects the maturity structure of financial assets and financial liabilities, considering the period between the analysis date and the contractual maturity date. The liquidity gap at 31 December 2010 and 2009 is as follows:

	2010							
	Thousands of Euros							
	Demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Total
Assets								
Cash and balances with central banks	387,498	--	--	--	--	--	--	387,498
Loans and advances to credit institutions	791,200	2,045,875	954,768	251,798	2,705,920	37,661	--	6,787,222
Loans and advances to other debtors	--	41,834	99,847	132,942	78,312	107,064	29,152	489,151
Available-for-sale financial assets	--	262,581	176,248	814,886	721,094	114,326	--	2,089,135
Other fixed-interest securities	--	61,974	43,355	81,274	54,508	4,442	--	245,553
Other assets	--	3,266	6,532	29,394	59,413	174,320	104,364	377,289
Total assets	**1,178,698**	**2,415,530**	**1,280,750**	**1,310,294**	**3,619,247**	**437,813**	**133,516**	**10,375,848**
Liabilities								
Deposits from central banks and credit institutions	--	3,638,520	1,090,352	507,018	433,717	81,665	--	5,751,271
Subordinated financing	--	--	10,576	--	10,035	--	--	20,611
Debt certificates including bonds	--	--	--	--	2,461,596	--	--	2,461,596
Deposits from general governments	302,995	--	--	64,228	--	--	--	367,223
Deposits from other creditors	804,801	347,115	23,530	29,806	2,472	85	--	1,207,809
Other liabilities	--	3,273	6,546	29,457	59,540	174,693	293,828	567,338
Total liabilities	**1,107,796**	**3,988,908**	**1,131,004**	**630,509**	**2,967,360**	**256,443**	**293,828**	**10,375,848**
Simple gap	70,902	(1,573,378)	149,746	679,785	651,887	181,370	(160,312)	--
Accumulated gap	70,902	(1,502,476)	(1,352,730)	(672,945)	(21,058)	160,312	--	--

	2009							
	Thousands of Euros							
	Demand	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Total
Assets								
Cash and balances with central banks	1,147,070	--	--	--	--	--	--	1,147,070
Loans and advances to credit institutions	106,397	1,177,984	140,318	1,701,169	1,886,466	40,200	--	5,052,534
Loans and advances to other debtors	1,926	318,975	34,852	113,207	71,622	96,839	46,211	683,632
Available-for-sale financial assets	--	366,387	383,994	370,324	534,551	86,253	--	1,741,509
Other fixed-interest securities	--	692,882	879,539	897,849	91,411	6,412	--	2,568,093
Other assets	--	4,371	15,678	5,567	61,345	249,968	112,779	449,708
Total assets	**1,255,393**	**2,560,599**	**1,454,381**	**3,088,116**	**2,645,395**	**479,672**	**158,990**	**11,642,546**
Liabilities								
Deposits from central banks and credit institutions	108,332	3,220,149	911,810	2,363,687	415,106	58,288	--	7,077,372
Subordinated financing	--	--	--	--	10,585	10,020	--	20,605
Debt certificates including bonds	--	--	--	--	1,555,078	--	--	1,555,078
Deposits from general governments	334,886	--	--	--	--	--	--	334,886
Deposits from other creditors	941,130	572,591	377,521	87,774	11,308	--	--	1,990,324
Other liabilities	5,389	14,654	5,951	--	62,251	253,658	322,378	664,281
Total liabilities	**1,389,737**	**3,807,394**	**1,295,282**	**2,451,461**	**2,054,328**	**321,966**	**322,378**	**11,642,546**
Simple gap	(134,344)	(1,246,795)	159,099	636,655	591,067	157,706	(163,388)	--
Accumulated gap	(134,344)	(1,381,139)	(1,222,040)	(585,385)	5,682	163,388	--	--

- The short-term liquidity ratio analyses the availability of liquid assets in the short term to meet commitments maturing within 30 days.

- The liquidity ratio measures the structural availability of liquid assets as a percentage of callable liabilities.

The Group's financing structure is as follows:

	Thousands of Euros		Thousands of Euros
Loans and advances to other debtors	339,420	Deposits fully covered by the Deposit Guarantee Fund	25,501
Loans to group companies and related parties	4,650,277	Deposits not fully covered by the Deposit Guarantee Fund	86,136
Securitised loans	--	Total deposits from other creditors	111,637
Specific funds		Mortgage bonds	--
Foreclosed assets	--	Public sector bonds	--
Total loans and advances to other debtors and other	4,989,697	State-guaranteed issues	2,461,596
Equity investments	12,489	Subordinated, preference and convertible bonds	20,611
		Other medium and long-term financial instruments	2,782,905
		Securitisations sold to third parties	--
		Other financing with residual maturity exceeding one year	812,096
		Long-term wholesale financing	6,077,208
		Equity	269,321
Stable financing requirements	**5,002,186**	**Stable financing sources**	**6,458,166**

Details of maturities of wholesale debt are as follows:

	Thousands of Euros			
	2011	**2012**	**2013**	**>2013**
Mortgage bonds	--	--	--	--
Public sector bonds	--	--	--	--
Senior debt	--	--	--	--
State-guaranteed issues	--	1,561,000	--	900,000
Subordinated, preference and convertible bonds	10,156	--	10,000	--
Other medium and long-term financial instruments	--	--	--	--
Securitisations sold to third parties	--	--	--	--
Commercial paper	--	--	--	--
Total maturities of wholesale issues	**10,156**	**1,561,000**	**10,000**	**900,000**

Liquid assets and issue capacity available at 31 December 2010 are as follows:

	Thousands of Euros
Liquid assets	
Eligible assets (nominal amount)	2,204,814
Eligible assets (market value and ECB cuts)	2,016,808
Of which: Receivables from central governments	1,128,767
Issue capacity	
Mortgage bonds	65,137
Public sector bonds	--
Available state-guaranteed issues	2,131,000
Total	**2,196,137**

The Bank’s activity in the wholesale markets relates mainly to its role as the banking headquarters for the shareholder rural savings banks. The amounts and maturities of state-guaranteed issues are matched with financing extended to the savings banks by the Entity in its capacity as managing entity of a group comprising the Bank and the shareholder rural savings banks (see note 12).

36.3 Interest rate exposure

To support management of interest rate risk, the Bank’s Assets and Liabilities Committee uses the repricing gap to analyse the overall time difference between maturity and repricing of assets and liabilities. The repricing gap is calculated by grouping assets and liabilities by their carrying amount based on interest rate repricing dates or by maturity considering the outstanding principal. In the case of callable liabilities for which there is no contractual maturity date, the repricing structure is in line with the historical stability of the balances. The maximum period for demand balances with returns under 0.5% is 2.5 years.

The repricing gaps at 31 December 2010 and 2009 are as follows:

	2010						
	Thousands of Euros						
	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Undetermined maturity	Total
Assets							
Cash and balances with central banks	387,498	--	--	--	--	--	387,498
Loans and advances to credit institutions	2,871,366	1,004,232	345,798	2,555,167	10,659	--	6,787,222
Loans and advances to other debtors	120,357	167,513	162,467	6,942	2,720	29,152	489,151
Available-for-sale financial assets	284,335	190,144	824,695	681,706	108,255	--	2,089,135
Other fixed-interest securities	61,974	44,355	81,274	53,508	4,442	--	245,553
Other assets	--	--	--	--	--	377,289	377,289
Total assets	**3,725,530**	**1,406,244**	**1,414,234**	**3,297,323**	**126,076**	**406,441**	**10,375,848**
Liabilities							
Deposits from central banks and credit institutions	3,678,784	1,140,258	580,664	296,904	54,660	--	5,751,270
Subordinated financing	10,576	--	10,000	--	--	--	20,576
Debt certificates including bonds	--	--	--	2,461,596	--	--	2,461,596
Deposits from general governments	302,996	--	64,228	--	--	--	367,224
Deposits from other creditors	822,734	340,148	33,429	11,498	--	--	1,207,809
Other liabilities	--	--	--	--	--	567,373	567,373
Total liabilities	**4,815,090**	**1,480,406**	**688,321**	**2,769,998**	**54,660**	**567,373**	**10,379,149**
Off-balance sheet operations	585,350	95,350	(291,850)	(358,850)	(30,000)	--	--
Simple gap	(504,210)	21,188	434,063	168,475	41,416	(160,932)	--
Accumulated gap	(504,210)	(483,022)	(48,959)	119,516	160,932	--	--

	2009						
	Thousands of Euros						
	Less than 1 month	**1 to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Undetermined maturity**	**Total**
Assets							
Cash and balances with central banks	1,147,070	--	--	--	--	--	1,147,070
Loans and advances to credit institutions	1,247,794	202,626	1,858,312	1,732,581	11,222	--	5,052,534
Loans and advances to other debtors	381,749	107,498	142,761	5,084	328	46,211	683,632
Available-for-sale financial assets	366,387	383,994	370,324	534,551	86,253	--	1,741,509
Other fixed-interest securities	692,882	879,539	897,849	91,411	6,412	--	2,568,093
Other assets	--	--	--	--	--	449,708	449,708
Total assets	**3,835,882**	**1,573,656**	**3,269,247**	**2,363,627**	**104,215**	**495,919**	**11,642,546**
Liabilities							
Deposits from central banks and credit institutions	3,383,869	985,790	2,439,859	238,379	29,475	--	7,077,372
Subordinated financing	--	10,585	10,020	--	--	--	20,605
Debt certificates including bonds	--	--	--	1,555,078	--	--	1,555,078
Deposits from general governments	334,886	--	--	--	--	--	334,886
Deposits from other creditors	1,513,721	377,521	87,774	11,308	--	--	1,990,324
Other liabilities	--	--	--	--	--	664,281	664,281
Total liabilities	**5,232,476**	**1,363,311**	**2,527,633**	**1,804,765**	**29,475**	**684,886**	**11,642,546**
Off-balance sheet operations	678,950	10,500	(352,400)	(337,500)	--	--	--
Simple gap	(717,644)	210,260	379,194	221,812	74,740	(168,362)	--
Accumulated gap	(717,644)	(507,384)	(128,190)	93,622	168,362	--	--

To measure interest rate risk, the risk control unit simulates the financial margin over a 12-month period under different interest rate scenarios, assuming certain historical conditions relating to growth, spreads, repricing periods, stability of receivables on demand, etc. At 31 December 2010 and 2009, the sensitivity of the financial margin to a 100-basis point parallel displacement of the interest rate curve over a 12-month period is as follows:

	2010	**2009**
Sensitivity of the financial margin	5.55%	4.77%

The interest rate risk is also analysed considering the economic value of equity measured as the effect of changes in the interest rate on the net present value of future expected flows from balance sheet items. The sensitivity of the Bank’s economic value to a 100-basis point parallel displacement of the interest rate curve at 31 December 2010 and 2009 is as follows:

	2010	**2009**
Sensitivity of equity	2.70%	3.00%

36.4 Market risk

Market risk is managed through the value at risk methodology (VaR), which limits losses incurred as a result of adverse changes in market prices. Value at risk is calculated on a daily basis for the treasury and capital market area as a whole, irrespective of the nature of the portfolios.

The maximum and average VaR are as follows:

	Thousands of Euros	
	2010	**2009**
Average VaR	1,459	1,460
Maximum VaR	2,039	2,326

Interest rate variations are the Bank's primary risk factor. The distribution by risk factor at 31 December 2010 and 2009 is as follows:

	Distribution	
	2010	**2009**
Interest rate	83.2	76.0
Variable income	16.8	24.0

36.5 Currency risk

Details of the assets and liabilities recognised in the Bank's balance sheet in the most significant currencies at 31 December 2010 and 2009 are as follows:

	Thousands of Euros			
	2010		**2009**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
US Dollar	45,561	51,792	69,214	66,932
Pound Sterling	4,992	4,850	5,628	5,522
Swiss Franc	303	235	475	419
Norwegian Krone	612	587	1,579	1,562
Swedish Krona	18	13	15	12
Canadian Dollar	207	182	176	153
Danish Krone	25	15	23	18
Japanese Yen	1,279	1,289	984	984
Other	386	274	328	245
Total	**53,383**	**59,237**	**78,422**	**75,847**

A breakdown of the main foreign currency balances, based on the nature of the items, is as follows:

	Thousands of Euros			
	2010		2009	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Loans and advances to credit institutions	34,100	--	68,714	--
Loans and advances to other debtors	18,158	--	9,148	--
Other assets	1,125	--	560	--
Total	**53,383**	--	**78,422**	--
Deposits from credit institutions	--	54,718	--	67,757
Deposits from other creditors	--	4,519	--	8,090
Total	--	**59,237**	--	**75,847**

36 .6 Risk concentration

Risk concentration is defined as a risk that could affect the Group's consolidated income statement and its consolidated equity as a result of holding financial instruments of similar characteristics, which could therefore be similarly affected by economic or other types of changes.

The Group has established policies to limit the Group's exposure to certain risks. These policies are defined in coordination with other risk management policies and as part of the Entity's strategic plan. Risk concentration is measured and limits established considering the different risks to which the Group is exposed, taking into account the nature and rating of the different financial instruments of the Group, analysed at different levels (Entity, Group, sector, country, etc.).
The carrying amount of the different financial instruments is used to measure risk concentration.

In addition to information provided in preceding notes to the accompanying annual accounts regarding concentration by foreign currency, type of counterparty and credit rating of financial assets exposed to credit risks (see section 1.3 of this note), details of risk concentration by geographical area at 31 December 2010 and 2009 are as follows:

	2010				
	Thousands of Euros				
	Spain	**Rest of EU**	**United States**	**Rest of world**	**Total**
By type of financial instrument					
Loans and advances to credit institutions	6,732,375	47,340	2,327	1,614	6,783,656
Loans and advances to other debtors	364,480	2,475	--	262	367,217
Debt securities	2,367,885	23,687	5,114	231	2,396,917
Equity instruments	15,378	3,929	942	262	20,511
Trading derivatives	239,994	32,778	--	153	272,925
Total	**9,720,112**	**110,209**	**8,383**	**2,522**	**9,841,226**
By category of financial instrument					
Trading portfolio	488,233	35,402,00	4,112	384	528,131
Available-for-sale financial assets	2,135,024	24,992	1,944	262	2,162,222
Loans and receivables	7,096,855	49,815	2,327	1,876	7,150,873
Total	**9,720,112**	**110,209**	**8,383**	**2,522**	**9,841,226**

	2009				
	Thousands of Euros				
	Spain	**Rest of EU**	**United States**	**Rest of world**	**Total**
By type of financial instrument					
Loans and advances to credit institutions	4,900,293	93,819	5,601	8,950	5,008,663
Loans and advances to other debtors	683,539	2,543	68	405	686,555
Debt securities	4,281,868	23,492	6,246	3,872	4,315,478
Equity instruments	18,043	3,988	446	818	23,295
Trading derivatives	330,815	644	325	5,145	336,929
Total	**10,214,558**	**124,486**	**12,686**	**19,190**	**10,370,920**
By category of financial instrument					
Trading portfolio	2,902,459	3,782	3,455	6,663	2,916,359
Available-for-sale financial assets	1,728,267	24,342	3,562	3,172	1,759,343
Loans and receivables	5,583,832	96,362	5,669	9,355	5,695,218
Total	**10,214,558**	**124,486**	**12,686**	**19,190**	**10,370,920**

38. Reporting Transparency Requirements

Details of the reporting requirements specified by the Bank of Spain in a letter sent to banks through the Spanish banking association on 18 January 2011 are as follows:

- Quantitative information on financing extended for real estate development and construction and on home purchase loans
- Quantitative information on foreclosed assets
- Asset management strategies with respect to this sector
- Information on financing requirements and strategies

This information is provided in note 36.

Appendix I.a.

BANCO COOPERATIVO ESPAÑOL, S.A. - Balance sheets at 31 December 2010 and 2009

(in thousands of Euros)
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

ASSETS	2010	2009
1. CASH AND BALANCES WITH CENTRAL BANKS	387,498	1,147,070
2. FINANCIAL ASSETS HELD FOR TRADING	528,131	2,916,359
2.1. Loans and advances to credit institutions	-	-
2.2. Loans and advances to other debtors	-	-
2.3. Debt securities	245,553	2,568,093
2.4. Equity instruments	9,653	11,337
2.5. Trading derivatives	272,925	336,929
Memorandum item: Loaned or pledged	152,425	658,434
3. OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
3.1. Loans and advances to credit institutions	-	-
3.2. Loans and advances to other debtors	-	-
3.3. Debt securities	-	-
3.4. Equity instruments	-	-
Memorandum item: Loaned or pledged	-	-
4. AVAILABLE-FOR-SALE FINANCIAL ASSETS	2,099,973	1,753,447
4.1. Debt securities	2,089,135	1,741,509
4.2. Equity instruments	10,838	11,938
Memorandum item: Loaned or pledged	1,099,008	329,686
5. LOANS AND RECEIVABLES	7,276,373	5,736,166
5.1. Loans and advances to credit institutions	6,787,222	5,052,534
5.2. Loans and advances to other debtors	489,151	683,632
5.3. Debt securities	-	-
Memorandum item: Loaned or pledged	-	-
6. HELD-TO-MATURITY INVESTMENTS	-	-
Memorandum item: Loaned or pledged	-	-
7. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
8. HEDGING DERIVATIVES	-	-
9. NON-CURRENT ASSETS HELD FOR SALE	-	-
10. EQUITY INVESTMENTS	20,883	20,883
10.1. Associates	9,434	9,434
10.2. Jointly controlled entities	-	-
10.3. Group entities	11,449	11,449
11. INSURANCE CONTRACTS LINKED TO PENSIONS	-	-
13. TANGIBLE ASSETS	1,887	1,959
13.1. Tangible assets	1,887	1,959
13.1.1. For own use	1,887	1,959
13.1.2. Leased out under operating leases	-	-
13.1.3. Assigned to welfare projects (savings banks and credit cooperatives)	-	-
13.2. Investment property	-	-
Memorandum item: Acquired under a finance lease	-	-
14. INTANGIBLE ASSETS	1,823	1,898
14.1. Goodwill	-	-
14.2. Other intangible assets	1,823	1,898
15. TAX ASSETS	12,241	1,666
15.1. Current	253	164
15.2. Deferred	11,988	1,502
16. OTHER ASSETS	47,039	63,098
TOTAL ASSETS	**10,375,848**	**11,642,546**

LIABILITIES AND EQUITY	2010	2009
LIABILITIES		
1. FINANCIAL LIABILITIES HELD FOR TRADING	**418,601**	**372,920**
1.1. Deposits from central banks	-	-
1.2. Deposits from credit institutions	145,091	31,017
1.3. Deposits from other creditors	-	-
1.4. Debt certificates including bonds	-	-
1.5. Trading derivatives	273,510	341,903
1.6. Short positions	-	-
1.7. Other financial liabilities	-	-
2. OTHER FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	-	-
2.1. Deposits from central banks	-	-
2.2. Deposits from credit institutions	-	-
2.3. Deposits from other creditors	-	-
2.4. Debt certificates including bonds	-	-
2.5. Subordinated liabilities	-	-
2.6. Other financial liabilities	-	-
3. FINANCIAL LIABILITIES AT AMORTISED COST	**9,678,686**	**10,991,474**
3.1. Deposits from central banks	1,218,562	1,435,454
3.2. Deposits from credit institutions	4,387,618	5,641,918
3.3. Deposits from other creditors	1,575,032	2,325,210
3.4. Debt certificates including bonds	2,461,596	1,555,078
3.5. Subordinated liabilities	20,611	20,605
3.6. Other financial liabilities	15,267	13,209
4. CHANGES IN THE FAIR VALUE OF HEDGED ITEMS IN PORTFOLIO HEDGES OF INTEREST RATE RISK	-	-
5. HEDGING DERIVATIVES	**10,384**	**6,013**
6. LIABILITIES ASSOCIATED WITH NON-CURRENT ASSETS HELD FOR SALE	-	-
8. PROVISIONS	**858**	**493**
8.1. Provisions for pensions and similar obligations	-	-
8.2. Provisions for taxes and other legal contingencies	-	-
8.3. Provisions for contingent exposures and commitments	858	493
8.4. Other provisions	-	-
9. TAX LIABILITIES	**1,958**	**3,128**
9.1. Current	1,894	1,672
9.2. Deferred	64	1,456
10. WELFARE FUNDS	-	-
11. OTHER LIABILITIES	**17,994**	**15,175**
12. CAPITAL REFUNDABLE ON DEMAND	-	-
TOTAL LIABILITIES	**10,128,481**	**11,389,203**
EQUITY		
1. SHAREHOLDERS' EQUITY	**269,955**	**250,049**
1.1. Share capital or assigned capital	91,009	77,455
1.1.1. Registered	91,009	90,998
1.1.2. Less: Uncalled capital (-)	-	13,543
1.2. Share premium	85,972	85,948
1.3. Reserves	80,640	73,863
1.4. Other equity instruments	-	-
1.4.1. Equity component of compound financial instruments	-	-
1.4.2. Non-voting equity units and associated funds (savings banks only)	-	-
1.4.3. Other equity instruments	-	-
1.5. *Less: Treasury shares*	-	-
1.6. Profit for the year	15,334	15,783
1.7. Less: Dividends and remuneration	(3,000)	(3,000)
2. VALUATION ADJUSTMENTS	**(22,588)**	**3,294**
2.1. Available-for-sale financial assets	(22,588)	3,294
2.2. Cash flow hedges	-	-
2.3. Hedges of net investments in foreign operations	-	-
2.4. Exchange differences	-	-
2.5. Non-current assets held for sale	-	-
2.7. Other valuation adjustments	-	-
TOTAL EQUITY	**247,367**	**253,343**
TOTAL LIABILITIES AND EQUITY	**10,375,848**	**11,642,546**
MEMORANDUM ITEM		
1. CONTINGENT EXPOSURES	**107,796**	**74,494**
2. CONTINGENT COMMITMENTS	**412,343**	**142,826**

Appendix I.b.

Banco Cooperativo Español, S.A.

Income statements for the years ended 31 December 2010 and 2009

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	**2010**	**2009**
1. INTEREST AND SIMILAR INCOME	219,119	192,900
2. INTEREST EXPENSE AND SIMILAR CHARGES	190,045	163,292
3. EQUITY REFUNDABLE ON DEMAND	-	-
A) INTEREST MARGIN	29,074	29,608
4. DIVIDEND INCOME	3,679	4,126
6. FEE AND COMMISSION INCOME	11,378	11,465
7. FEE AND COMMISSION EXPENSE	4,915	5,025
8. GAINS OR LOSSES ON FINANCIAL ASSETS AND FINANCIAL LIABILITIES (NET)	4,536	3,157
8.1. Trading portfolio	2,551	1,309
8.2. Other financial instruments at fair value through profit or loss	-	-
8.3. Financial instruments not carried at fair value through profit or loss	1,985	1,848
8.4. Other	-	-
9. EXCHANGE DIFFERENCES (NET)	103	249
10. OTHER OPERATING INCOME	1,429	1,069
11. OTHER OPERATING EXPENSES	483	127
B) GROSS MARGIN	44,801	44,522
12. ADMINISTRATIVE EXPENSES	19,489	19,150
12.1. Personnel expenses	12,808	12,584
12.2. Other administrative expenses	6,681	6,566
13. DEPRECIATION AND AMORTISATION	1,418	1,341
14. PROVISIONING EXPENSE (NET)	416	(38)
15. IMPAIRMENT LOSSES ON FINANCIAL ASSETS (NET)	3,807	3,741
15.1. Loans and receivables	3,708	3,257
15.2. Other financial instruments not carried at fair value through profit or loss	99	484
C) PROFIT ON OPERATING ACTIVITIES	19,671	20,328
16. IMPAIRMENT LOSSES ON OTHER ASSETS (NET)	-	-
16.1. Goodwill and other intangible assets	-	-
16.2. Other assets	-	-
17. GAINS/(LOSSES) ON DISPOSAL OF ASSETS NOT CLASSIFIED AS NON-CURRENT ASSETS HELD FOR SALE	-	-
18. NEGATIVE DIFFERENCES ON BUSINESS COMBINATIONS	-	-
19. GAINS/(LOSSES) ON NON-CURRENT ASSETS HELD FOR SALE NOT CLASSIFIED AS DISCONTINUED OPERATIONS	-	-
D) PROFIT BEFORE TAX	19,671	20,328
20. INCOME TAX	4,337	4,545
21. MANDATORY TRANSFER TO WELFARE FUNDS	-	-
E) PROFIT FROM CONTINUING OPERATIONS	15,334	15,783
22. PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS (NET)	-	-
F) PROFIT FOR THE YEAR	15,334	15,783

Appendix I.c.

STATEMENT OF RECOGNISED INCOME AND EXPENSE for the years ended 31 December 2010 and 2009

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	**2010**	**2009**
A) PROFIT FOR THE YEAR	15,334	15,783
B) OTHER RECOGNISED INCOME AND EXPENSE	(25,882)	1,255
1. Available-for-sale financial assets	(36,975)	1,795
1.1. Revaluation gains/(losses)	(33,600)	4,802
1.2. Amounts transferred to the income statement	3,375	(3,007)
1.3. Other reclassifications	-	-
2. Cash flow hedges	-	-
2.1. Revaluation gains/(losses)	-	-
2.2. Amounts transferred to the income statement	-	-
2.3. Amounts transferred to the initial carrying amount of hedged items	-	-
2.4. Other reclassifications	-	-
3. Hedges of net investments in foreign operations	-	-
3.1. Revaluation gains/(losses)	-	-
3.2. Amounts transferred to the income statement	-	-
3.3. Other reclassifications	-	-
4. Exchange differences	-	-
4.1. Revaluation gains/(losses)	-	-
4.2. Amounts transferred to the income statement	-	-
4.3. Other reclassifications	-	-
5. Non-current assets held for sale	-	-
5.1. Revaluation gains/(losses)	-	-
5.2. Amounts transferred to the income statement	-	-
5.3. Other reclassifications	-	-
6. Actuarial gains/(losses) on pension plans	-	-
8. Other recognised income and expense	-	-
9. Income tax	11,093	(540)
C) TOTAL RECOGNISED INCOME AND EXPENSE (A+B)	(10,548)	17,038

Appendix I.c.

STATEMENT OF TOTAL CHANGES IN EQUITY for the years ended 31 December 2010 and 2009
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	SHAREHOLDERS' EQUITY								VALUATION ADJUSTMENTS		
			RESERVES								
	Share capital or assigned capital	Share premium	Revaluation reserves	Other reserves /(losses)	Total reserves	Profit for the year	Less: dividends and remuneration	Total shareholders' equity	Available-for-sale financial assets	Other valuation adjustments	TOTAL EQUITY
1. Closing balance at 31 December 2009	77,455	85,948	167	73,696	73,863	15,783	3,000	250,049	3,294	3,294	253,343
1.1 Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-
1.2 Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted opening balance	77,455	85,948	167	73,696	73,863	15,783	3,000	250,049	3,294	3,294	253,343
3. Total recognised income and expense	-	-	-	-	-	15,334	-	15,334	(25,882)	(25,882)	(10,548)
4. Other changes in equity	13,554	24	(2)	6,779	6,777	(15,783)	-	4,572	-	-	4,572
4.1 Increases in share capital/assigned capital	13,554	24	-	-	-	-	-	13,578	-	-	13,578
4.2 Capital decreases	-	-	-	-	-	-	-	-	-	-	-
4.3 Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-
4.4 Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.5 Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.6 Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-
4.7 Distribution of dividends/shareholder remuneration	-	-	-	-	-	9,000	-	9,000	-	-	9,000
4.8 Operations with own equity instruments (net)											
4.9 Transfers between equity items	-	-	-	-	-	-	-	-	-	-	-
4.10 Increases (decreases) due to business combinations	-	-	(2)	6,785	6,783	(6,783)	-	-	-	-	-
4.11 Discretional contributions to welfare funds (savings banks and credit cooperatives only)	-	-	-	-	-	-	-	-	-	-	-
4.12 Equity-settled payments	-	-	-	-	-	-	-	-	-	-	-
4.13 Other equity increases/(decreases)	-	-	-	(6)	(6)	-	-	(6)	-	-	(6)
5. Closing balance at 31 December 2010	91,009	85,972	165	80,475	80,640	15,334	3,000	269,955	(22,588)	(22,588)	247,367

Appendix I.c.

STATEMENT OF TOTAL CHANGES IN EQUITY for the years ended 31 December 2010 and 2009
(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	SHAREHOLDERS' EQUITY								VALUATION ADJUSTMENTS		
			RESERVES								
	Share capital or assigned capital	Share premium	Revaluation reserves	Other reserves/ (losses)	Total reserves	Profit for the year	Less: dividends and remuneration	Total shareholders' equity	Available-for-sale financial assets	Other valuation adjustments	TOTAL EQUITY
1. Closing balance at 31 December 2008	72,938	49,008	168	69,061	69,229	11,204	(3,000)	199,379	2,039	2,039	201,418
1.1 Adjustments due to changes in accounting policy	-	-	-	-	-	-	-	-	-	-	-
1.2 Adjustments made to correct errors	-	-	-	-	-	-	-	-	-	-	-
2. Adjusted opening balance	72,938	49,008	168	69,061	69,229	11,204	(3,000)	199,379	2,039	2,039	201,418
3. Total recognised income and expense	-	-	-	-	-	15,783	-	15,783	1,255	1,255	17,038
4. Other changes in equity	4,517	36,940	(1)	4,635	4,634	(11,204)	-	34,887	-	-	34,887
4.1 Increases in share capital/assigned capital	4,517	36,940	-	-	-	-	-	41,457	-	-	41,457
4.2 Capital decreases	-	-	-	-	-	-	-	-	-	-	-
4.3 Conversion of financial liabilities into equity	-	-	-	-	-	-	-	-	-	-	-
4.4 Increases in other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.5 Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-
4.6 Reclassification of other equity instruments to financial liabilities	-	-	-	-	-	-	-	-	-	-	-
4.7 Distribution of dividends/shareholder remuneration	-	-	-	-	-	(3,000)	(3,000)	(6,000)	-	-	(6,000)
4.8 Operations with own equity instruments (net)											
4.9 Transfers between equity items	-	-	-	-	-	-	-	-	-	-	-
4.10 Increases (decreases) due to business combinations	-	-	(1)	5,205	5,204	(8,204)	3,000	-	-	-	-
4.11 Discretional contributions to welfare funds (savings banks and credit cooperatives only)	-	-	-	-	-	-	-	-	-	-	-
4.12 Equity-settled payments	-	-	-	-	-	-	-	-	-	-	(570)
4.13 Other equity increases/(decreases)	-	-	-	(570)	(570)	-	-	(570)	-	-	-
5. Closing balance at 31 December 2009	77,455	85,948	167	73,696	73,863	15,783	(3,000)	250,049	3,294	3,294	253,343

Appendix I.d.

STATEMENTS OF CASH FLOWS for the years ended
31 December 2010 and 2009

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

(in thousands of Euros)	**2010**	**2009**
A). CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES	(770,934)	372,206
1. Profit for the year	15,334	15,783
2. Adjustments to obtain cash flows from operating activities	9,562	9,627
2.1. Depreciation and amortisation	1,418	1,341
2.2. Other adjustments	8,144	8,286
3. Net increase/ decrease in operating assets	(471,806)	2,800,107
3.1. Financial assets held for trading	(2,388,228)	1,068,927
3.2. Other financial assets at fair value through profit or loss	-	-
3.3. Available-for-sale financial assets	372,408	611,108
3.4. Loans and receivables	1,544,014	1,120,072
3.5. Other operating assets	-	-
4. Net increase/(decrease) in operating liabilities	(1,262,736)	3,146,903
4.1. Financial liabilities held for trading	45,681	143,924
4.2. Other financial liabilities at fair value through profit or loss	-	-
4.3. Financial liabilities at amortised cost	(1,312,788)	2,996,966
4.4. Other operating liabilities	4,371	6,013
5. Income tax received/paid	(4,900)	(5,169)
B) CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES	4,213	(4,567)
6. Payments	1,271	4,567
6.1. Tangible assets	289	555
6.2. Intangible assets	982	1,117
6.3. Equity investments	-	-
6.4. Other business units	-	-
6.5. Non-current assets and associated liabilities held for sale	-	-
6.6. Held-to-maturity investments	-	-
6.7. Other payments relating to investing activities	-	2,895
7. Collections	5,484	-
7.1. Tangible assets	-	-
7.2. Intangible assets	-	-
7.3. Equity investments	-	-
7.4. Other business units	-	-
7.5. Non-current assets and associated liabilities held for sale	-	-
7.6. Held-to-maturity investments	-	-
7.7. Other payments relating to investing activities	5,484	-
C) CASH FLOWS FROM FINANCING ACTIVITIES	7,149	27,963
8. Payments	9,000	13,494
8.1. Dividends	9,000	6,000
8.2. Subordinated liabilities	-	-
8.3. Redemption of own equity instruments	-	-
8.4. Acquisition of own equity instruments	-	-
8.5. Other payments relating to financing activities	-	7,494
9. Collections	16,149	41,457
9.1. Subordinated liabilities	-	-
9.2. Issuance of own equity instruments	13,578	41,457
9.3. Disposal of own equity instruments	-	-
9.4 Other collections relating to financing activities	2,571	-
D) EFFECT OF EXCHANGE RATE FLUCTUATIONS	-	-
E) NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C+D)	(759,572)	395,602
F) CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,147,070	751,468
G) CASH AND CASH EQUIVALENTS AT END OF THE YEAR	387,498	1,147,070
MEMORANDUM ITEM		
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
1.1. Cash	445	438
1.2. Cash equivalents at central banks	387,053	1,146,632
1.3. Other financial assets	-	-
1.4. Less: Bank overdrafts repayable on demand	-	-
Total cash and cash equivalents at end of the year	387,498	1,147,070

This Appendix forms an integral part of Note 1 to the consolidated annual accounts for 2010, in conjunction with which it should be read.

Appendix II

Fully consolidated subsidiaries

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

2010

Company	Registered offices	Activity	% ownership Direct	% ownership Indirect	Thousands of Euros Amount of interest	Capital and reserves	Total assets	Profit	Revenues
Rural Informática, S.A.	Madrid	IT services	99.8	0.2	6,822	11,442	110,765	1,386	1.438
Gescooperativo, S.A., S.G.I.I.C.	Madrid	Collective investment management	--	100	1,893	8,709	11,517	784	2.831
Rural Inmobiliario, S.L.	Madrid	Real-estate holding	100	--	3,486	8,498	46,654	155	702
BCE Formación, S.A.	Madrid	Training services	100	--	60	351	774	311	851
Espiga Capital Gestión, S.G.E.C.R., SA.	Madrid	Venture capital management	80	--	481	784	1,288	279	1.573
Rural Renting, S.A.	Madrid	Financing services	100	--	600	882	4,277	97	222

2009

Company	Registered offices	Activity	% ownership Direct	% ownership Indirect	Thousands of Euros Amount of interest	Capital and reserves	Total assets	Profit	Revenues
Rural Informática, S.A.	Madrid	IT services	99.8	0.2	6,822	11,346	13,642	1,097	1.355
Gescooperativo, S.A., S.G.I.I.C.	Madrid	Collective investment management	--	100	1,893	8,703	11,650	906	3.081
Rural Inmobiliario, S.L.	Madrid	Real-estate holding	100	--	3,486	8,371	15,545	126	672
BCE Formación, S.A.	Madrid	Training services	100	--	60	313	799	339	873
Espiga Capital Gestión, S.G.E.C.R., SA.	Madrid	Venture capital management	80	--	481	778	1,458	365	1.739
Rural Renting, S.A.	Madrid	Financing services	100	--	600	848	5,906	33	177

Appendix II (cont.)

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)
Associates

2010

Company	Registered offices	Activity	% ownership: Direct	% ownership: Indirect	Thousands of Euros: Amount of interest	Capital and reserves	Total assets	Profit	Revenues
Mercavalor, S.V., S.A.	Madrid	Securities company	20.00	--	1,558	9,684	24,226	827	7,327
Espiga Capital Inversión, S.C.R. de R.S., S.A.	Madrid	Venture capital	8.40	0.75	6,824	88,062	88,350	382	1,840
Espiga Capital Inversión II, S.C.R. de R.S. S.A.	Madrid	Venture capital	6.37	--	1,052	5,273	4,604	33	116

2009

Company	Registered offices	Activity	% ownership: Direct	% ownership: Indirect	Thousands of Euros: Amount of interest	Capital and reserves	Total assets	Profit/ (loss)	Revenues
Mercavalor, S.V., S.A.	Madrid	Securities company	20.00	--	1,558	9,147	14,629	537	7,329
Espiga Capital Inversión, S.C.R. de R.S., S.A.	Madrid	Venture capital	8.40	0.75	6,824	101,713	104,093	1,309	3,036
Espiga Capital Inversión II, S.C.R. de R.S. S.A.	Madrid	Venture capital	6.37	--	1,052	5,272	4,591	(686)	103

This Appendix forms an integral part of Note 1.e) to the consolidated annual accounts for 2010, in conjunction with which it should be read.

Appendix III

NAME	COMPANY	ACTIVITY	% OWNERSHIP	POSITION
Mr. José Luis García Palacios	**CAJA RURAL DEL SUR, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
Mr. Wolfgang Kirsch	**DZ BANK**	**Credit institution**	**--**	Chairman of the Board of managing Directors DZ Bank
Mr. José Antonio Alayeto Aguarón	**CAJA RURAL ARAGONESA Y DE LOS PIRINEOS, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
Mr. Ignacio Arrieta del Valle	**CAJA RURAL DE NAVARRA, S.C.C**	**Credit institution**	**Less than 0.1%**	**General Manager**
Mr. Nicanor Bascuñana Sánchez	**CAJA RURAL CENTRAL, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
	OTHER	**Credit institutions**	**Less than 0.1%**	**None**
Mr. Bruno Catalán Sebastián	**CAJA RURAL DE ARAGÓN, S.C.C.**	**Credit institution**	**Less than 0.75%**	**Chairman**
	OTHER	**Credit institutions**	**Less than 0.1%**	**None**
Mr. Eduardo Ferrer Perales	**RURALCAJA**	**Credit institution**	**Less than 0.1%**	**Chairman**
Mr. Luis Esteban Chalmovsky	**DZ BANK**	**Credit institution**	**--**	Managing director. Head of cooperative banking division
Mr. Román Suárez Blanco	**CAJA RURAL DE ASTURIAS, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
Mr. Carlos de la Sierra Torrijos	**CAJA RURAL DE CUENCA, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
Mr. Luis Díaz Zarco	**CAJA RURAL DE CIUDAD REAL, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
Mr. José Luis García-Lomas Hernández	**CAJA RURAL DE JAÉN, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
Mr. Andrés Gómez Mora	**CAJA RURAL DE TOLEDO, S.C.C.**	**Credit institution**	**Less than 0.55%**	**Chairman**
Mr. Carlos Martínez Izquierdo	**CAJA RURAL DE SORIA, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
Mr. Dimas Rodríguez Rute	**CAJA RURAL DE GRANADA, S.C.C.**	**Credit institution**	**Less than 0.1%**	**General Manager**
Mr. Juan Antonio Gisbert García	**RURALCAJA**	**Credit institution**	**Less than 0.1%**	**General Manager**
	OTHER	**Credit institutions**	**Less than 0.1%**	**None**
Mr. Cipriano García Rodríguez	**CAJA RURAL DE ZAMORA, C.C.**	**Credit institution**	**Less than 0.1%**	**General Manager**
	OTHER	**Credit institutions**	**Less than 0.1%**	**None**
Mr. Pedro García Romera	**CAJA RURAL DE BURGOS, S.C.C.**	**Credit institution**	**Less than 0.1%**	**Chairman**
	OTHER	**Credit institutions**	**Less than 0.1%**	**None**
Mr. Antonio Abelló Dalmases	**CAJA RURAL DE CASTELLÓN, S.C.C.V.**	**Credit institution**	**Less than 0.1%**	**General Manager**
Mr. Fernando Palacios González	**CAJA RURAL DE ALMENDRALEJO, S.C.C.**	**Credit institution**	**Less than 1%**	**General Manager**

This Appendix forms an integral part of Note 4 to the consolidated annual accounts for 2010, in conjunction with which it should be read.

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Directors' Report

This directors' report summarises the activity carried out by the Banco Cooperativo Español, S.A. Group from 1 January to 31 December 2010, the Bank's twentieth year since its incorporation in July 1990.

Economic environment

According to the International Monetary Fund (IMF), a two-tier economic recovery is in progress. On the one hand, although activity in the developed economies has slowed less than expected, growth remains sluggish, unemployment is still high, and renewed tensions in the eurozone periphery are playing their part in creating downside risks. On the other, activity in many emerging economies is still robust, inflationary pressures are beginning to build up, and there are signs that their economies are heating up, partly as a result of high capital influxes.

According to the IMF's economic projections, global GDP will grow by 4.5% in 2011. This is a reflection of unusually vigorous activity in the second half of 2010 and a new US stimulus package that will help fuel activity this year. But downside threats to a recovery are still high. The most pressing needs to achieve a robust recovery are comprehensive, rapid measures to resolve sovereign debt and financial problems in the euro area, and policies to correct fiscal imbalances, and generally to restructure and reform the financial systems of the developed economies. This must be accompanied by policies that will dampen upside pressures and make it easier for emerging economies to achieve a balance in their foreign sectors.

In the third quarter of 2010, global economic activity grew at an annualised rate that barely exceeded 3.5%. After 5% growth in the second quarter of 2010, a slowdown had been expected, but the third-quarter pace was better than forecast thanks to stronger consumer demand in the US and Japan. Stimulus measures contributed in part to this performance, especially in Japan. More generally, there are growing signs that private consumption—which declined drastically during the crisis—is beginning to pick up in the larger developed economies.

Growth remained brisk in the emerging and developing economies in the third quarter of the year, held up by solidly anchored private demand, expansive policies and a renewed influx of capital.

In the second half of 2010, conditions generally improved on the global financial front, within a context of persistent weakness. Equity markets rallied, risk premium spreads continued to drop, and banking sector credit eased in the larger developed economies, even credit to SMEs. Nevertheless, certain parts of the economy continued to look vulnerable; the real estate markets and household income indicators of some large developed countries (e.g. the US) remained sluggish. Furthermore, in a repeat of last May's events, financial turmoil broke out on the periphery of the eurozone in the last quarter of 2010.

During the latest outbreak, the markets were more selective: aversion to risk did not increase, share markets in most regions posted significant gains, and financial tensions were limited largely to the eurozone periphery.

Economic activity in developed economies is expected to grow 2.5% in 2011–12, a rather feeble pace if we consider the severity of the recession in 2009. Nor is it sufficient to make a significant impact on high unemployment rates.
In both 2011 and 2012, growth of emerging and developing economies will maintain a robust 6.5% pace, only slightly below last year's 7% growth rate. The developing Asian economies continue to grow at breakneck speed, but other emerging regions will also continue to post brisk recoveries. Growth in sub-Saharan Africa, which is forecast to reach 5.50% in 2011 and 5.75% in 2012, will top that of all other regions, with the exception of the developing Asian countries.

This reflects continued high internal demand in many of the economies in the region, as well as growing global demand for commodities. Financial conditions this year are generally expected to remain stable or show an improvement. The projections suggest that bank credit will ease in the larger developed economies, and that non-financial companies will step up the pace of their debt issues. Given the generally weak recovery and consistently high savings rates in the large Asian emerging markets, real yields are likely to remain low throughout 2011.

On the other hand, financial tensions are expected to persist in the euro area periphery, where market players are still concerned about sovereign and banking risks, the political viability of austerity measures, and the absence of a holistic solution. Sovereign risk spreads on the European periphery and bank finance costs are thus likely to remain high in the first half of the year, and financial turbulence may flare up. Taking a base scenario in which turbulence in the euro periphery remains contained, capital should continue to flow to the emerging markets at its current rate, and financial conditions should remain stable. Bond issues by sovereign entities and companies in the emerging markets will continue to be robust in 2011. Low interest rates in mature markets and a rather strong appetite for investments will continue to present upside risks to emerging market flows and asset values, despite a slight slowdown in the rate at which capital has been flowing in lately.

In 2010, both oil and other commodity prices rose significantly due to strong global demand and to supply-side shocks in specific products. Upside pressure on prices is expected to continue in 2011 due to persistent high demand and a feeble reaction by suppliers in the face of much harsher market conditions.

Based on these projections, consumer prices in these economies will grow by 6% this year. Some countries will also show signs of overheating, such as rapid growth of credit or rising asset prices. The outlook is quite a different one for the advanced economies, where unutilised capacity is high and where expectations of inflation are firmly entrenched, which will help to keep it at moderate levels. This year, it is expected to remain in the region of 1.5%, the same as in 2010.

Downside risks include the possibility of tensions on the periphery of the eurozone extending to the core countries, the failure of the larger developed countries to draw up medium-term fiscal consolidation packages, persistent weakness in the US real estate market, high commodities prices, overheating, and a vicious circle of boom-bust cycles in the emerging markets.

Upside risks include unexpectedly high growth of corporate investment in the large developed economies. The risk that financial turbulence might spread from the European periphery to its core is due to persistent weakness of the financial institutions of many of the region's more advanced economies, and to a lack of transparency regarding exposure. Consequently, financial institutions and sovereign entities are closely linked, and contagion between the two sectors moves in both directions.

An additional source of downside risk is insufficient progress in drawing up plans for fiscal consolidation in the medium term. The stimulus packages recently implemented in the US and Japan render fiscal sustainability more difficult. Consequently, it is all the more important to draw up credible plans to reduce debt over the medium term. On the other hand, corporate investment could recover more rapidly than expected in key developed countries on the back of high corporate earnings.

In the emerging economies, the greatest risks include overheating, surges in inflationary pressures and the possibility of a hard landing. In the short term, upside risks to growth have increased, fuelled by easing of monetary policy, sharp rises in the terms of exchange for commodities exporters and a renewed flood of capital.

Because emerging markets now account for almost 40% of global demand and for over two thirds of the world's economic growth, a slowdown in these economies would deal a harsh blow to the global recovery and delay the necessary restoration of economic balance. Despite evidence of short-term decoupling between Europe's periphery and its core, between financial tensions and the real economy, and between the developed economies and the emerging countries, the global economy continues to be tightly interwoven.

If global growth is to be strengthened and sustained in the years to come, it will necessitate a multitude of measures in different countries to reduce local points of vulnerability and redress the growth balance.

In the advanced economies, the most pressing concerns are to ease financial tensions in the euro area, push forward the consolidation and reform of the financial system, and achieve the necessary medium-term fiscal consolidation.

Meanwhile, developed economies must continue to implement a flexible monetary approach. So long as expectations of inflation remain ingrained and unemployment remains high, that is the correct policy to undertake from an internal perspective. However, from an external one, there are fears that quantitative measures in the US will lead to a mass exodus of capital to the emerging markets. The recent slowdown in capital flows to emerging nations leads us to believe that these effects may for now be limited.

On the contrary, the emerging economies should draw up or continue to implement restrictive monetary policies if signs of overheating begin to surface.

Strategic Plan 2007-2010

At its session held on 18 May 2007, the board of directors approved the Strategic Plan for the 2007-2010 period.

As a basic principle, the Plan established that *"for the 2007-2010 period the Banco Cooperativo, head of banking services for rural savings banks, aims to achieve sustained and profitable growth with the basic objectives of rendering quality services to its shareholder savings banks, strengthening its business and focusing its own activity on the wholesale and corporate banking areas."*

The Plan has ten principles and is based on three pillars:

- Improving service quality
- Reducing costs and increasing business with shareholder savings banks
- Increasing business in the wholesale areas

When the 2007-2010 Strategic Plan was completed in 2010, all quantitative and qualitative objectives had been met.

Business performance in 2010

a) Balance sheet

- Total assets dropped by 10.8% to Euros 10,399,504 thousand.

- At 31 December 2010 loans and advances to other debtors stood at Euros 357,676 thousand, down 47.4% compared to 31 December 2009. Excluding resale agreements, growth totalled 2.9%.

- Deposits from other creditors fell 32.2% to Euros 1,571,481 thousand.

- Deposits from credit institutions and central banks fell 19.1% to Euros 5,752,133 thousand.

- Debt securities including bonds rose by 58.3% to Euros 2,461,596 thousand, due to the issue carried out in 2010.

- Shareholders’ equity rose by 8.0% to Euros 291,576 thousand

b) Income statement

- The interest margin was Euros 29,873 thousand, which is very similar to 2009.

- The gross margin increased by 1.9% to Euros 49,307 thousand due to the performance of the various components of this margin: interest (as mentioned previously), net fees and commissions (down 3.2%), gains on financial assets and financial liabilities and exchange differences (up 36.2% in 2010) and the share of profit of entities accounted for using the equity method (Euros 458 thousand in 2010, compared to a negative Euros 13 thousand in 2009). Other operating income (net) rose by 2.4%.

- Administrative and personnel expenses showed moderate growth of 1.5%, with amortisation and depreciation standing at Euros 1,733 thousand. The sum of provisions and impairment losses on assets increased to Euros 4,204 thousand (up 12.2%). Consequently, profit on operating activities stood at Euros 20,106 thousand, similar to 2009 (up by 0.3%).

- Profit attributed to the Group amounted to Euros 14,850 thousand, 2.1% higher than in 2009.

Risk management

The primary goal of the Group's risk management is to define the action plans necessary to maximise the Bank's performance by taking on optimum levels of risk and ensuring consistency with established objectives and strategies.

Credit risk

Credit risk is the risk of one party to a contract that meets the definition of a financial instrument ceasing to comply with its obligations, resulting in a financial loss for the other party.

Credit risk therefore represents the risk of loss assumed by the Bank in the event that a customer or any counterparty fails to comply with its contractual payment obligations. This risk is inherent in traditional products of banking entities (loans, credit facilities, financial guarantees extended, etc.), as well as in other types of financial assets (fixed-income securities of the Group, derivatives, etc.).

Credit risk affects financial assets carried at amortised cost and assets recognised at fair value in the consolidated financial statements. The Bank applies the same credit risk control policies and procedures to these financial assets irrespective of the recognition criteria used.

The Bank's credit risk control policies and objectives have been approved by the board of directors. The Risk Committee, together with the Assets and Liabilities Committee, is in charge of implementing the Bank's risk policies that enable compliance with the objectives set by the board. The risk control unit (under the General Audit and Risks Department and, therefore, independent of the business units in charge of implementing policies defined by the Entity) is responsible for establishing the control procedures required to continuously monitor the levels of risk assumed by the Entity as well as strict compliance with the objectives set by the Bank with respect to credit risks. Together with the Internal Audit Department (under the Internal Audit Committee), the risk control unit also monitors compliance with the Bank's risk control policies, methods and procedures, ensuring that these are sufficient, implemented effectively and reviewed regularly, and providing the information required by higher-level governing bodies to implement the necessary corrective measures, where applicable.

The control unit monitors, on an ongoing basis, risk concentration levels, the default rate and the different warning systems in place that enable it to keep an eye on credit risk trends at all times. Any deviations from the forecast performance of any of these parameters are analysed to determine the causes. Once the causes of these deviations are known, they are analysed by the control unit which submits the corresponding reports to the Bank's management bodies so that the necessary corrective measures may be taken; for example, defining or correcting established control mechanisms which may not have functioned satisfactorily, or amending policies and limits agreed by the Bank. In particular, a more exhaustive analysis will be performed of operations which, for different reasons, have resulted in payment delays or defaults, to determine the effectiveness of the hedges contracted by the entity, in order to take any necessary measures to improve the Bank's acceptance policies and credit risk analysis mechanisms.

<u>Market risk</u>

Market risk management is carried out on a two-tier basis:

a) Positions derived from trading activity, which includes portfolios held to benefit from gains on short-term price variations

b) Balance sheet positions, namely financial instruments and portfolios which are generally used to manage the overall risk structure, as well as structural fixed-income positions which are accrued in the margin

The basic functions of the risk analysis and control unit include measuring, controlling and monitoring market risks, evaluating exposure and adapting that exposure to the limits assigned, as well as contrasting, implementing and maintaining tools.

The market risk limit structure is based on the value at risk (VaR) calculation, stop-loss limits, comparative tests and stress-testing and limits on the size of positions.

Management of this risk is geared towards limiting losses on positions stemming from adverse changes in market prices. Potential losses are estimated using a value at risk model, which is the main control and measuring tool employed in trading operations.

VaR is calculated using the parametric model, with a 99% confidence level for a time period of one day. Value at risk is obtained using historical or Monte Carlo simulation for those portfolios or unusual products with special characteristics for which the covariations model cannot be used.

VaR is calculated centrally on a daily basis for the treasury and capital market activity as a whole, irrespective of the nature of the portfolios.

The objectives of this risk valuation methodology are:

- To establish a benchmark for defining the structure of limits

- To provide the Group with a unique and standard multi-level measure of market risk, and to provide the regulator with a global measure of market risk assumed by the Entity.

In addition to monitoring market risk, the risk control tools are also complemented by warning systems called stop-loss orders. The reason behind establishing warning systems is to limit maximum trading strategy losses to the desired level by automatically closing positions where allowable losses have been exceeded.

The measurement and control of market risk are complemented by contrast tests which involve comparing the theoretical generation of daily profits and losses under the assumption that positions had remained unchanged, i.e. in the absence of daily trading and using the estimates created by the risk model. Back-testing is used to determine whether the number of times losses exceed estimated VaR is consistent with the expected results according to the 99% confidence level applied in the model. The application of this technique shows that risk measurements fall within generally accepted validation standards.

To further supplement market risk measurement and control, stress estimates are performed in order to quantify the maximum decline in value of a portfolio when faced with extreme risk factor movements. Stress-testing analysis includes the application of historical financial market crisis scenarios as well as extreme values of market variables.

The market risk limit structure is completed with specific limits to the size of positions on certain operations individually approved, analysed and monitored by the Bank’s Assets and Liabilities Committee.

Interest rate risk

Interest rate risk on the overall balance sheet is measured using the gap calculation and the sensitivity of the financial margin and net worth to interest rate fluctuations.

- The interest rate gap is based on analyses of variations in the maturities or repricing profile of different bundles of assets and liabilities over various time intervals.

- Financial margin sensitivity is estimated by projecting the financial margin to twelve months using the expected interest rate scenario and certain behaviour of the balance sheet bundles.

- Net worth sensitivity provides an overview of the long-term interest rate risk assumed by the Entity. Through the concept of duration, the effect of interest rate fluctuations on the economic value of the Entity can be approximated.

To manage interest rate risk, the Assets and Liabilities Committee analyses the overall time difference between maturity and repricing of assets and liabilities. In the case of liabilities with no contractual maturity date, assumptions based on the historical stability of these balances are used.

Each month the financial margin over a 12-month period is simulated under certain scenarios, such as growth of each balance sheet item, spread renewal assumptions, repricing periods for each type of operation, as well as different interest rate scenarios.

Interest rate risk is also analysed considering the economic value, measured as the effect of changes in the interest rate on the present value of equity, discounting expected future flows.

Counterparty risk

Control of counterparty risk is carried out in real time using an integrated system which allows the line of credit available with any counterparty, in any product and period and for each market area, to be known at any given time.

Lines of credit are approved following established authorisation procedures, as are any instances when credit limits are surpassed.

Counterparty risk is measured using the present value of each position plus the estimated increase in market value until maturity. Future variations in market prices are based on a hypothetical worst-case scenario considering the term of the operation and the risk factors to which the operation is exposed.

With respect to counterparty risk of derivative positions, credit risk is offset on positions where the counterparty is a financial entity that is party to the financial operations framework agreement, which allows parties to offset positions with negative market values against positions with positive market values in the same entity. At 31 December 2010 offset agreements have been implemented with 62 entities (85 in 2009).

The risk analysis unit continuously monitors the level of credit risk concentration by country, sector or counterparty. The Bank's Assets and Liabilities Committee reviews the appropriate exposure limits in order to adequately manage the level of credit risk concentration.

Liquidity risk

The Assets and Liabilities Committee monitors the maturity of assets and liabilities and, in light of their nature, maintains high levels of liquidity.

The methods used for controlling liquidity are the liquidity gap and liquidity ratios. The committee regularly carries out supplementary stress testing to determine the liquidity structure the Entity would maintain when exposed to scenarios that are likely to cause liquidity crises.

The liquidity gap provides information on cash inflows and outflows in order to detect timing differences between collections and payments. Behavioural criteria and assumptions have been established for unknown contractual maturities.

Two parameters have also been set for controlling liquidity risk:

- The short-term liquidity ratio. Control of this ratio ensures that there is no excessive short-term leveraging, and the analysis covers a 30-day period.

- The liquidity ratio measures the relationship between assets and liabilities and total callable liabilities.

Treasury shares

No transactions were carried out with treasury shares in 2010.

Research and development

The Group has continued to develop technological applications to save costs, increase the quality of the services rendered to our customers and prepare ourselves to face new requirements to update technological and functional areas. The main work carried out has allowed the Group to continue with its policy to make the most of resources, leading to improved efficiency and the streamlining of processes.

Forecast

In 2011, the Bank will design and launch new areas of business, allowing it to enhance its market presence and that of the shareholder rural savings banks, reinforce the control of different activities and improve the quality of services rendered.

Information required by article 116 bis of the Securities Market Law

a) Capital structure, including securities not traded on a European Community regulated market, indicating, where applicable, the various share classes and, for each class, the rights and obligations conferred and the percentage of share capital represented.

At 31 December 2010 the share capital of the Bank is represented by 1,514,297 registered shares of Euros 60.10 par value each, subscribed and fully paid up and with the same rights and obligations. No minimum number of shares is required to attend and vote at the annual general meetings. The shareholder structure comprises 72 Spanish credit cooperatives and a German bank.

b) Restrictions on the transfer of securities;

In the event that all or part of a shareholder's shares are sold or disposed of, a preferential right will be extended, and the following criteria and restrictions will apply:
When the shareholder in question is an entity legally incorporated in Spain as a rural savings bank or credit cooperative, a special first preferential acquisition right is extended to the remaining shareholders which, when the procedure foreseen in this article commences, also meet the requirements to be considered a rural savings bank or credit cooperative. If none of the other rural savings banks or credit cooperatives exercise their preferential acquisition right or, having exercised some of these rights, there are surplus shares, these will be subject to a second preferential acquisition right for the remaining company shareholders and, finally, for the company itself.

The regulations for the exercise of preferential rights are explained in article 8 of the Bank's articles of association.

c) Significant direct and indirect equity investments;

Details of the Entity's most significant shareholders at the 2010 year end are as follows:

Tax ID number	Shareholder name	% ownership
	DZ Bank	12.022
F-31021611	Caja Rural de Navarra	8.973
F-91119065	Caja Rural del Sur	8.807
F-18009274	Caja Rural de Granada	8.596
F-46028064	Caja Rural del Mediterráneo, Ruralcaja	6.325

d) Details of restrictions on voting rights

There are no restrictions on voting rights.

e) Shareholder agreements

There are no shareholder agreements.

f) Regulations concerning the appointment and replacement of board members and amendments to the company's articles of association.

Board members hold their positions for a period of four years, and may be re-elected indefinitely. Any board member whose appointment is related to a position held in a shareholder company (if this position has had a determining role in his appointment) should relinquish his place on the board of directors upon request from any shareholder when the aforementioned relationship ceases to exist.

When electing and re-electing board members, the holders of shares that are voluntarily pooled in accordance with article 243 of the revised Spanish Companies Act (formerly article 137 of the Spanish Companies Act), and which represent share capital equal to or in excess of that obtained by dividing total share capital by the number of members of the board of directors, will be entitled to appoint members who, exceeding whole fractions, are deducted from the corresponding proportion. Shares grouped together in this manner will have no impact on the votes of the remaining board members.

At their ordinary or extraordinary general meeting, shareholders may validly agree to any amendment to the articles of association, provided that at the first session shareholders holding at least 50% of subscribed share capital with voting rights are present or represented. At the second call, representation of only twenty-five percent of the aforementioned capital is required.

When shareholders representing less than 50% of subscribed share capital with voting rights are present or represented, the agreements mentioned in the preceding section may only be validly adopted with the favourable vote of two-thirds of the share capital with voting rights present or represented at the general meeting.

g) Powers of the board members, in particular those concerning the issue or redemption of shares

The board members have no such powers.

h) Significant company agreements that come into force or are altered or terminated in the event of a change in control of the company as a result of a public share offering, and details of the related impact, unless the disclosure of such information is seriously damaging for the company. This exception does not apply when the company is legally obliged to make this information public.

No significant agreements exist.

i) Agreements between the company and its directors, management or employees involving compensation for improper dismissal or when the employment relationship is terminated due to a public share offering.

The legal and conventional effects that may be derived from the termination of the service relationship that links Bank personnel with the entity are not standard, but logically vary depending on the personnel in question, the role or position held by the employee, the type of contract entered into with the entity, the regulations governing the working relationship and a number of other factors. However, the following general scenarios can be distinguished:

Employees: in the case of employees linked to the Bank through a common working relationship (practically all entity personnel), in general terms the employment contracts linking these employees to the entity do not contain any indemnity clause for termination of the working relationship. Consequently, employees will be entitled to the termination benefit stipulated by employment legislation for the particular cause for termination of the contract.

There are certain cases of employees with a common labour relationship whose employment contract recognises the right to severance pay in the event of termination of employment for certain specific causes, usually only for improper dismissal. The amount of the severance pay is normally based on the employee's gross annual fixed salary at the date of termination of the contract.

Senior management: in the case of personnel linked to the Bank via a special senior management employment relationship (special senior management contracts governed by Royal Decree 1382/1995), the right to severance pay upon termination of employment for certain specific reasons is recognised. The amount of the severance pay for senior management is based on professional circumstances and the relevance and responsibility of the position held within the entity.

APPENDIX II

OTHER ENTITIES THAT ISSUE SECURITIES ADMITTED TO TRADING ON OFFICIAL SECONDARY MARKETS, OTHER THAN SAVINGS BANKS

ISSUER IDENTIFICATION DATA	YEAR	**2010**

Tax id number: **A–79.496.055**

Company:

BANCO COOPERATIVO ESPAÑOL, S.A.

Registered offices:

C/ Virgen de los Peligros 4
28013 Madrid

This corporate governance report has been prepared in accordance with article 116 of Securities Market Law 24/1988 of 28 July 1988, Spanish Ministry of Economy Order ECO/3772/2003 of 26 December 2003 and Spanish National Securities Market Commission Circular 1/2004 of 17 March 2004. The content and structure of this document fully comply with the model included in Appendix II of aforementioned Circular 1/2004.

A OWNERSHIP STRUCTURE

A.1 Provide details of the entity's most significant shareholders at year end:

Tax ID number	Name	% of share capital held
	DZ Bank	12.022
F-31021611	Caja Rural de Navarra	8.973
F-91119065	Caja Rural del Sur	8.807
F-18009274	Caja Rural de Granada	8.596
F-46028064	Caja Rural del Mediterráneo, Ruralcaja	6.325

A.2. Indicate, where applicable, relationships of a family, business, contractual or corporate nature between the significant shareholders (if known by the entity), unless they are irrelevant or derived from ordinary business activity:

Tax ID number	Name	Type of relationship	Brief description

A.3. Indicate, where applicable, relationships of a business, contractual or corporate nature between the significant shareholders and the entity, unless they are irrelevant or derived from ordinary business activity.

Tax ID number	Name	Type of relationship	Brief description

B ADMINISTRATIVE STRUCTURE OF THE ENTITY

B.1. <u>Board of directors or governing body</u>

B.1.1. Provide details of the maximum and minimum number of members of the board of directors or governing body according to the articles of association:

Maximum board/governing body members	20
Minimum board/governing body members	10

B.1.2. Complete the following table on the members of the board of directors or governing body, and their positions:

MEMBERS OF THE BOARD OF DIRECTORS/GOVERNING BODY

At 31 December 2010 there are 20 appointed board members.

Member tax ID number	Name of the board/governing body member		Date of latest appointment	Position
29.255.590-G	Mr. José Luis García Palacios		27/05/2009	Ordinary member
11.221.708-P	Mr. Román Suárez Blanco		27/05/2009	Ordinary member
X-9.139.954-F	Mr. Wolfgang Kirsch		27/05/2009	Proprietary member
03.714.588-L	Mr. José Luis García-Lomas Hernández		27/05/2009	Ordinary member
72.868.002-T	Mr. Carlos Martínez Izquierdo		27/05/2009	Ordinary member
04.492.942-F	Mr. Carlos de la Sierra Torrijos		27/05/2009	Ordinary member
21870038-M	Mr. Nicanor Bascuñana Sánchez		27/05/2009	Ordinary member
17.418.568-R	Mr. Bruno Catalán Sebastián		27/05/2009	Ordinary member
16.221.514-M	Mr. Ignacio Arrieta del Valle		27/05/2009	Ordinary member
03.698.055-T	Mr. Andrés Gómez Mora		27/05/2009	Proprietary member
70.711.411-G	Mr. Luis Díaz Zarco		27/05/2009	Proprietary member
	Mr. Luis Esteban Chalmovsky		27/05/2009	Proprietary member
9.167.990 Y	Mr. Fernando Palacios González		27/05/2009	Proprietary member
18.892.466-J	Mr. Antonio Abelló Dalmases		27/05/2009	Proprietary member
73.067.461-A	Mr. José Antonio Alayeto Aguarón		27/05/2009	Ordinary member
20.702.997-F	Mr. Eduardo Ferrer Perales		27/05/2009	Ordinary member
16.761.254-G	Mr. Pedro García Romera		27/05/2009	Ordinary member
24.216.235-H	Mr. Dimas Rodríguez Rute		27/05/2009	Ordinary member
21.377.445-A	Mr. Juan Antonio Gisbert García		27/05/2009	Ordinary member
11.716.359-K	Mr. Cipriano García Rodríguez		27/05/2009	Ordinary member

B.1.3. Identify, where applicable, the members of the board of directors or governing body who also hold director or managerial positions in other group entities:

Member tax ID number	Name of the board/governing body member	Name of the group entity	Tax ID of the group entity	Position

B.1.4. Complete the following table detailing aggregate remuneration accrued by the members of the board of directors/governing body during the year:

Remuneration	**Thousands of Euros**	
	Individual	**Group**
Fixed remuneration	-	
Variable remuneration	-	
Allowances	199	
Other remuneration	-	
TOTAL	199	

B.1.5. Identify any members of senior management who are not executive members of the board of directors or governing body, and include details of total remuneration accrued during the year:

For the purposes of preparing this report, senior management is deemed to comprise the 11 members of the Bank's steering committee, considered to be key management personnel within the Group.

Tax ID number	Name	Position
5.227.458-H	Mr. Javier Petit Asumendi	General manager
50.300.773-A	Mr. Ignacio Benlloch Fernández Cuesta	Corporate banking director
10.595.270-K	Mr. José Gómez Díaz	Private banking director
11.727.816-R	Mr. Ignacio de Castro Sánchez	Risk director and financial controller
51.622.948-T	Mr. Joaquín Carrillo Sánchez	Organisation director
2.699.646-K	Mr. Javier Moreno Rumbao	Studies director
682.268-L	Mr. Juan Luis Coghen Alberdingk-Thijm	Commercial director
1.806.275-Q	Mr. Francisco de Pablos Gómez	Treasury director
7.512.778-N	Ms. Ana San José Martín	HR director
44.352.963-Q	Mr. Antonio Mudarra Esquina	International area director
36.066.124-P	Mr. Ramón Carballás Varela	Legal advisory director

Total senior management remuneration (thousands of Euros)	2,063

B.1.6. Indicate whether the articles of association or regulations governing the board specify a limit to the term of service for members of the board of directors or governing body:

YES ☐ NO X

Maximum term (in years)	

B.1.7. Indicate whether the individual or consolidated annual accounts presented for approval by the board of directors or governing body have been previously certified.

YES ☐ NO X

Indicate, where applicable, the person(s) who certified the entity's individual and consolidated annual accounts for authorisation by the board of directors or governing body:

Tax ID number	Name	Position

B.1.8. Explain, where applicable, the mechanisms established by the board of directors or governing body to ensure that the individual and consolidated annual accounts authorised by the former are presented to the shareholders (or equivalent body) at their general meeting with an unqualified auditors' opinion.

The code of good governance stipulates that the board of directors will endeavour to prepare the annual accounts in such a way as to ensure that an unqualified auditors' opinion is issued. Nevertheless, when the board considers that it must uphold its criteria, it will publicly explain the content and scope of the discrepancy.

The following mechanisms are in place:

1. The Bank's internal services are to prepare the annual accounts in a clear manner, presenting fairly the company's equity, financial position and results, and correctly applying all the accounting principles applicable to banks to the financial and accounting information therein.
2. The code of good governance of the board of directors stipulates that an audit committee must be created, with responsibilities including the following:
   - To propose the appointment of the auditor, the contracting conditions, the scope of the professional mandate and, where applicable, their revocation or non-renovation;
   - To review the Bank's accounts, and monitor compliance with legal requirements and the correct application of generally accepted accounting principles;
   - To serve as a communication channel between the board of directors and the auditors, evaluating the results of each audit and management team responses to the auditors' recommendations, and mediating in the event of discrepancies with regard to the accounting principles and criteria applied in the preparation of the financial statements.
3. Supervision of compliance with the audit contract, ensuring that the opinion on the annual accounts and the key content of the audit report are prepared in a clear and precise manner.

The committee may obtain any information or documentation deemed necessary to carry out its functions, as well as involving the auditors, advisors or any other independent or Bank professionals.

Since its incorporation the Bank has never been subject to a qualified audit opinion.

B.1.9. Is the secretary of the board of directors or governing body also a member of the board?

YE☐ NO X

B.1.10. Specify any mechanisms in place to preserve the independence of the auditor, financial analysts, investment banks and ratings agencies.

The functions entrusted to the audit committee include monitoring the independence of the auditors of the Bank's accounts and compliance with contracting conditions.

The board of directors’ code of good governance stipulates that the board and the audit committee must supervise situations that may give rise to independence risks concerning external auditors, and that the board of directors should refrain from contracting audit firms whose total fees exceed 5% of their total income for the prior year.

The audit committee must also review financial, economic and management information on the Bank issued to third parties (Bank of Spain, the Spanish National Securities Market Commission, shareholders, investors, etc.), as well as any memo or report received from the aforementioned third parties.

The committee regulations stipulate that its members must apply criteria and actions that are independent from the rest of the organisation, perform their work with the maximum diligence and professional competency, and maintain strict confidentiality.

B.2. Committees of the board of directors or governing body

B.2.1. List the governing bodies

Name of the body	No. of members	Functions
Audit Committee	4	See point B.2.3.

B.2.2. Provide details of the committees of the board of directors or governing body, and the members thereof

EXECUTIVE OR DELEGATE COMMITTEE

Tax ID number	Name	Position

AUDIT COMMITTEE

Tax ID number	Name	Position
29.255.590-G	Mr. José Luis García Palacios	Chairman
11.221.708-P	Mr. Román Suárez Blanco	Member
	Mr. Luis Esteban Chalmovsky	Member
21.377.445-A	Mr. Juan Antonio Gisbert García	Member

APPOINTMENTS AND REMUNERATION COMMITTEE

Tax ID number	Name	Position

STRATEGY AND INVESTMENT COMMITTEE

Tax ID number	Name	Position

______________ COMMITTEE

Tax ID number	Name	Position

B.2.3. Describe the regulations concerning organisation and functions, as well as the responsibilities allocated to each of the committees of the board of directors or governing body. Where applicable, the powers of the managing director should also be described.

The audit committee is an internal body created within the Bank’s board of directors for consultation and information purposes, with the information, advisory and proposal-related powers falling within its areas of activity, but no executive functions.

The scope of the committee’s work encompasses the following areas:

- The sufficiency, adequacy and correct functioning of the Bank's internal control and assessment system, and compliance with the legal requirements that may be adopted by the board of directors with regard to committee-related matters. Particular attention is paid to ensuring that the internal codes of ethics and conduct comply with regulatory requirements, and are suitable for the entity.
- Auditor activity
- The Bank’s economic and financial information for third parties.

Notwithstanding any other capacities assigned by the board of directors, the Audit Committee has the following basic responsibilities>

1) To approve the orientation, plans and proposals relating to the internal audit department, ensuring that activity is mainly focused on risk that is relevant for the Bank.
2) To evaluate the compliance level of internal audit plans and the implementation of their recommendations, supervising the appointment and replacement of the person in charge of these plans.

3) To ensure that internal audit has the sufficient resources and professional qualifications required to successfully operate.

4) To supervise that relevant risks of any nature that affect the achievement of the Bank’s corporate objectives are reasonably identified, measured and controlled.

5) To ensure compliance with legislation, internal regulations, the code of conduct and all other provisions that regulate the Bank’s activity.

6) To maintain ethical standards within the organisation, investigate any incidents of irregular or unusual conduct and conflicts of interest among employees, and initiate the relevant investigations in the event of third-party claims against the Entity.

7) To examine projects related to codes of conduct and amendments thereto, and to issue an opinion prior to the approval of proposals by the Bank’s corporate bodies.

8) To advise and propose to the Bank’s board of directors the appointment or replacement of the auditors of the Bank's accounts, for approval by the shareholders.

9) To monitor the independence of the auditors and compliance with contracting conditions.

10) To review the content of audit reports and serve as a channel for communication between the board of directors and the Bank’s auditors.

11) To evaluate the results of each audit and supervise management team responses to the auditors’ recommendations.

12) To review financial, economic and management information relating to the Bank for third parties (Bank of Spain, Spanish National Securities Market Commission, shareholders, investors, etc.), as well as any communication or reports received from the aforementioned parties.

13) To supervise compliance with legal requirements and the correct application of generally accepted accounting principles with regard to the Bank's annual accounts and directors’ report.

14) To evaluate any management proposals concerning changes to accounting practices and policies.

B.2.4. Indicate the number of audit committee meetings held during the year>

Number of meetings	4

B.2.5. If there is an appointments committee, indicate whether all its members are external board members or members of the governing body.

YES ☐ NO ☐

C RELATED TRANSACTIONS

C.1. Provide details of relevant transactions that involve a transfer of resources or obligations between the entity or group entities and the entity's most significant shareholders.

Tax ID number of the most significant shareholder	Name of the most significant shareholder	Tax ID number of the entity or group entity	Name of the group entity	Nature of the relationship	Type of transaction	Amount (thousands of Euros)

C.2. Provide details of relevant transactions that involve a transfer of resources or obligations between the entity or group entities and the directors, management or members of the governing body of the entity:

Tax ID number of the most significant shareholder	Name of the most significant shareholder	Tax ID number of the entity or group entity	Name of the group entity	Nature of the relationship	Type of transaction	Amount (thousands of Euros)

C.3. Provide details of relevant transactions with other group entities, provided that these are not eliminated when preparing the consolidated financial statements and do not form part of the entity's normal business activity:

Tax ID number	Name of group entity	Brief description of the transaction	Amount (thousands of Euros)

C.4. Identify any conflicts of interest affecting members of the entity's board of directors or governing body, pursuant to article 127.3 of the Spanish Companies Act.

No board member has reported any conflict of interest.

C.5. Provide details of the mechanisms in place to detect, determine and resolve possible conflicts of interest between the entity or the group and the members of the board of directors or governing body or the entity's management.

Article 26 of the board of directors' code of good governance states:

1) "Contracts signed or obligations assumed by the Bank (not included in the rendering of services pursuant to its statutory activity) relating to members of the board of directors, management or the relatives thereof to the second degree of consanguinity or affinity, will not be considered valid unless prior approval is granted by the shareholders at their general meeting. The individuals subject to the situation of conflict in question will not be permitted to take part in this vote. Shareholder authorisation will not be necessary when these relationships are inherent to the position of shareholder.

2) Agreements made by the board of directors or, if applicable, the delegate committee, concerning transactions or services for members of the board of directors, the delegate committee or general management, or the relations thereof within the limits stipulated in the preceding section, must be clearly included in the agenda for the meeting and approved by the favourable vote of the majority of board members present.

3) If the beneficiary of the transactions or services is a board member (or relative thereof as stipulated above), the board member will be considered as subject to a conflict of interests, and will not be allowed to participate in any deliberations or voting concerning this matter, making himself absent from the meeting for the time it takes to deal with this point on the agenda.

4) Following the vote and once the results have been announced, the minutes should include any reservations or discrepancies with regard to the agreement adopted.

5) The conditions laid out in the preceding paragraphs will also be applicable when incorporating, suspending, modifying, renewing or terminating the Bank's rights or obligations with entities in which the aforementioned individuals or their family members are employers, board members, directors, senior management, advisors or shareholders with a capital interest equal to or exceeding 5%.

6) The conditions laid out in paragraphs 2, 3 and 4 will also be applicable when considering the hiring of a person related to a Bank board member or director up to the second degree of consanguinity or affinity as a manager or employee on a temporary or permanent contract. In any event, candidates must be contracted considering their qualities and the characteristics of the position to be covered, with no special treatment being given due to the individual's relationship with a Bank board member or director."

D RISK CONTROL SYSTEMS

D.1. General description of the risk policy of the company and/or group, detailing and evaluating the risks covered by the system and supporting the adequacy of the systems with regard to each type of risk.

The activities carried out by Banco Cooperativo involve the assumption of certain risks, which should be controlled and managed so that the Bank constantly has the support of control systems that are adequate for the level of risk assumed.

A set of basic principles has been defined as a guideline for the management and control of the risks assumed by the Bank as a result of its activity, including but not limited to the following:

- Active participation in and supervision of the Company's governing bodies. The board of directors actively participates in the approval of general business strategies, and defines the policies for assuming and managing risk, ensuring that the appropriate risk policies, controls and monitoring systems are in place and that all lines of authority are clearly defined.
- General internal control environment. This is manifested through a risk management culture which, driven by the board of directors, is diffused through all levels of the organisation, clearly defining the objectives that avoid risks being taken or unsuitable positions adopted due to a lack of suitable organisation, procedures or control systems.
- Selection of adequate risk measurement methodologies. The Bank has adequate risk-management methodologies to enable the various risk factors to which it is exposed to be identified.
- Evaluation, analysis and monitoring of the risks assumed. The identification, quantification, control and ongoing monitoring of risks allows a relationship to be established between the profitability obtained through the transactions carried out and the risks assumed.

The most significant risks affecting the Group's activity can be classified into the following categories:

- Credit risk
- Market risk
- Interest rate risk
- Counterparty risk
- Liquidity risk
- Operational risk

D.2. Indicate the control systems implemented to evaluate, mitigate or reduce the main risks faced by the company and its group.

Credit risk

The most senior decision-making body with regard to credit risk is the board of directors, with delegated powers for this purpose, including:

- establishment of strategic risk policies, evaluation of performance and introduction of any corrective measures deemed necessary in each case; and
- sanctions relating to any considerations not encompassed by the powers of the remaining decision-making bodies.

The board has delegated part of its powers to the risk committee (up to a certain risk volume per borrower), which is formed by the general manager, the global risk management director, the credit risk director and the director of the area proposing acceptance of the transaction.

The Bank's credit risk management area forms part of the global risk management unit. The objective of this area is to design, implement and maintain credit risk measurement systems, as well as enforcing and focusing the use of these systems and ensuring that decisions taken with regard to these measurements consider their quality. As stipulated by the regulator, this area is independent from the risk-generating areas, thereby guaranteeing the objectivity of the measurement criteria and the absence of any distortion that may arise from commercial considerations.

In accordance with the requirements of the New Basel Capital Accord, credit risk measurement is based on the existence of internal rating and scoring models that predict the probability of non-compliance with the various areas of risk exposure that affect the loans and receivables portfolio, also allowing the credit rating of transactions and/or counterparties to be placed in order on a master risk scale.

Market risk

The Assets and Liabilities Committee is responsible for managing and controlling the risks incurred in the different areas of the Bank. This committee is currently formed by the general manager, the treasury director, the capital markets director, the risk director, the head of studies and the head of the market risk analysis and control unit (a unit that reports to risk management).

This committee is a flexible and specialised body, which oversees compliance with established policies and monitors the different areas of the market more frequently.

The committee's main duties and responsibilities are as follows:

- Approve risk policies and general risk management procedures
- Approve market, credit and liquidity risk measurement and analysis methodologies.
- Design the risk limit structure
- Monitor the level of compliance with risk management policies
- Review and recommend investment strategies

Market risk management is carried out on a two-tier basis:

- Positions derived from trading activity, which includes portfolios held to benefit from gains on short-term price variations
- Balance sheet positions, namely financial instruments and portfolios which are generally used to manage the overall risk structure, as well as structural fixed-income positions which are accrued in the margin

The basic functions of the market risk analysis and control unit include measuring, controlling and monitoring market risks, evaluating exposure and adapting that exposure to the limits assigned, as well as contrasting, implementing and maintaining tools.

The market risk limit structure is based on the value at risk (VaR) calculation, stop-loss limits, comparative tests and stress-testing and limits on the size of positions.

Management of this risk is geared towards limiting losses on positions stemming from adverse changes in market prices. Potential losses are estimated using a value at risk model, which is the main control and measuring tool employed in trading operations.

VaR is calculated using the parametric model, with a 99% confidence level for a time period of one day. Value at risk is obtained using historical or Monte Carlo simulation for those portfolios or unusual products with special characteristics for which the covariations model cannot be used.

VaR is calculated centrally on a daily basis for the treasury and capital market activity as a whole, irrespective of the nature of the portfolios.

The objectives of this risk valuation methodology are:

- To establish a benchmark for defining the structure of limits
- To provide the Group with a unique and standard multi-level measure of market risk, and to provide the regulator with a global measure of market risk assumed by the Entity.

In addition to monitoring market risk, the risk control tools are also complemented by warning systems called stop-loss orders. The reason behind establishing warning systems is to limit maximum trading strategy losses to the desired level by automatically closing positions where allowable losses have been exceeded.

The measurement and control of market risk are complemented by contrast tests which involve comparing the theoretical generation of daily profits and losses under the assumption that positions had remained unchanged, i.e. in the absence of daily trading and using the estimates created by the risk model. Back-testing is used to determine whether the number of times losses exceed estimated VaR is consistent with the expected results according to the 99% confidence level applied in the model. The application of this technique shows that risk measurements fall within generally accepted validation standards.

To further supplement market risk measurement and control, stress estimates are performed in order to quantify the maximum decline in value of a portfolio when faced with extreme risk factor movements. Stress-testing analysis includes the application of historical financial market crisis scenarios as well as extreme values of market variables.

The market risk limit structure is completed with specific limits to the size of positions on certain operations individually approved, analysed and monitored by the Assets and Liabilities Committee.

Interest rate risk

Interest rate risk on the overall balance sheet is measured using the gap calculation and the sensitivity of the financial margin and net worth to interest rate fluctuations.

- The interest rate gap is based on analyses of variations in the maturities or repricing profile of different bundles of assets and liabilities over various time intervals.
- Financial margin sensitivity is estimated by projecting the financial margin to twelve months using the expected interest rate scenario and certain behaviour of the balance sheet bundles.
- Net worth sensitivity provides an overview of the long-term interest rate risk assumed by the Entity. Through the concept of duration, the effect of interest rate fluctuations on the economic value of the Entity can be approximated.

To manage interest rate risk, the Assets and Liabilities Committee analyses the overall time difference between maturity and repricing of assets and liabilities. In the case of liabilities with no contractual maturity date, assumptions based on the historical stability of these balances are used.

Each month the financial margin over a 12-month period is simulated under certain scenarios, such as growth of each balance sheet item, spread renewal assumptions, repricing periods for each type of operation, as well as different interest rate scenarios.

Interest rate risk is also analysed considering the economic value, measured as the effect of changes in the interest rate on the present value of equity, discounting expected future flows.

Counterparty risk

Control of counterparty risk is carried out in real time using an integrated system which allows the line of credit available with any counterparty, in any product and period and for each market area, to be known at any given time.

Lines of credit are approved following established authorisation procedures, as are any instances when credit limits are surpassed.

Counterparty risk is measured using the present value of each position plus the estimated increase in market value until maturity. Future variations in market prices are based on a hypothetical worst-case scenario considering the term of the operation and the risk factors to which the operation is exposed.

The risk analysis unit continuously monitors the level of credit risk concentration by country, sector or counterparty. The Assets and Liabilities Committee reviews the appropriate exposure limits in order to adequately manage the level of credit risk concentration.

Liquidity risk

The Assets and Liabilities Committee monitors the maturity of assets and liabilities and, in light of their nature, maintains high levels of liquidity.
The methods used for controlling liquidity are the liquidity gap and liquidity ratios. The committee regularly carries out supplementary stress testing to determine the liquidity structure the Entity would maintain when exposed to scenarios that are likely to cause liquidity crises.
The liquidity gap provides information on cash inflows and outflows in order to detect timing differences between collections and payments. Behavioural criteria and assumptions have been established for unknown contractual maturities.
Two parameters have also been set for controlling liquidity risk:

- The short-term liquidity ratio. Control of this ratio ensures that there is no excessive short-term leveraging, and the analysis covers a 30-day period.
- The liquidity ratio measures the relationship between assets and liabilities and total callable liabilities.

Operational risk

The Bank is aware of the strategic importance of adequate operational risk management and control, and is in the process of implementing the techniques required to adopt the standard operational risk method, which will also allow foundations to be laid for the future implementation of advanced models (advanced measurement approach).
The Group’s main operational risk objectives are as follows:

- To detect current and potential risks so that management decision-making can be prioritised.
- To continually improve control processes and systems so that any risks that may arise can be minimised.
- To raise awareness within the organisation concerning the level and nature of operational loss events.

Operational risk measurement procedures and systems
Work is currently underway to implement the following qualitative methodologies proposed by Basel:

- Operational risk inventory and description of existing controls.
- Self-assessment questionnaire to measure the Entity's exposure to the aforementioned risks and evaluate the associated controls.
- Creation of a database of losses arising from operational risk events.
- Identification and capture of the most significant Key Risk Indicators (KRI) which have the greatest correlation with the potential risk and the impact thereof.

D.3. If any of the risks affecting the company and/or its group have materialised, identify the circumstances involved and if the established control systems have functioned.

As mentioned in the preceding section, the activity carried out by Banco Cooperativo involves the assumption of certain risks, which should be correctly managed and controlled so as to ensure that the Bank always has the support of control systems suitable for the risk level assumed.
Exposure to other risks is limited, control systems have functioned correctly and no special situations have arisen which, due to their magnitude, involved the assumption of risks exceeding the limits for the management and control thereof.

D.4. Indicate whether there is a committee or other governing body responsible for establishing and supervising these control tools, and detail their functions.

As mentioned in section D.1, the board of directors and risk committee participate actively in the approval of business strategies and are responsible for defining risk assumption policies, ensuring that the appropriate policies, controls and systems exist.
The main function of the Audit Committee is to support the board of directors in its duties of monitoring internal controls and the independence of the external auditor, through regular review of the process for preparing financial information.

E GENERAL MEETING OF THE SHAREHOLDERS OR EQUIVALENT BODY

E.1. List the quorum for the valid constitution of the general meeting of the shareholders or equivalent body, as established by the articles of association. Describe any differences between this process and that established in the Spanish Companies Act or any other applicable legislation.

Article 15 of the articles of association states:

> “Both the ordinary and extraordinary General Shareholders’ Meeting will be validly constituted at the first call when the shareholders present or represented hold at least fifty percent of subscribed share capital with voting rights. At the second call the meeting will be valid when the shareholders present or represented hold at least fifteen percent of share capital with voting rights.
>
> In order for the shareholders at their ordinary or extraordinary general meeting to validly agree the issue of bonds, a share capital increase/decrease, the transformation, merger, spin-off or winding-up of the company or, in general, any amendment to the articles of association, the shareholders present or represented at the first call must hold at least fifty percent of subscribed capital with voting rights. At the second call only twenty-five percent of the aforementioned capital is required.
>
> When shareholders representing less than 50% of subscribed share capital with voting rights are present or represented, the agreements mentioned in the preceding section may only be validly adopted with the favourable vote of two-thirds of the share capital with voting rights present or represented at the general meeting”.

E.2. Explain the system for adopting corporate agreements. Describe any differences compared to the minimum system foreseen in the Spanish Companies Act or any other applicable legislation.

Article 17 of the articles of association states:

> "The position of Chairman and Secretary for the Annual General Meetings will be held by the individuals who occupy these positions within the Board of Directors. In the event of absence, the Chairman and Secretary will be elected by those in attendance at the meeting.
>
> The Chairman will lead the deliberations, passing the floor (in order) to all those shareholders who have requested so in writing, followed by those who present verbal requests.
>
> Each of the points on the agenda will be subject to a separate vote.
>
> Each share confers its holder the right to one vote.
>
> At the General Shareholders' Meeting agreements will be adopted by a majority vote from the shareholders present or represented. Nevertheless, agreements concerning the issue of bonds, share capital increases or decreases, the transformation, merger, spin-off or winding-up of the Company, and in general any amendment to the articles of association, will require the quorum stipulated in article 15, paragraph 2, of the aforementioned articles of association. Voting rights may not be exercised by shareholders who default on payment of unpaid shareholder contributions."

E.3. Provide details of the rights of shareholders or equivalent body with regard to the general meeting

- Right to attend and vote in General Meetings (article 7 of the articles of association).
- Each share entitles the holder to one voting right (article 17 of the articles of association).
- Should a group of shareholders representing at least one-twentieth of share capital with voting rights request that the Board of Directors convene an Extraordinary General Meeting, submitting the issues to be dealt with, the meeting must be convened pursuant to the revised Spanish Companies Act (article 14 of the articles of association).
- All shareholders may attend the General Meetings in person or through a designated representative (whether a shareholder or not). Representation must be submitted separately in writing for each General Meeting. In all cases the terms of article 107 of the Spanish Companies Act (article 16 of the articles of association) will apply.

E.4. Briefly outline the agreements adopted by the shareholders or equivalent body at their annual general meetings during the year referred to in this report, and the percentage of votes with which these agreements were adopted.

The only Shareholders' Meeting held in 2010 took place on 30 June 2010. This meeting was both ordinary and extraordinary in nature and 96.02% of the Bank's share capital was represented by the 58 shareholders attending in person, while 0% of the share capital was represented by proxies. The following agreements were discussed and adopted:

1 The individual and consolidated Annual Accounts for 2009 were unanimously approved as was the management of the board of directors for that year and the distribution of profit for the year as follows: Euros 1,578,318.97 to the legal reserve, Euros 5,204,870.74 to the voluntary reserve, and the distribution of a dividend of Euros 9,000,000.

2 Renewal of Auditors

It was unanimously agreed that KPMG AUDITORES, S.L. would continue to be the auditor of Banco Cooperativo Español, S.A. and its subsidiaries, for a period of one year from 1 January 2010 until 31 December 2010.

3 Requests and questions

There were no requests or questions.

4 Reading and approval of the minutes, or appointment of representatives to do so

The representatives for approving the minutes were unanimously appointed.

E.5. Indicate the address and access to corporate governance content on your website

The Bank's website is:

www.bancocooperativo.es or www.ruralvia.com

On the home page go to "**Institutional information**".
Enter the section entitled "**The Bank**".
The 2010 "**Corporate Governance Report**" is published in the "**Regulatory Compliance**" chapter of this section.

E.6. Indicate if meetings have been held with the various syndicates (if applicable) of holders of securities issued by the entity, the subject of the meetings held in the year referred to in this report and the main agreements adopted.

There are no syndicates of holders of securities issued by the Entity (ordinary fixed-rate treasury bonds under state guarantee).

F LEVEL OF COMPLIANCE WITH CORPORATE GOVERNANCE RECOMMENDATIONS

Indicate the entity's level of compliance with existing corporate governance recommendations or, if applicable, the failure to comply with such recommendations.

Should none of these recommendations be complied with, explain the recommendations, regulations, practices or criteria that apply to the entity.

In March 2003 the Bank's Board of Directors approved a Code of Good Governance, which incorporated the Olivencia Committee and Aldama Commission recommendations. In March 2007 the aforementioned Code was amended, bringing it into line with the Unified Code of Good Governance approved by the Spanish National Securities Market Commission.

This aim of this Code of Good Governance was to serve as a set of honourable and professional guidelines for the members of the Bank's board of directors, complementing the legal and statutory regulations that govern the directors' activity, establishing standards for conduct and ethical principles to safeguard the interests of the Bank and its shareholders, customers and employees.

The Code aims to provide shareholders and stakeholders of the Bank with an overview of how the board members are expected to act with regard to:

- Specific principles for action
- The mission of the Board of Directors
- The principles and obligations that inspire board member actions
- Board member duties
- The relationship between the Board of Directors and the surrounding environment

The Board of Directors aims to ensure that these conduct and good governance standards are extended and applied to all the Bank's professional activities and practices, at all functional levels. The conduct standards stipulated in this Code for the board members are applicable (if compatible) to the Bank's directors.

The different sections of the Code of Good Governance regulate the following issues:

Principles of good governance

1. <u>Strict separation between administration and management</u>

- The core mission of the Board of Directors comprises the general functions of representation, administration, management and control of the company, as well as responsibility for reviewing and focusing corporate strategy, the most significant action plans, risk policies, annual budgets and plans, establishing objectives, monitoring implementation and compliance therewith within the corporate environment, and delegating the Company's ordinary management to its executive bodies and the management team.

2. Composition and appointment of board members

- **The board of directors must have a sufficient number of members to ensure it can operate, and its composition must consider the share capital structure, endeavouring to include the various shareholder sensitivities and ensuring that the candidates proposed are individuals with recognised solvency, competence and experience. In 2005 the number of board members was increased to 20.**

3. Board committees.

- To strengthen and increase the efficiency of the Board's functions, specialist committees may be created to diversify tasks and ensure that, for relevant matters which do not need to be directly taken to the Board, all proposals and agreements initially pass through a specialist body which can filter and report on its decisions, thereby strengthening the objectivity of and reflection on Group agreements.
- The only committee that has been incorporated in this respect is the Audit Committee, created in April 2002.

4. Frequency of board meetings.

- The Board of Directors should hold an ordinary session as often as required to closely follow the actions of the management team and adopt all related decisions. The board met on a total of 11 occasions in 2010.

Functions inherent to the position of board member

Board members must carry out their roles with the diligence of an orderly businessperson and a loyal representative, as well as having the following obligations and duties:

1. **Diligence duty and the authority to report and examine**

- Board members are obliged to attend the meetings of corporate bodies and the Board committees of which they form part, participating in the deliberations, discussions and debates that take place.
- The Board members must have sufficient information to form an opinion on the issues relating to the Bank's corporate bodies, and may suggest to the Board of Directors that external experts are called upon to assist in matters submitted for consideration due to their complexity or significance, as deemed necessary.

2. **Confidentiality obligations**

- Board members are to ensure that the deliberations of the Board of Directors and the committees to which they belong remain confidential, as well as any other information to which they have had access when carrying out their duties, which will be exclusively used for this purpose and protected with due diligence. This confidentiality obligation will remain in force once the individuals concerned are no longer members of the board.

3. **Ethical duties and standards for conduct**

- In all their actions the Board members must behave in an ethical manner with regard to the regulatory requirements applicable to all those who hold administration responsibilities within mercantile companies, particularly financial institutions, always basing their actions on professional, efficient and responsible principles.

4. **Obligations relating to non-competition and abstention and information in cases of conflict of interests**

- Board members must abstain from attending and intervening in cases which may give rise to a conflict of interests with the Company, and must make themselves absent from any deliberations by the corporate bodies of which they form part concerning matters in which they may have a direct or indirect interest. Board members must also refrain from carrying out personal, professional or commercial transactions with the Company or Group companies other than normal banking operations, unless these are submitted to a contracting procedure to ensure transparency, involving competing offers at market prices.
- Board members must not hold a direct or indirect interest in businesses or companies in which the Bank or Group companies hold an interest, unless that interest was acquired prior to incorporation into the Board of Directors or before the Group acquired its interest, or when the companies in question are listed on the national or international stock exchanges, or when otherwise authorised by the Board of Directors.

5. Obligation to refrain from using corporate assets or taking advantage of business opportunities

- Board members must not take advantage of their position within the Company to their own benefit or indirectly or directly take advantage of business opportunities of which they have gained knowledge due to their role as members of the Bank's Board of Directors.

6. Incompatibilities

- When carrying out their role, Board members will be subject to general standards on incompatibility, particularly those applicable to senior management within the banking industry.

G OTHER INFORMATION OF INTEREST

If there are any principles or aspects relating to the good governance practices applied by your entity that have not been included in this report, please provide details below.

None.

In this section you may include any other information, clarification or details related to prior sections of the report, provided that they are relevant and do not repeat information already contained herein.

Please specifically indicate whether the entity is subject to corporate governance legislation other than that prevailing in Spain. If so, include all information that the entity is obliged to supply, other than that required by this report.

Banco Cooperativo Español, S.A. is not subject to corporate governance legislation other than that prevailing in Spain.

This annual corporate governance report was unanimously approved by the Entity's board of directors on 23 February 2011.

APROBACION POR EL CONSEJO DE ADMINISTRACIÓN DE LAS CUENTAS ANUALES CONSOLIDADAS DEL EJERCICIO 2009 DEL GRUPO BANCO COOPERATIVO ESPAÑOL, S.A.

Los miembros del Consejo de Administración del Banco Cooperativo Español, S.A., cuyos nombre se hacen constar más abajo, suscriben y refrendan con su firma estas Cuentas Anuales consolidadas, formuladas en la sesión del Consejo de Administración que se celebra en Madrid el 23 de febrero de 2011, de conformidad con lo dispuesto en el artículo 253 del texto refundido de la Ley de Sociedades de Capital, y que constan de balance de situación consolidado, cuenta de pérdidas y ganancias consolidada, estado de ingresos y gastos reconocidos consolidado, estado total de cambios en patrimonio neto consolidado, estado de flujos de efectivo consolidado, memoria de 41 hojas (páginas 7 a 87) y tres anexos (páginas 88 a 96), así como un informe de gestión consolidado de 6 hojas (páginas 97 a 108), **con un anexo que incorpora el Informe de Gobierno Corporativo de 11 hojas (páginas 109 a 129)** correspondientes al ejercicio cerrado a 31 de diciembre de 2010 del Grupo Consolidado Banco Cooperativo Español, S.A.

Todas las hojas son visadas por el Sr. Secretario y firmadas en esta última por todos los Sres. Consejeros.

Madrid, a 23 de febrero de 2011

D. José Luis García Palacios - Presidente -	D. Román Suárez Blanco -Vicepresidente -
D. Antonio Abelló Dalmases - Consejero -	D. José Antonio Alayeto Aguarón - Consejero -
D. Ignacio Arrieta del Valle -Consejero -	D. Nicanor Bascuñana Sánchez -Consejero -
D. Bruno Catalán Sebastián - Consejero -	Dr. Luis Esteban Chalmovsky - Consejero -

D. Carlos de la Sierra Torrijos
- Consejero -

D. Luis Díaz Zarco
- Consejero -

D. Eduardo Ferrer Perales
- Consejero -

D. Cipriano García Rodríguez
- Consejero -

D. Pedro García Romera
- Consejero -

D. José Luis García-Lomas Hernández
- Consejero -

D. Juan Antonio Gisbert García
- Consejero -

D. Andrés Gómez Mora
- Consejero -

D. Wolfgang Kirsch
- Consejero -

D. Carlos Martínez Izquierdo
- Consejero -

D. Fernando Palacios González
- Consejero -

D. Dimas Rodríguez Rute
- Consejero -

(Free translation from the original in Spanish. In the event of discrepancy, the Spanish-language version prevails.)

Pursuant to article 8.1. b) of Royal Decree 1362/2007, which enacts the law governing the securities market, the secretary to the Board of Directors of Banco Cooperativo Español, S.A, Mr. Ramón Carballás Varela, hereby certifies that all the members of the Board of Directors have approved the individual and consolidated annual accounts and directors' reports of Banco Cooperativo Español, S.A. for 2010, and in witness thereof have signed the accompanying document confirming that, to the best of their knowledge, the accompanying annual accounts prepared in accordance with applicable accounting principles present fairly the equity, financial position and results of Banco Cooperativo Español, S.A. and the consolidated companies taken as a whole, and that the directors' report includes a reliable analysis of the evolution of the business and position of Banco Cooperativo Español, S.A. and the consolidated group, as well as a description of the main risks and uncertainties to which the Group is exposed.

Madrid, 23 February 2011

Mr. Ramón Carballás Varela

Non-executive secretary

Mr. José Luis García Palacios

Mr. Román Suárez Blanco

Mr. Antonio Abelló Dalmases

Mr. José Antonio Alayeto Aguarón

Mr. Ignacio Arrieta del Valle

Mr. Nicanor Bascuñana Sánchez

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