

**CAJA MADRID S.D. FINANCE B.V.**

Financial Statements  
for the year ended December 31, 2009

## CONTENTS

	Page
Report of the management	1
Balance Sheet as of December 31, 2009	3
Statement of income for the year ended December 31, 2009	4
Statement of Cash Flows for the year ended December 31, 2009	5
Notes to the Financial Statements for the year ended December 31, 2009	6-10
Additional information	11

## **REPORT OF THE MANAGEMENT**

The management herewith presents to the shareholder the annual accounts of Caja Madrid SD Finance B.V. (hereinafter "the Company") for the year 2009.

### **General**

The Company is a limited liability company incorporated under the laws of The Netherlands on March 16, 1999 and acts as a finance company, issuing debt obligations guaranteed by Caja de Ahorros y Monte de Piedad de Madrid ("the Parent") and lending the proceeds to the Parent.

### **Overview of activities**

In January 2002, the Company issued EUR 214,500 thousands Interest-Bearing Subordinated Bonds due 2041, unconditionally guaranteed by Caja de Ahorros y Monte de Piedad de Madrid.

The proceeds from issuance of Subordinated Bonds were lent to the Parent in the form of long-term deposits.

The Company has contracted appropriated financial derivatives instruments to adapt the financial risk of its assets and liabilities.

### **Categories of Risk**

The most important risks assumed by the Company are specific risks (credit risk, market risk, liquidity risk and operational risk) and reputational risks, as well as risks arising from the general business environment.

### **Risk Management**

The policy of the Company is to continually assess the appropriateness and reliability of its quantitative tools and metrics used to measure, manage and report risk in a changing risk environment.

### **Results**

The Company's 2009 net revenues in interest rate products amounted to EUR 16.915 thousands at yearend (EUR 16,420 as at December 31, 2008), which means an increase of 3% over 2008 figures, driven by higher margins in loans to parent company. With regard to the expenses, they mainly comprised the interests accrued for an amount of EUR 16,371 thousands from the Subordinated Bonds issued by the Company (EUR 15,875 as at December 31, 2008).

The total value of the assets of the Company as at December 31, 2009 amounts to EUR 299,725 thousands (EUR 291,244 thousands as at December 31, 2008).

The result for the period 2009 amounts to a profit of EUR 372 thousands (EUR 401 thousands as at December 31, 2008).

**Directors statement**

The financial statements give a true and fair view of the financial position of the Company as December 31, 2009 and of its results for the year ended.

The report of the management gives a true and fair view of the activities of the Company and its risks.

**Future outlook**

The management is of the opinion that the present activities will be maintained during the next financial year.

**Audit Committee**

According to the legislation in force, Audit Committee duties are carried out by the Governing Bodies of Caja de Ahorros y Monte de Piedad de Madrid, which is the Company's sole shareholder (see Note 4 below).

Amsterdam, March 30, 2010

Statutory directors:

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Mrs. A.M.L. Kuijpers

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Mr. W.J. Langeveld

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Mr. A. R. González

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Mr. S.C. Martina

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Mr. C. Stilianopoulos Ridruejo

## CAJA MADRID S.D. FINANCE B.V.

**BALANCE SHEET AS OF DECEMBER 31, 2009**

(after appropriation of net result)

(expressed in thousands of Euros)

	December 31, 2009	December 31, 2008
<b>ASSETS:</b>		
<b>Non-Current Assets:</b>		
Loans to parent company (Note 3)	214.500	214.500
Deferred interest income (Note 7)	82.787	74.633
<b>Total Non-Current Assets</b>	<b>297.287</b>	<b>289.133</b>
<b>Current Assets:</b>		
Interest receivable on parent company	17	53
Cash and cash equivalents	2.422	2.058
<b>Total Current Assets</b>	<b>2.439</b>	<b>2.111</b>
<b>TOTAL ASSETS</b>	<b>299.726</b>	<b>291.244</b>
<b>SHAREHOLDER'S EQUITY (Note 4):</b>		
Ordinary Shares	18	18
Retained Earnings	2.384	2.012
<b>Total Shareholder's equity</b>	<b>2.402</b>	<b>2.030</b>
<b>Non-current Liabilities:</b>		
Subordinated Bonds (Note 5)	201.630	201.241
Accrual accounts and others (Note 8)	95.668	87.942
<b>Total Non-Current Liabilities</b>	<b>297.298</b>	<b>289.183</b>
<b>Current Liabilities:</b>		
Tax liabilities	-	11
Other current liabilities	26	20
<b>Total Current Liabilities</b>	<b>26</b>	<b>31</b>
<b>Total Liabilities</b>	<b>297.324</b>	<b>289.214</b>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b>	<b>299.726</b>	<b>291.244</b>

The accompanying notes 1 to 11 are an integral part of these financial statements.

## CAJA MADRID S.D. FINANCE B.V.

STATEMENT OF INCOME FOR THE YEAR ENDEDDECEMBER 31, 2009

(expressed in thousands of Euros)

	2009	2008
<b>Income:</b>		
Interest income from parent company	2.730	10.028
Derivatives income from parent company	14.185	6.392
<b>Net interest and other income</b>	<b>16.915</b>	<b>16.420</b>
<b>Expenses:</b>		
Interest expense	(16.371)	(15.875)
Other operating expense	(55)	(29)
<b>Total expenses</b>	<b>(16.426)</b>	<b>(15.904)</b>
<b>Income before taxes</b>	<b>489</b>	<b>516</b>
Corporate tax income	(117)	(115)
<b>Net income for the year</b>	<b>372</b>	<b>401</b>

The accompanying notes 1 to 11 are an integral part of these financial statements.

CAJA MADRID S.D. FINANCE B.V.

**STATEMENT OF CASH FLOWS FOR THE YEAR ENDED**

**DECEMBER 31, 2009**

**drawn up by the indirect method**

(expressed in thousands of Euros)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	372	401
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest receivable on parent company	36	87
Deferred interest income	(8.154)	(9.476)
Accrual accounts and others	8.115	9.393
Taxation and other current liabilities	(5)	(12)
<b>Net cash provided by (used in) operating activities</b>	<b>364</b>	<b>393</b>
<b>Net decrease in cash and cash equivalents</b>	<b>364</b>	<b>393</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>2.058</b>	<b>1.665</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>2.422</b>	<b>2.058</b>

The accompanying notes 1 to 11 are an integral part of these financial statements.

## **CAJA MADRID S.D. FINANCE B.V.**

### **Notes to the Financial Statements for the year ended December 31, 2009**

#### **(1) GENERAL**

Caja Madrid S.D. Finance B.V. (the "Company"), is a wholly owned subsidiary directly of Caja de Ahorros y Monte de Piedad de Madrid (a Spanish saving institution, the "Parent" and part of the Caja Madrid Group). The company was established on March 16, 1999 as a private company with limited liability for an indefinite period of time under the laws of The Netherlands.

The principal executive office of the company is Naritaweg 165 Telestone 8, 1043 BW Amsterdam, The Netherlands.

The Company's principal activity is to act as a financing entity. The objectives for which the Company is established are to issue subordinated bonds guaranteed by the Parent; to enter into other financial transactions; and to lend the proceeds received to its Parent.

#### **(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **a) *General***

The Company's financial statements are prepared in accordance with generally accepted accounting principles in Netherlands and comply with the financial requirements introduced in Part 9 of Book 2 of the Netherlands Civil Code. The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements are prepared under the historical cost convention. Assets and liabilities are stated at nominal value, unless indicated otherwise. If deemed necessary, a provision is deducted from the nominal amount of accounts receivable.

Considering the nature of the Company's activities, the model of the profit and loss account deviates from the models prescribed in Book 2 of the Dutch Civil Code.

##### **b) *Interest Income and Expense***

Interest income and expense are recorded on an accrual basis.

Interest income and expense are calculated using the effective interest rate. Effective interest rate is the interest rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of the financial asset or liability. The calculation of the effective interest rate includes all fees and points received or paid between the parts of the contract, transactions costs and all other premiums or discounts.

##### **c) *Cash and Cash Equivalents***

Cash and Cash Equivalents include cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value. Cash is held in a current account at the parent company



**d) Corporate income tax**

The expense for corporate income tax of each year is calculated on the basis of income before taxes, increased or decreased, as appropriate, by the permanent differences from taxable income, net of tax relief and tax credits, excluding tax withholdings and prepayments.

In accordance with the Netherlands regulation, corporate tax income is levied at a rate of 20% on the first EUR 200,000 of the total taxable profit, and 25,5% on the surplus.

**e) Investments and Liabilities**

Investments with fixed or determinable payments and fixed maturity that the Company has the positive intent and ability to hold to maturity are classified as loans to parent company.

Loans to parent company are included in non-current assets unless they mature within 12 months of the balance sheet date.

Subordinated bonds issues are included in non-current liabilities unless they mature within 12 months of the balance sheet date. They are disclosed on these financial statements (see Note 5) at their amortized cost.

**f) Derivatives**

According with Generally Accepted Accounting Principles in the Netherlands, the Swap agreement is carried off balance. Gains or losses arising from changes in interest rates are recognised in the statement of operations for the period in which they arise and to the extent that they hedge an asset or liability that has been recognised on the balance sheet. Gains and losses relating to derivative financial instruments entered into as hedges or firm commitments are deferred until the hedged transactions have been reflected in the balance sheet. No fair value adjustments on derivative instruments are accounted for under Dutch generally accepted accounting principles.

**(3) LOANS TO PARENT COMPANY**

The outstanding balance of "Loans to parent company" as of December 31, 2009 includes the proceeds from issuance of Subordinated Bonds that were lent to the Parent in the form of long-term deposit.

The main characteristic of the "Loans to parent company" outstanding as of December 31, 2009 and 2008 were as follows:

	Interest Rate	Maturity	Thousands of Euros
Deposits at Caja de Ahorros y Monte de Piedad de Madrid relating to Guaranteed Interest - Bearing Subordinated Bonds	1m Euribor + 0,25	12/27/41	214,500

**(4) SHAREHOLDER'S EQUITY**

As of December 31, 2009, the Company's sole shareholder was Caja de Ahorros y Monte de Piedad de Madrid. The authorized capital amounts to EUR 90,756 and consist of 200 shares with a par value of EUR 453.78 (NLG 1,000). The Company issued 40 shares with a total value of EUR 18,151. All issued shares were fully paid-in.

The equity movement for the year 2009 and 2008 is as follows:

	Thousands of Euros		
	Ordinary Shares	Retained earnings	Total Equity
<b>Balance as of December 31, 2007</b>	<b>18</b>	<b>1,611</b>	<b>1,629</b>
Net income for the year 2008	-	401	401
<b>Balance as of December 31, 2008</b>	<b>18</b>	<b>2,012</b>	<b>2,030</b>
Net income for the year 2009	-	372	372
<b>Balance as of December 31, 2009</b>	<b>18</b>	<b>2,384</b>	<b>2,402</b>

**(5) SUBORDINATED BONDS**

The details of this caption of the balance sheet as of December 31, 2009 and 2008 are as follows:

	Thousands of Euros	
	2009	2008
Subordinated bonds	214,500	214,500
Direct costs (see Note 2-b)	(12,870)	(13,259)
	<b>201,630</b>	<b>201,241</b>

The balance of "Subordinated bonds - Direct costs" includes subscription commissions paid by the Company in the issuance of the subordinated bonds. Direct costs are accounted in the statement of income of the year using the effective interest rate.

In January 2002, the Company issued EUR 214,500 thousands Interest-Bearing Subordinated Bonds due 2041, unconditionally guaranteed by Caja de Ahorros y Monte de Piedad de Madrid.

The main characteristics of the Subordinated Bonds outstanding as of December 31, 2009 and 2008 were as follows:

Currency of Issue	Date of Issue	Date of Maturity	Interest Payments	Thousands of Euros
Euros	01/28/02	12/27/41	Fixed interest payments	214,500

Interest on the subordinated bonds is paid on a monthly basis in accordance with the payment schedule as is included in the bond subordinated bond offering circular. The monthly interest payments increase over the interest period ending May 27, 2035. Starting May 27, 2035 the principle amount of the subordinated bonds will be repaid in monthly terms based on the payment schedule included in the subordinated bond offering circular. The final payment will be made on December 27, 2041.

In order to hedge the monthly interest payments, the Company entered into a swap agreement (hereinafter, the "Swap agreement") with the Parent. Based on the Swap agreement the Company pays a floating interest of 1- month Euribor to the parent company and receives a fixed rate equal to the fixed rate to be paid under the bond agreement. The payments dates as included in the Swap agreement are the same to the payment dates as included in the bond agreement. The fixed interest rate increases during the term of the loan. The Swap agreement is considered a hedge transaction.

As of December 31, 2009, the fair value of the Swap agreement amounts to approximately EUR 173.9 million (175.5 million as of December 2008).

(6) **TAXATION**

Corporate income tax for the year is calculated on the basis of the income per books determined by application of generally accepted accounting principles as described in Note 2 - d.

The breakdowns of the corporate tax income caption of the statement of income as of December 31, 2009 and 2008 are as follows:

	Thousands of Euros	
	2009	2008
Current year	121	121
Adjustment in respect of prior years	(4)	(6)
	<b>117</b>	<b>115</b>

(7) **DEFERRED INTEREST INCOME**

The "Deferred interest income" caption of the balance sheet as of December 31, 2009 includes interest accrued and not due of the Swap agreement entered by the Company with the Parent (see Note 2-f).

(8) **ACCRUAL ACCOUNTS**

**Non-current liabilities**

The breakdowns of the "Accrual accounts and others" caption of the balance sheet as of December 31, 2009 and 2008 are as follows:

	Thousands of Euros	
	2009	2008
Interest of Subordinated bonds	82,798	74,683
Amounts of Swap agreements	12,870	13,259
	<b>95,668</b>	<b>87,942</b>

The balance "Accrual accounts and others – Interest of Subordinated bonds" includes accrued interest and not due of subordinated bonds issued by the Company as of December 31, 2009 (see Note 5).

The balance "Accrual accounts and others – Amounts of Swap agreements" includes amounts received and not accrued of the Swap agreement entered by the Company with the Parent (see Note 5). The amount relates to a payment received based on the Swap agreement which is included in the interest income as part of the effective interest income over the term of the subordinated bonds.

(9) **OTHER OPERATING EXPENSES**

As of December 31, 2009 the other operating expenses include the audit fees of EUR 13,333 (2008: EUR 13,333) for Deloitte Accountants B.V. which are entirely related to the audit of the financial statements.

(10) **PERSONNEL**

The Company did not employ any personnel during 2009 (2008: nil).

**(11) REMUNERATION OF DIRECTORS**

As of December 31, 2009 the remuneration of the statutory directors amounts to nil (2008: nil).

Amsterdam, March 30, 2010

Statutory directors:

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Mrs. A.M.L. Kuijpers

Mr. W.J. Langeveld

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Mr. A. R. González

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Mr. S.C. Martina

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Mr. C. Stilianopoulos Ridruej6

## **Additional information**

### **(1) AUDITORS' REPORT**

The auditors' report is included on the next page.

### **(2) ARTICLES OF APPROPRIATION OF THE RESULT**

The Articles of Association of the Company provide that the appropriation of the net income for the year is decided upon at the Annual General Meeting of Shareholders.

### **(3) APPROPRIATION OF THE RESULT 2009**

Management proposes to add the net income for the year 2009 to the retained earnings. This proposal has been reflected in the accompanying financial statements.

To the Shareholders of  
Caja Madrid S.D. Finance B.V.  
Amsterdam

Date  
April 30, 2010

Reference  
3100204794/OP9994/dv

## **Auditor's report**

### **Report on the financial statements**

We have audited the accompanying financial statements 2009 of Caja Madrid S.D. Finance B.V., Amsterdam, which comprise the balance sheet as at December 31, 2009, the profit and loss account for the year then ended and the notes.

### **Management's responsibility**

Management is responsible for the preparation and fair presentation of the financial statements and for the preparation of the management board report, both in accordance with Part 9 of Book 2 of the Netherlands Civil Code. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Dutch law. This law requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements.

The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements give a true and fair view of the financial position of Caja Madrid S.D. Finance B.V. as at December 31, 2009, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Netherlands Civil Code.

## **Report on other legal and regulatory requirements**

Pursuant to the legal requirement under 2:393 sub 5 part f of the Netherlands Civil Code, we report, to the extent of our competence, that the management board report is consistent with the financial statements as required by 2:391 sub 4 of the Netherlands Civil Code.

Deloitte Accountants B.V.

J. Penon