

Report on Corporative Governance and Internal Control

Report on the Corporative Governance

This report has been voluntarily drawn up by the company CaiFor, S.A.

A. Structure of the property

A.1. Breakdown of the most important shareholders in the company at the close of the fiscal year:

Name or legal name of shareholder	% of equity
Caixa Holding, S.A.U.	50%
Fortis AG España Invest, S.L.	50%

A.2. Indicate, where necessary, the relationship between the shareholders or significant holdings whether it be through family, commercial, contractual or corporate ties, insofar as it is known to the company, unless it is of little relevance or it is derived from the ordinary commercial activity:

Name or related legal name	Type of relationship	Brief description
Caixa Holding, S.A.U.	Corporate	Caixa Holding is a 50% shareholder of CaiFor and a member of the Board.

A.3. Indicate, where necessary, the relationship between the shareholders or significant holdings whether it be through family, commercial, contractual or corporate ties, insofar as it is known to the company, unless it is of little relevance or it is derived from the ordinary commercial activity:

Name or related legal name	Type of relationship	Brief description
Caixa Holding, S.A.U.	Corporate	Caixa Holding is a shareholder of VidaCaixa; it is the majority shareholder of Caixa Corp, S.A.; it is a Board Member of the VidaCaixa Board; it is a Board Member of the SegurCaixa Board and it is a Board Member of the CaiFor Board.
Caixa Corp, S.A.	Corporate	The company is a Board Member of the VidaCaixa Board and it is a Board Member of the SegurCaixa Board.

La Caixa d'Estalvis i Pensions de Barcelona, "la Caixa"	Corporate	The company is the sole shareholder of Caixa Holding, S.A.U., who, in turn, is a shareholder of VidaCaixa. Mr. Tomás Muniesa is Assistant Executive General Manager of "la Caixa" and at the same time, Chairman of the VidaCaixa Board.
VidaCaixa, S.A. de Seguros y Reaseguros	Corporate	CaiFor, S.A. has an 80% share of VidaCaixa.
SegurCaixa, S.A. de Seguros y Reaseguros	Corporate	CaiFor, S.A., has a 79.87% share of SegurCaixa.

Non-Statutory agreements

The CaiFor Group, an insurance group equally owned by "la Caixa" and Fortis is made up from three companies: VidaCaixa de Seguros y Reaseguros, a company that markets life insurance, pension plans and health insurance; SegurCaixa, S.A. de Seguros y Reaseguros, a company that markets non-life insurance, and AgenCaixa, S.A., Agencia de Seguros del Grupo CaiFor.

The CaiFor Group was founded at the end of 1992 with the firm conviction to become the leading insurance company in Spain. It was created as a result of a joint venture strategic agreement between "la Caixa" and Fortis with the aim of combining the experience of "la Caixa" in the financial sector, its solid corporate image and its widespread distribution network in Spain with the experience of Fortis in the insurance sector. Fortis is one of the foremost financial enterprises in Europe that has thrived over the last few years on its strong growth.

The joint venture agreement was signed by both parties on 25th September 1992 and it contains the regulation for internal relationship between the partners to that joint venture and their filial and external companies with third parties.

Percentage of own shares

There are no own shares

B. Structure of the Company's Board

B.1. Board or Administrative Body

B.1.1. List of the maximum and minimum number of Board Members or Members of the Administrative Body envisaged by the Bylaws:

Maximum number of Board Members / Members of the Administrative Body	12
Minimum number of Board Members / Members of the Administrative Body	4

B.1.2. Complete the following table on Members of the Board or Administrative body and their respective condition:

Name or legal name of Member of Board or Administrative Body	Representative	Date of appointment	Condition
Mr. Ricardo Fornesa Ribó		05.06.2003	Owner Director
Mr. Peer van Harten		15.06.2005	Owner Director
Mr. Tomás Muniesa Arantegui		05.12.2002	Owner Director & Executive
Mr. Juan Antonio Samaranch Torelló		05.12.2002	Owner Director
Mr. Gilbert Mittler		28.05.2004	Owner Director
Mr. Manuel Raventós Negra		05.06.2003	Owner Director
Mr. Herman Verwilst		22.11.2006	Owner Director
Caixa Corp, S.A.	Mr. Antonio Vila Bertrán	05.06.2003	Owner Director
Caixa Holding, S.A.U.	Mr. Julio Lage González	05.06.2003	Owner Director
Mr. Jean-Paul Votron		13.10.2004	Owner Director
Mr. Jacob Westerlaken		15.09.2005	Owner Director
Mr. Olav Cuiper		22.03.2006	Owner Director

B.1.3. Identify, where necessary, the Members of the Board or Administrative Body that undertake positions of Administrator or Director in other companies that form part of the Group:

Name or legal name of Member of Board or Administrative Body	Legal Name of the company in the Group	Position
Mr. Peer van Harten	SegurCaixa, S.A. de Seguros y Reaseguros	Chairman
Mr. Peer van Harten	VidaCaixa, S.A. de Seguros y Reaseguros	Board Member
Mr. Jacob Westerlaken	SegurCaixa, S.A. de Seguros y Reaseguros	Board Member
Mr. Jacob Westerlaken	VidaCaixa, S.A. de Seguros y Reaseguros	Board Member
Mr. Gilbert Mittler	SegurCaixa, S.A. de Seguros y Reaseguros	Board Member
Mr. Tomás Muniesa Arantegui	VidaCaixa, S.A. de Seguros y Reaseguros	Chairman
Caixa Holding, S.A.U.	SegurCaixa, S.A. de Seguros y Reaseguros	Board Member
Caixa Holding, S.A.U.	VidaCaixa, S.A. de Seguros y Reaseguros	Board Member
Caixa Corp, S.A.	SegurCaixa, S.A. de Seguros y Reaseguros	Board Member
Caixa Corp, S.A.	VidaCaixa, S.A. de Seguros y Reaseguros	Board Member

B.1.4. Indicate whether the Bylaws or the Rules of the Board set out a limited mandate for Board Members or Members of the Administrative Body:

YES NO

Maximum years of mandate, with possibility of re-election	6
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B.1.5. Indicate whether the individual and consolidated annual accounts presented for approval by the Board or Administrative Body are previously certified.

YES NO

Identify, where necessary, the person/s that has/have certified the individual and consolidated annual accounts to be presented for approval by the Board or Administrative Body.

Name or Legal Name	Position
Mr. Carlos Ginebreda Martí	Secretary non Member of the Board

B.1.6. Explain the mechanisms, if any, set up by the Board or Administrative Body to prevent the individual and consolidated annual accounts drawn up by him from being presented at the Annual Shareholders Meeting or equivalent body with notes in the auditor's report.

To avoid this situation there is an Audit Committee that supervises the drawing up process of the accounts so that there are no notes.

B.1.7. Does the Secretary of the Board or Administrative Body have the rank of Board Member?

YES NO

B.1.8. Indicate, where necessary, the mechanisms set up to safeguard the independence of the auditors, financial analysts, investment banks and qualification agencies.

- 1) Auditor: the rule of temporary rotation of the audit team is observed.
- 2) Financial Analysts: we work with the most relevant companies in the world.
Most times we work with several at the same time.
- 3) Investment banks: we work with the most relevant companies in the world.
Most times we work with several at the same time.

B.2. Commission of the Board or Administrative Body.

B.2.1. List the Commissions of the Board or Administrative Committees:

	No. of Members
Executive Commission	6
Audit Committee	4
Retributions Commission	2

B.2.2. List of all the Commissions of the Board or Administrative Body and their Members:

EXECUTIVE COMMISSION

Name or Legal Name	Position
Mr. Tomás Muniesa Arantegui	Chairman
Caixa Holding, S.A.U.	Member
Caixa Corp, S.A.	Member
Mr. Peer van Harten	Member
Mr. Gilbert Mittler	Member
Mr. Jacob Westerlaken	Member

AUDIT COMMITTEE

Name or Legal Name	Position
Caixa Corp, S.A.	Chairman
Caixa Holding, S.A.U.	Member
Mr. Jacob Westerlaken	Member
Mr. Olav Cuiper	Member

RETRIBUTIONS COMMISSION

Name or Legal Name	Position
Mr. Tomás Muniesa Arantegui	Member
Mr. Peer van Harten	Member

B.2.3. Write a description of the rules of organisation and how they work, as well as the responsibilities attributed to each of the Commissions of the Board or Administration Body. If need be, describe the powers of the Chief Executive Officer.

B.2.3.1. The Board

The powers of the Board are set out in article 19 of the Corporate Bylaws, which are:

- a) Adopt all the agreements and functions required to carry out the company objective.
- b) Carry out and formalize the agreements of the Annual Shareholders Meeting.
- c) Draw up and put into practice all the Regulations deemed necessary to run the business, offices, buildings and administrations of the company and reform them whenever they think fit.
- d) Accept or reject business and operations.
- e) Hold, organise and authorise all types of acts, duties and contracts, including those related to the acquisition, disposal and taxing of fixed and intangible assets, and grant leases that can be registered.
- f) Avail of the equity of the company to apply it to the running, administration and management of the business and operations of the Company.
- g) Provide all sorts of comfort letters and guarantees and give its assets as a surety and mortgage, all of this as a guarantee for the obligations of the Company itself and for third parties.
- h) Authorize all manner of activities in the Company, especially the Annual Shareholders Meetings and Management Meetings.
- i) Appoint and dismiss personnel, fixing their conditions and attributions, salaries, commissions, bonuses and extraordinary rewards, even appointing and revoking powers of attorney, correspondents, advisors, attorneys, agents and all the rest, agreeing to their retributions, obligations and powers.
- j) Represent the Company in the face of all types of authority, bodies and tribunals, undertaking whatever actions within its power or abandoning them at any time, as well as submitting the matters the Company is interested in to settlement, conciliation, and arbitrators.
- k) Set up and withdraw deposits, compete, intervene and bid in all sorts of auctions and tenders, and open and close accounts in any type of credit establishment, including the *Banco de España* and the *Caja General de Depósitos*.
- l) Sign, issue, endorse and accept, discount and guarantee letters of exchange or promissory notes, letters of payment and other commercial documents or mercantile bills.
- ll) Approve inventories, balance sheets and accounts that have to be submitted to the Annual Shareholders Meeting and annually present the Annual Report to the Annual Shareholders Meeting, proposing, if that be the case, the distribution of profit, amortisations and the setting up of whatever reserve funds it deems necessary.

m) Propose to the Annual Shareholders Meeting the payment of passive dividends, should there be any, on the shares in circulation, until they are fully paid out and the distribution of interim dividends against profits during the course of the year.

n) Delegate its powers to a person or persons it deems fit, through a power of attorney.

ñ) Propose to the Extraordinary Shareholders Meeting the transformation, modification, merge or dissolution of the company.

o) Propose to the Annual Shareholders Meeting any other powers not reserved by law or by the Bylaws.

B.2.3.2. Chief Executive Officer

There is a Chief Executive Officer, Mr. Tomás Muniesa Arantegui.

In accordance to article 141.1 of the Royal Legislative Decree 1564/1989 that approves the Ley de Sociedades Anónimas, the Board of Directors may appoint among the Directors a Chief Executive Officer delegating him all the legal functions according to the Corporate Law, and these have been delegated in favour of Mr. Muniesa.

B.2.3.3. Executive Commission

The Board of Directors appoints an Executive Commission integrated by six (6) Directors among members of the Board of Directors. The Commission appoints a Chairman among its members.

Its functions are the ones delegated by the Board of Directors under the limits of the Law and the Bylaws, and among other functions the Commission prepares the meetings of the Board of Directors, submits all kind of proposals, recommendations and reports to it, and prior to the approval to the Board of Directors, states and enforces the general strategy of the CaiFor Group.

The decisions are adopted by majority of votes unless otherwise agreed. The absent members are considered represented by the members that are present and are appointed by the absent members.

The Secretary of the Executive Commission is the same as the Secretary of the Board of Directors.

B.2.3.4. Audit Committee

The Board appoints an Audit Committee from among its members.

The Audit Committee will be formed by a minimum of three and a maximum of five Board Members. The non-executive Members must always be the majority.

The Audit Committee will appoint its Chairman from among the non-executive Members. The Chairman must change every four years but can be re-elected Chairman after one year from the time of his resignation. The Committee will also appoint the Secretary, who may not be a Member of the Committee, and lacking that appointment or in the case of his absence the Secretary of the Board may act as such.

The Audit Committee meets as often as is necessary to perform its functions well and it is summoned by order of its Chairman, on his own initiative or by request from the Chairman of the Board, or by two Members of the Committee. The Audit Committee is validly constituted when those participating or their representatives form the majority of its Members.

The agreements are adopted by majority of the participating Members, either present or represented.

The Audit Committee has the following competences:

- 1) Report to the Annual Shareholders Meeting on questions raised by the shareholders on matters of their competence.
- 2) Propose to the Board, for its submission to the Annual Shareholders Meeting, the appointment of external auditors.
- 3) Supervise the internal audit services.
- 4) Be fully aware of the financial information process and the systems of internal compliance when they are set up.
- 5) Be in contact with the external auditors to receive information on those questions that may put their independence at risk and whatever other question related to the development process of the audit, as well as those other communications foreseen in the legislation on account auditing and on the technical regulations of auditing.

B.2.3.5. Retributions Commission

The Retributions Commission is integrated by two (2) Directors members of the Board of Directors.

Without prejudice of other functions conferred by the Board of Directors, the Remunerations Commission has the main task to distribute and allocate the remunerations for the members of the Board of Directors stated by the General Meeting of Shareholders.

The Retributions Commission is convened at any time when the Board of Directors or its Chairman ask for the issue of a report or to agree on the proposals of the Board or its Chairman, and in any case can be convened by the application of any of its members and when it is convenient for the development of its functions.

B.2.4. Indicate the number of meetings held by Board of Directors during the year.

Number of meetings	4
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B.2.5. In the case there is a Nominations Commission, indicate whether all its members are Board Members or members of the external Administrative Body.

YES NO

C. Conflicts of interest

C.1. Identify, when necessary, the situation of conflicts of interest in which the Board Members or Members of the Administrative Body of the company find themselves, according to article 127 of the LSA (Law on *Sociedades Anónimas*).

There are no situations of conflict of interest.

C.2. Explain the mechanisms set up to detect, determine and solve the possible conflicts of interest between the company or its Group and its Board Members or Members of the Administrative Body or Directors.

The documents required by article 127 of the LSA (Law on *Sociedades Anónimas*) are filled in and this information is included in the Annual Report.

D. Systems of risk control

D.1. A general description of the risk control policy of the company and/or its group, listing and evaluating the risks covered by the system, together with the explanation of the adequacy of the said systems to the profile of each type of risk.

See the following section "Internal control systems of the CaiFor Group" in this chapter of the CaiFor Annual Report.

D.2. Indicate the control systems in place to evaluate, mitigate or reduce the main risks of the company and its group.

See D.1.

D.3. In the event of some of the risks that affect the company and /or group taking place, indicate the circumstances that caused them and whether the control systems worked.

There have been no risks.

D.4. Indicate if there is a committee or other governing body ordered to set up and supervise those control systems and explain what their functions are.

An Audit Committee designated by the Board of Directors supervises the internal control systems of the company.

E. Shareholders meeting or equivalent organism

E.1. State the quorums to constitute the Annual General Meeting or equivalent organism set out in the Bylaws. Describe how it differs from the minimum rule envisaged in the Law on *Sociedades Anónimas* (LSA), or in the regulation applied to it.

Article 13 of the Bylaws sets out that the quorum to constitute the Annual Shareholders Meeting of Shareholders on the first call is 25% of the issued capital with a right to vote, while on the second call any amount of shareholders with a right to vote is valid to constitute the Meeting.

For certain types of agreements (debenture issues, increase or reduction in capital, transformation, merger or separation, or any modification of the equity) 50% of issued capital with a right to vote is required on the first call, and 25% on the second call.

E.2. Explain the rules to adopt company agreements. Describe how this differs from the rules set out in the Law on *Sociedades Anónimas*, or in the regulation applied to it.

For agreements on matters referred to in section E.1. above, a favourable vote of 2/3 of the present or represented capital is required.

E.3. List the rights of the shareholders in relation to the Shareholders Meeting or equivalent body.

The rights of the shareholders in relation to the Shareholders Meeting are those set out in the Royal Decree 1564/1989, of 22nd December, by which the adapted text on the Law on *Sociedades Anónimas* is approved.

The Bylaws of CaiFor, S.A. and the Law on *Sociedades Anónimas* specify the following rights:

- The right to decide by majority vote the matters that belong to their competence.
- The rights to separate and challenge in the terms set out in the Law.
- The shareholders present or represented, when they own at least 25% of the issued capital with a right to vote, can validly summon a Shareholders Meeting, either ordinary or extraordinary, at the first call. At the second call any amount of issued capital with a right to vote is valid.
- The right of the shareholder to obtain from the Company, immediately and freely, the documents that have to be submitted for their approval and, if appropriate, the report from the auditors.
- The shareholders, whose shares are registered in the Shares Register five days prior to the date the General Shareholders Meeting is to take place, have a right to attend.
- The shareholders with a right to attend have a right to be represented.
- The shareholders that hold 5% of the equity of the company can summon an Extraordinary Shareholders Meeting listing the matters to be discussed at it.
- The right to one vote per share.

E.4. Indicate briefly the agreements adopted at the Annual Shareholders Meetings or equivalent bodies held in the same year as this report refers to and the percentage of votes with which the agreements were adopted.

Attendances at the Shareholders Meetings held this year:

All the Shareholders Meetings were complete with all the shareholders in attendance.

A list of the agreements adopted by the Shareholders Meetings this year:

Extraordinary General Meeting of 22nd March 2006. Resignation of the Vice-President of the Board Mr. Josef De Mey and appointment of Mr. Olav Cuiper as Director. Appointment of the Director Mr. Peer van Harten as Vice-President of the Board. Modification of article 20 of the corporate bylaws to create an Audit Committee.

Ordinary and Extraordinary General Meeting of 16th June 2006. Examination and approval of the annual accounts for the fiscal year 2006 and distribution of results, as well as the consolidated accounts. Re-election of Auditor for the individual and consolidated accounts of the Group. Modification of articles 11 and 16 of the corporate bylaws.

Extraordinary General Meeting of 22nd November 2006. Re-election of the Director Mr. Herman Verwiltst.

E.5. Indicate the address and way of accessing the content of corporate governance in your web page.

The access to the Report on Corporate Governance of the company can be had through the following URL address: <http://www.caifor.es/1-20-20-00000003.htm>

F. Extent to which the recommendations of Corporate Governance are followed

Indicate to what extent the enterprise fulfils the recommendations of the existing corporate governance, or in the event, the non-acceptance of those recommendations.

In the event of not fulfilling some of them, explain the recommendations, norms, practices or criteria the enterprise applies.

Recommendation 1

“That the Board expressly assumes the general function of supervision as its core mission, exercises without delegation all the responsibilities that entails and sets up a formal catalogue of the matters reserved for its own knowledge.”

This recommendation is followed. The powers of the Board are set out in the Bylaws.

Recommendation 2

“That a reasonable number of Independent Board Members join the Board, whose profile corresponds to people with a prestigious professional background while not having any connections with the executive team and the major shareholders.”

The shareholders hold 100% of the equity, so this recommendation is not followed.

Recommendation 3

“That in the composition of the Board, the external Board Members (both owner director and independent) make up the majority over the executive Members and that the proportion between owner director and independent is fixed taking into account the existing relationship between the capital integrated in packages of shares and the rest.”

This recommendation has been updated by the Aldama Report in this sense: “That there is a large enough majority of external Board Members on the Board and, within those, a significant participation of independent Board Members, taking into account the share structure of the company and the capital represented on the Board.”

All the Board Members are owner directors and the recommendation is not applicable as the share capital is fully represented.

Recommendation 4

“That the Board limits its size to achieve a more efficient and participative running of same. In principle, the most suitable size could be between five and fifteen members.”

This recommendation is followed. The Board is formed by 12 members.

Recommendation 5

“That the Board, in the event that it opts for the formula of concentrating the executive power of the company in the Chairman, adopts the necessary precautions to reduce the risks of the concentration of power in a single person.”

This recommendation is followed. The Chairman does not have the position of Chief Executive of the company.

Recommendation 6

“That the Secretary of the Board is given a relevant role, strengthening his independence and stability and emphasising his responsibility to safeguard the formal and material legality of the actions of the Board.”

This recommendation is followed.

Recommendation 7

“That the composition of the Executive Commission, when there is one, reflects the same balance kept by the Board between the different types of Member, and that the relationship between both bodies is inspired in the principle of transparency, in such a way that the Board is fully aware of the matters dealt with and the decisions adopted by the Commission.”

There is an Executive Commission with the above-mentioned balance, so the recommendation is followed.

Recommendation 8

“That the Board sets up delegated Commissions of control composed exclusively by external Board Members, in matters of information and accounting control (Audit); selection of Board Members and top Directors (Appointments), determination and revision of the retributions policy (Retributions), and evaluation of the governance system (Compliance).”

This recommendation is partially followed. There is an Audit Committee composed by external Members and a Retributions Commission composed partially by external Members.

Recommendation 9

“That the required measures are adopted to ensure that the Board Members have, at their disposal with enough notice, sufficient information, specifically prepared and focussed on preparing the Board sessions, without being relieved from applying the importance or reserved nature of the information, except in exceptional circumstances.”

This recommendation is followed.

Recommendation 10

“That, to ensure the smooth running of the Board, the meetings are held with the required frequency to comply with its mission; the Chairman encourages the intervention and free positioning of all Board Members; special attention must be given to writing the minutes, and at least once a year the quality and efficiency of their work must be evaluated.”

This recommendation is followed.

Recommendation 11

“That the intervention of the Board in the selection and re-election of its members must comply with formal and transparent proceedings, starting with a reasoned proposal from the Nominations Commission.”

This recommendation is not followed, as there is no Nominations Commission.

Recommendation 12

“That the companies include in their rules and regulations the obligation of the Members to resign in the event they could negatively affect the smooth running of the Board or the credit and reputation of the company.”

The company does not have any specific regulation on this point, so the general regulation on companies is followed.

Recommendation 13

“That an age limit is set to act as a Board Member, which could be between sixty five and seventy years old for executive Members and the Chairman, and somewhat more flexible for the other Board Members.”

This recommendation has been modified by the Aldama Report in the sense that there is no age limit set for Board Members, but it does say that the company that adopts a policy on this point must include it in the Bylaws.

No policy related to age limit for Board Members has been adopted.

Recommendation 14

“That a formal recognition be made about the right of all Board Members to gather and obtain information and the necessary counselling to carry out their supervisory functions, and that suitable channels are set up to exercise this right, including consulting external experts in special circumstances.”

There is no formal or written recognition of the right of Board Members to gather and obtain information and counselling, but in practice all the Board Members enjoy this right.

Recommendation 15

“That the remuneration policy of the Board Members, whose proposal, evaluation and revision must come from the Retributions Commission, adapts to the criteria of moderation, related to the profits of the company and with individualised and detailed information.”

Article 16 of the bylaws and the Retributions Commission regulate the remuneration of the Board.

Recommendation 16

“That the internal regulation of the company list the obligations that stem from the general duties of diligence and loyalty of the Board Members, in particular contemplating the situation of conflict of interests, the duty of confidentiality, the exploitation of business opportunities and the use of company assets.”

The company does not have any specific regulation on this point, so the general regulation on companies is followed.

Recommendation 17

“That the Board encourages the adoption of opportune measures to extend the duties of loyalty to the most significant shareholders, setting up, in particular, precautionary restraints for transactions made between those and the company.”

There are no specific precautions for this, given that the company has only two shareholders, both of which are represented on the Board.

Recommendation 18

“That measures are introduced directed at making the delegation of votes mechanism more transparent and foster the company’s communication with its shareholders, especially with the institutional investors.”

This is not necessary, given the composition of the shareholders.

Recommendation 19

“That the Board, beyond the demands imposed by the regulation in force, takes upon itself the responsibility to provide the markets with fast, precise and reliable information, especially when this refers to the shareholder structure, major modifications of the governing rules or operations linked to the equity of the company.”

This recommendation is partially followed.

Access to the notifications is available through the Internet and can be reached at the following URL address: <http://www.caifor.es/1-20-20-00000003.htm>, or accessing the website of CaiFor, S.A. (www.caifor.es), section “El Grupo” followed by the subsection “CaiFor, Informe de Gobierno Corporativo”.

Recommendation 20

“That all the periodic financial information, in addition to the annual information, that is offered to the markets is drawn up in accordance with the professional principles and practices of the annual accounts, and before being diffused, is verified by the Audit Committee.”

This recommendation is followed in the sense that the annual accounts are verified by the Audit Committee, although periodic financial information is not given to the markets, except for the quarterly publishing of the CaiFor Group’s results, through the communications media, where reference is made to CaiFor, S.A.

Recommendation 21

“That the Board and the Audit Committee guard against situations that could involve a risk to the independence of the external auditors of the company and, more particularly, that they verify the percentage of the fees paid out for all concepts over the total income of the auditing firm, and that they be made public to professional services other than auditing services.”

This recommendation is followed.

Income paid out to Deloitte, the auditing company of the CaiFor Group, S.A.

Concept invoiced in 2006:	Amount in euros
1. Audit of CaiFor, S.A.	10,600.00
2. Special report	1,995.00

Recommendation 22

“That the Board endeavours to avoid that the accounts made up by it are presented to the Annual Shareholders Meeting with reserves and notes in the auditor's report, and that, when this is not possible, both the Board and the auditors clearly explain to the shareholders and the markets the content and scope of the discrepancies.”

This recommendation is followed.

G. Other information of interest

This Report on Corporative Governance has been approved by the Board of Directors of the company on the 25th of May 2007.

Internal Control Systems of the CaiFor Group

Introduction

Through its filial companies, the CaiFor Group develops its insurance and social welfare activity in a regulated market in which, as a result, the updating of regulations is frequent. This is true for insurance and pension plans as well as for other matters that are applicable, such as the regulations concerning labour, tax or finance.

The notable growth of the CaiFor Group, as well as the technical sophistication of the products it manages, create the need to operate through a highly mechanised integrated system of processes and procedures that are updated constantly.

Taking these circumstances into considerations, and with the aim of guaranteeing the achievement of the objectives approved by the Board, and proper and punctual information for the markets, the CaiFor Group defined an internal control system that is rigorous and is spread over the whole structure of the company.

Covered risks

The first step on the way to developing an effective and suitable internal control system for the organisation is to identify, classify and evaluate the risks of the Group.

In this sense, CaiFor considers the following risk categories:

Operational Risk: The Group works on the constant identification of direct and indirect risks of having losses due to mistakes in internal processes, systems, human resources, environmental changes or fraud.

Within this category of risk, special attention is given to the inherent risks in investments, given that it is the area that supports the business of the Group.

Credit Risk: There is a systematic control of the risk that the counterparty of the investments made does not comply with his obligation of payment, and the possible losses in value due to variations in his creditworthiness.

Market Risk: There is a control of the risk of suffering losses from variations in the interest rate, the exchange rate or the value of variable income.

Technical or Subscription Risk: There is quite an exhaustive control of the technical-actuarial risk, given that the technical reserves are the most significant item of the liabilities of the Group.

System of internal control

The Board of Administration, as the maximum decision-making and representation body of the CaiFor Group, is responsible for the definition of the internal control policy of the Group,

through the functions carried out by the different Delegated Commissions. The management, who is responsible for carrying out the implementation of that policy, has all the necessary tools and qualified personnel to do so.

Generally speaking, the most relevant mechanisms and internal control systems implemented by the CaiFor Group to guarantee the proper control and management of the identified risks are as follows:

a. Operational Risk

The development and constant updating of an operational risk map enables the different identified risks to be listed, categorised and prioritised, as well as assigned to the key processes of the Group.

Preparation and continuous adaptation of the regulations and the internal procedures for the different companies in the Group, with the aim of homogenising and unifying criteria, and guaranteeing a suitable degree of Internal Control in all the developed processes.

Implementation and follow-up of automated control systems, designed to control the risks of data registration.

Implementation and follow-up of management control systems, with the aim of maintaining a continuous supervision of the economic-financial highlights, as well as the evolution of the strategic objectives and approved budgets, which can detect, and so correct, significant deviations that affect the fulfilment of the plan.

Analysis of the impact on the profits and the assets of the investments in new products or new lines of business.

Maintenance of a strict segregation of functions between the management of the investment portfolios or front office and the back office, whose main function is to confirm the operations.

Implementation and follow-up of control systems of investment risks and liquidity, which cover the process of the investment operation as a whole.

Development of control systems of asset and liability matching and fulfilment of the specific regulating rule.

b. Credit Risk

Definition and follow-up of a credit risk framework for the investment portfolio, that is, of the credit qualification of the investments in portfolio, considering the long-term and short-term associated risks, based on better quality ratings.

c. Market Risk

Periodic calculation of the market risk –“Value at risk”, VaR–, for the portfolio subject to the calculation of the liquidation value of the participation, defined as the maximum expected loss with a temporary horizon of one day and with a 95% degree of confidence, for variations in the rate of interest, the exchange rate or the value of variable income.

The analysis of the contribution to the VaR –marginal VaR– of certain assets that could contribute to controlling it or strengthening it.

d. Technical or Subscription Risk

The preparation and follow-up of a Technical Score Card, with the aim of keeping the synthetic vision of the technical evolution of the products of the Group up to date.

Definition and follow-up of the Subscription Policy.

Definition and follow-up of the Tariff Policy.

Definition and follow-up of the Reinsurance Policy.