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Developments in the environment and the sector



Developments in the environment and the sector

The symptoms of recession that began to appear in 2007 were confirmed and this made 2008 a complex year in business.

The International panorama has been one of heavy strain on liquidity, diminished profits, solvency crisis, bankruptcy and the increase in risk premiums. The most important stock markets in developed countries lost an average of 40% and the Japanese and European Union economies are now officially in recession with negative GDP growth. The United States joined Japan and the EU in early 2009.

The macroeconomic outlook in Spain is not immune to the international environment, the main features of which are negative trends in economic indicators such as GDP and unemployment rates. Nevertheless, over the past year several financial initiatives has been introduced aimed at increasing liquidity and revitalizing GDP, like the asset acquisition funds, debt emission guarantees or the ICO credit lines, as well as tax initiatives such as the municipal investment fund, tax cuts and partial return of income tax.

Despite the economic setting, the Spanish insurance sector recorded positive results in the overall number of premiums subscribed to in 2008, reaching 59,036 million Euros with an overall growth of 8% compared to the previous year's total of 54,648 million Euros. Life insurance premiums grew by 15% compared to a more modest performance for the non-life segment with 2% growth. The volume of funds managed in life insurance amounted to 136,133 million Euros, which was a 2% increase on the figure for 2007. The data for the elevated volatility of savings is quite revealing, given that the significant growth in premiums is not

mirrored by a proportional growth in the volume of funds managed.

The volume of non-life insurance was 32,429 million Euros, an increase of 2% on the previous year confirming the slowdown in the rate of growth that began in 2007 when growth rates were 5%. It is worth noting that the economic crisis has specifically taken its toll on the automobile insurance line with a 2% drop, well below the 5% and 7% growth registered in 2007 and 2006 respectively.

At the same time, the impact of financial instability together with a decrease in contributions was especially significant in the case of pension plans. Specifically, in 2008 the volume of savings within the sector fell by 9% compared with last year.

Legislative changes

Among the principal legislative changes introduced in 2008, the most noteworthy in terms of personal data protection was the Royal Decree 1720/2007, which came into force in general terms on April 19, 2008. The new regulation highlights all areas related to the security measures applied to non-automated information processing. Under the new law certain filing criteria have been established which guarantee adequate conservation of documents and the exercise of the right to object to data processing, modification or cancellation.

Furthermore, Ministerial Order EHA407/2008, of February 7 has enabled the provision for developing legislation governing pension plans and pension funds in financial-actuarial matters, investment schemes and recording procedures.

The volumen of savings deposited in life insurance grew by 2% over last year's figure, the same growth shown by all the non-life branches in premiums

2. Developments in the environment and the sector

Economic environment and household savings

Stock Markets

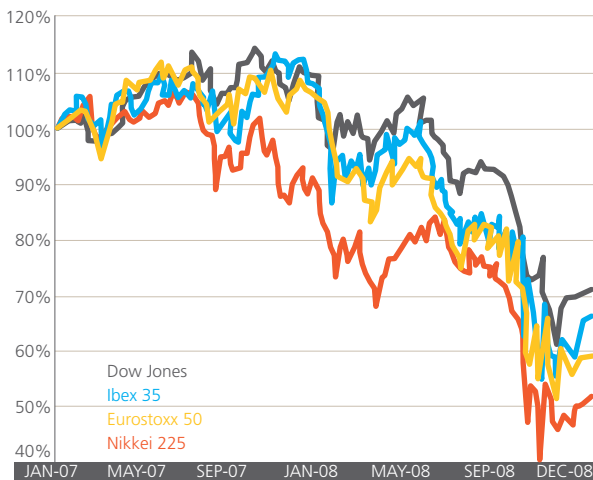
Developments in capital markets completely put an end to the upward trend of international stock markets over the past years. After initial adjustments at the end of 2007, in 2008 stock markets in developed countries lost between 30% and 50%. Stock market indexes for developing countries were no exception and showed significant

losses. Specific indexes for the financial and insurance sector in particular have also been impacted by the overall recession in stock markets with losses of over 50% in the case of the Ibx 35 Banks. In this setting, losses in the markets contributed to reducing the value of savings managed in life insurance and pension funds linked to variable yield securities.

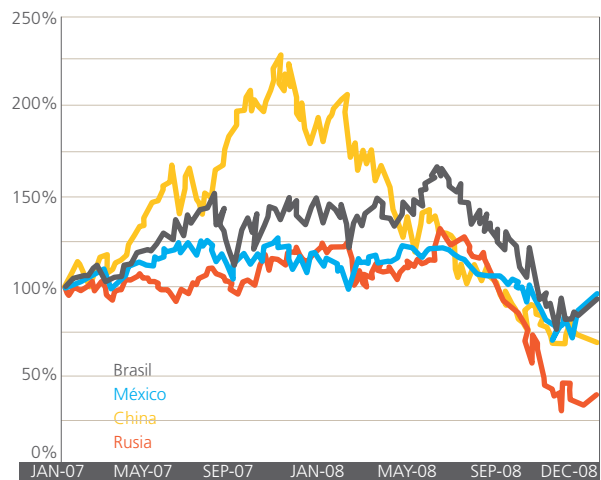
After initial adjustments at the end of 2007, in 2008 stock markets everywhere experienced significant losses, including markets in developing countries

International Stock Markets

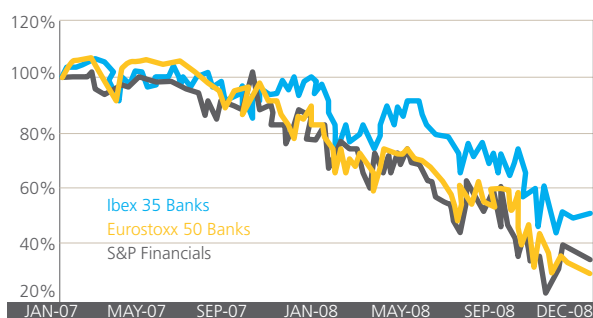
Developed countries



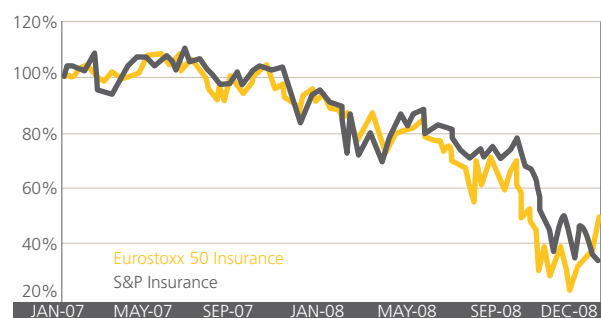
Developing countries



Banking sector



Insurance sector



Source: Studies service "la Caixa". 100% January 2007

2. Developments in the environment and the sector

Interest rates

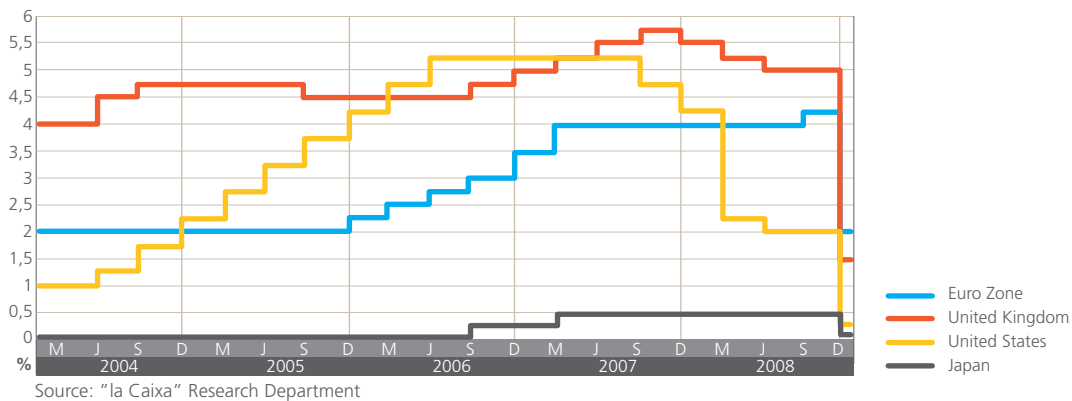
2008 was a year characterized by the general reduction in interest rates. In this respect, over the past year, the European Central Bank fixed the reference interest rate at 2% in December, down from 4% in January. Meanwhile, the United Kingdom also lowered its interest rate to 1.5% and the United States and Japan closed the year

with interest rates close to 0%, specifically 0.25% and 0.10% respectively.

At the same time, the positive impact on long-term interest rates is noteworthy and represents increased profitability for customers with long-term savings-investment products, such as life annuity or temporary life annuity products.

2008 was a year characterized by a general lowering of interest rates by Central Banks

Central banks reference interest rates



Household financial savings in Spain

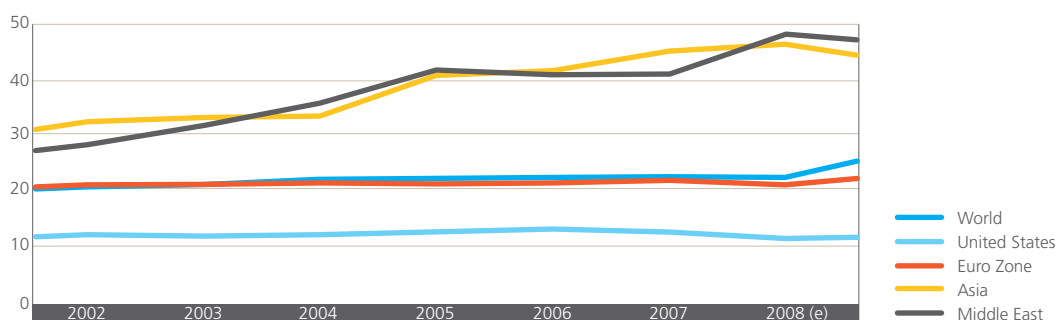
Household savings in Spain was estimated to be at 6.4% of Gross Domestic Product in 2008, which represented a drop from 8.7% in 2007 and 15% of available income registered in 1994. Several factors contributed to this situation, even though consumer spending rates rose since this date. In 2008, household financial savings

amounted to 1.7 billion Euros, with an average inter-annual growth rate of 9% since 1990 but with a heavy drop of 10% compared to the previous financial year. This sum accounts for 167% of GDP placing Spain on a par with saving standards in developed countries. The Gross National Saving as a percentage of GDP in Spain is at 20%, slightly below the average for the Euro Zone, which was 21.8%.



2. Developments in the environment and the sector

Trend in savings ratio expressed as % of GDP



(e): estimate. Source: IMF

Household savings in Spain

	1990		2008 (e)		Average Annual growth 08/90	Growth 08/07
	EUR Milions	%	EUR Milions	%		
Deposits	217,891	61%	789,000	46%	7%	8%
Variable Income	44,021	12%	337,000	20%	12%	-36%
Investment funds	7,941	2%	152,400	9%	18%	-26%
Life Insurance	7,095	2%	136,133	8%	18%	2%
Pension plans	3,215	1%	78,408	5%	19%	-9%
Fixed Income	25,523	7%	44,000	3%	3%	-8%
Others	50,062	15%	185,459	9%	8%	2%
TOTAL	355,748	100%	1,722,400	100%	9%	-10%

Source: Inverco

Life insurance and pension plans maintained inter-annual growth rates of 18% and 19% respectively since 1990 and both products accounted for 13% of the overall household savings, in line with figures for 2007. Nevertheless, during 2008 growth rates experienced a downturn and showed a slight increase of 2% in life insurance and a sharp drop in the volume of savings deposited in pension plans. This was principally due to two factors: a reduction in the volume of contributions and market losses.

The trend in deposits was especially noteworthy given that they accounted for almost 50% of the overall amount of household savings. Deposits increased by 8% compared to 2007 and are the products that registered the most significant growth during the year. In terms of overall importance, variable income is second to deposits and accounts

for 20% of the total. These products decreased by 36% and investment funds, after a drop of 26% in the volume of assets, represented 9%, just above life insurance.

In the analysis of trends in household savings levels it is important to bear in mind that two factors have influenced the decrease more than any others. On the one hand, the devaluation of index linked instruments, mainly shares and investment funds, and on the other hand, increased flow of new savings from households.

Despite this fact, it can be concluded that overall, household savings at 2008 year end were approaching that of the most developed countries. Only the United States, Japan and several European countries registered a savings to Gross Domestic Product ratio above that of Spain.

In 2008, Spanish household savings experienced a reduction in the volume of financial savings as a consequence of the devaluation of index-linked instruments and a reduction in the flow of new savings deposited



Developments in the insurance and pensions sector

Life Insurance

The total volume of savings deposited in life insurance by the end of 2008 was 136,133 million Euros which was a modest 2% increase on 2007. This discrete percentage coincides with that of 2007. The new fiscal regulation came into force this year, in which the long-term final savings has the same fiscal treatment as other instruments.

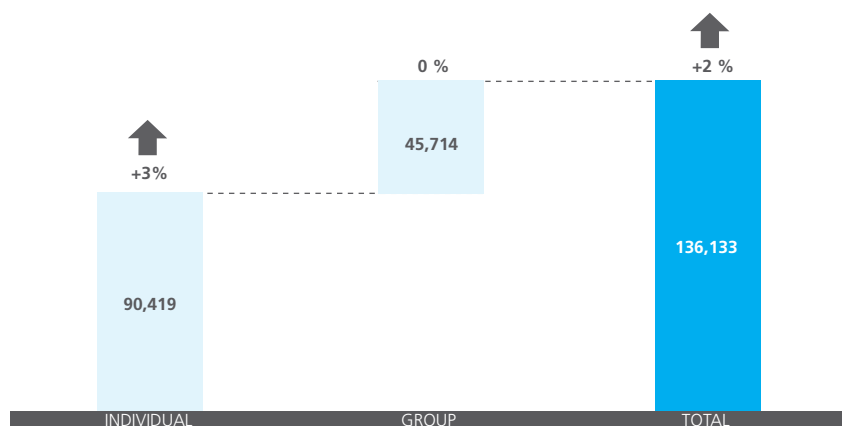
Once again this year, two thirds of the total managed funds deposited corresponded to individual insurance policies, while the remaining products were channelled through group insurance schemes. With regard to growth, individual life insurance grew by 3%, 1% less growth compared to 2007, while resources deposited in group insurance schemes remained unchanged as was the case in 2007.

The number of people in Spain insured under any kind of life insurance scheme collectively amounts to 32,910,916, after adding the 882,488 new insurance customers who subscribed to policies in 2008. 71% of policyholders were subscribed to life-risk insurance schemes (23.5 million) while 29% corresponded to life-savings insurance (9.5 million). The average resources managed per life-savings insurance policyholder is 13,890 Euros, which represents a drop of 563 Euros compared to 2007. Group insurance average resources managed are 27,397 Euros per policyholder, compared to 11,117 Euros in the case of individual insurance policies.

It should be pointed out here that activity in the life-savings insurance business showed a decrease in 2008 to the tune of 2,070 million Euros due to the fact that the volume of premiums deposited was lower than surrenders and benefits paid out. The modest growth of 1,895 Euros shown last year was thanks to the revaluation of mathematical reserves.

One of the highlights last year in terms of insurance products was the positive

Life Insurance 2008: managed funds



Source: ICEA (Association for Insurance and Assurance Companies in Spain). In millions of Euros.

implementation of the new class of savings insurance, namely the PIAS (*Planes Individuales de Ahorro Sistemático* or Individual Systematic Savings Plan) resulting from the latest tax reform introduced by the Government. After a market-life of two years, this new product accumulated a total volume of savings of 1,176 million Euros from 329,000 policyholders. Another important development in 2008 was the growth in PPA (*Planes de Previsión Asegurado* or Guaranteed Welfare Plans). The PPAs capitalized on the guarantee of profitability for any term chosen by the customer. This option was a very attractive offer especially in an environment of such great financial flux as was the case in 2008 and for customers approaching retirement age. By way of these plans, policyholders can enjoy the same tax benefits as those enjoyed by pension plan holders and the commission free transfer of funds between the two instruments. Confirmation of the excellent rate of activity for this product type is the volume of 3,355 million Euros with a growth rate of 295% compared to the volume of accumulated resources in 2007 and an overall number of policyholders of 353,000.

In Spain, almost 33 million people are subscribed to life insurance policies. 71% of policyholders are subscribed to life-risk insurance schemes while 29% correspond to life-savings insurance

Just two years after the launch of PIAS, (*Planes Individuales de Ahorro Sistemático* or Individual Systematic Savings Plan), there were over 329,000 policyholders with a total of 1,176 million Euros invested

2. Developments in the environment and the sector

In contrast, the impact of a complex macroeconomic environment adversely affected the volume of life-risk insurance premiums issued falling by 3% thereby putting an end to the steady growth registered in previous financial years. The slowdown in the property market and its subsequent effect on mortgage linked insurance was without doubt one of the principal causes of the fall.

In closing however, it is worth pointing out that the amount of accident claims payments amounted to 1,272 million Euros in 2008 with a 32% increase on 2007. Of the total amount, 54% were individual policies, an area that has grown 11%, while those corresponding to group insurance policies increased by 69%.

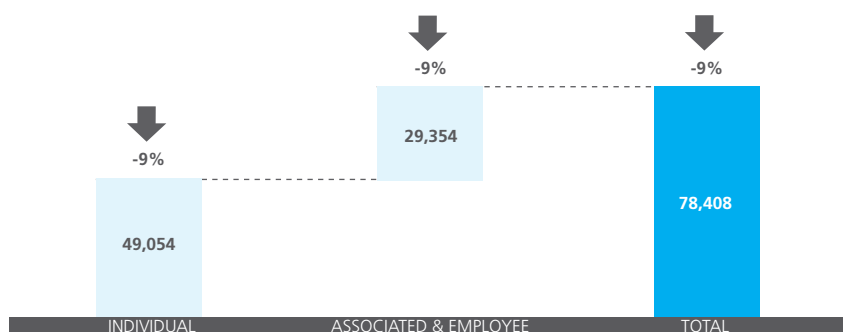
Pension Plans

The overall volume of resources managed in pension plans in 2008 was in the region of 78,408 million Euros, a decrease of 9% compared to 2007. This contrasts negatively with 7% growth in 2007. The negative trend of international Stock Markets dealt a blow to the Funds portfolios thereby contributing to a fall in global financial resources within the sector. In addition, the volume of contributions also decreased and, despite registering a net balance of almost 1,900 million Euros, it was still insufficient in preventing such a drain on financial resources.

In line with the distribution registered in 2007, 63% of resources were deposited in individual plans, with the remaining 37% in employment benefit schemes or associated plans. The two types of policy, individual and group, witnessed a fall in growth rates. Compared to a 9% rate of growth in 2007, individual plans decreased by 9% while group plans also fell 9% compared to a growth of 3% the previous year.

Gross contributions were down 14% on 2007, amounting to 6,006 million Euros. Nevertheless, a 7% increase in benefits paid to customers, totalling 4,140 million Euros, meant that net flow (contributions – benefits) was 40% less in 2008. Of course, it should be pointed

Pension plans in 2008: volume managed



Source: INVERCO. In EUR millions

out that in 2007, net flow had already decreased sharply, while in 2006 the results were similar to those obtained in 2003, 2004, and 2005. Apart from the general macroeconomic situation, this drop must be interpreted in the context of the second quarter after the tax reform came into force, even further, when we consider that the reform modified contribution limits and eliminated the 40% reduction in benefits obtained in capital, among other changes.

The structure of Pension Fund portfolios changed remarkably in 2008 increasing the percentage of fixed-income securities from 47% to 59% and witnessing a fall in variable income investment from 24% to 17%, in keeping with the aforementioned events concerning stock markets.

However, when taken in perspective it is clear that profound changes took place in the structure of Spanish pension plan portfolios, one of which was the increased importance of variable income, growing from 4% in 1995 to 17% in 2008, while the importance of fixed income diminished from 74% in 1995 to 59% in 2008. Another noteworthy change was the increase in assets in international investment which represented 26% of the entire portfolio in 2008, while in 1995 they did not even exist.

In the wake of several years of growth, 2008 broke with tradition and saw the volume of assets deposited in pension plans fall by 9%

In Spain there are more than 10 million pension plan accounts and approximately 40% of the working population are subscribed to a pension plan

2. Developments in the environment and the sector

In terms of the number of people with pension plans, in 2008 the figure increased by 240,000 and currently stands at more than 10 million. Eliminating the effect of customers who contribute to more than one plan, the overall number at year-end in 2008 was estimated at around 8 million. The average age of contributors was 45 and around 34% were between 41 and 51 years old, while 24% belonged to the 31 to 40 age group. In all, we can conclude that approximately 40% of the working population subscribed to some form of pension plan.

However, after 15 years of uninterrupted growth, the Spanish market is still far behind the levels in economically closer countries. There is still a long way to go before these instruments reach a similar level of development to those registered in neighbouring countries with a more comparable economic setting.

Non-Life Insurance

During 2008, non-life category products amounted to a premium volume of 32,429 million Euros, an increase of 2% on 2007. Development however was

quite uneven. While auto insurance fell by 2%, health and multirisk products increased by 8%. The ever-growing importance of the automobile sector, now accounting for 38% of the total, had a significant impact on development in the sector, thereby contributing to the generalized sluggishness.

Health and multirisk insurance are the two fastest growing types of insurance with growth rates better to none, while automobile insurance fell by 2%

Non-life insurance in 2008: Premiums

Business	2008	2007	% gain
Automobile insurance	12,319	12,548	-2%
Multirisk insurance	5,884	5,465	8%
Health insurance	5,825	5,406	8%
Rest of Non-life products	8,401	8,361	0%
TOTAL	32,429	31,780	2%

Source: ICEA (association for Insurance and Assurance Companies in Spain). In EUR million.

2. Developments in the environment and the sector

Legislative changes in 2008

Throughout 2009, several legislative changes were introduced that had a direct impact on SegurCaixa Holding's activity. The most important of these were the Royal Decree 1720/2007 regarding personal data protection and Ministerial Order EHA407/2008, affecting regulation concerning pension plans and pension funds.

With regard to the former, the Royal Decree 1720/2007 came into force April 19, 2008 and is focused on the legislative domain concerning the necessity to establish criteria for application in database and non-automated personal data processing.

The new regulation clarifies what is understood by database and processing regarding personal or domestic use, while also establishing a series of definitions in order to better understand the regulation, particularly necessary in an area so closely connected to the technical domain as is the case of personal data protection. Moreover, the law establishes standard criteria for calculating terms, thereby preventing distinctions that could result in private and public databases being treated differently.

Another aspect of the regulation is that it addresses rights to access, modification, cancellation and opposition to processing. In addition, it clarifies important aspects concerning ordinary traffic, such as the application of specific criteria to certain privately controlled databases that is necessary given the significance of some of these, as is the case of those

concerning financial solvency and credit and those used for advertising activities and market research.

The purpose of Ministerial Order EHA407/2008, of February 7 is the development of specific issues stipulated under Pension Plans and Funds Regulation.

This Order includes a development concerning the actuarial activity and actuarial standards governing pension plans that establish requirements to be included and annexed to the specifications of those pension plans that include clearly defined provisions for all or some of the contingencies or accrued provisions, as well as criteria regarding specific demographic, financial and economic hypotheses that must be applied when calculating mathematical provisions or whatsoever technical provisions.

In terms of demographic hypotheses and in an effort to avoid inconveniences arising from using outdated demographic tables, the order defines mandatory standards for mortality, survival and disability tables to be applied by pension plans.

In addition, the Order includes a development concerning certain aspects of the legal framework in matters regarding pension fund investment. Details are given for what is understood by the term 'financial agents' in terms of the regulatory standards, the system applicable to derivative instruments, the concept of structured financial asset and applicable credit rating criteria.

The two main legislative changes in 2008 were the Royal Decree 1720/2007 regarding protection of personal data and the Ministerial Order EHA407/2008, that affects regulation covering pension plans and pension funds