

**Corporate  
Governance**



## Annual report on corporate governance of listed companies

The Annual Corporate Governance Report has to be sent to the National Stock Market Commission (CNMV) in the specific format of the questionnaire published by the CNMV. It therefore includes sections or points that are not applicable to Banco de Sabadell, S.A. and are consequently left blank or unanswered.

### A. Ownership structure

**A.1** Complete the following table showing the share capital of the Company:

Last change on (date)	Share capital (€)	Number of shares	Number of voting rights
15/12/2008	150,000,000	1,200,000,000	1,500,000

State whether there are different classes of shares with different rights attaching to them:

Yes  No

**A.2** List the direct and indirect holders, other than Directors, of significant interests in the Company at the close of the year:

Name of shareholder	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
Inversiones Hemisferio, S.L.	0	78,874	5.258
Famol Participaciones, S.L.	76,501	0	5.100
Fundo de Pensoes do Grupo BCP	76,026	0	5.068
Unicredito Italiano, S.P.A.	61,200	0	4.080

Name of indirect holder	Held through: Name of direct holder	Number of direct voting rights	% of total voting rights
Inversiones Hemisferio, S.L.	Jaipur Investment, S.L.	78,874	5.258

List the most significant changes in the share ownership structure during the year:

Name of shareholder	Date of operation	Description of operation
Fundo de Pensoes do Grupo BCP	18-12-2008	Holding increased to over 5% of the capital
Fenytón S.L.	14-01-2008	Holding reduced to below 3% of the capital

**A.3** Complete the following tables showing members of the Board of Directors and their voting rights:

Name of Director	Number of direct voting rights	Number of indirect voting rights	% of total voting rights
José Oliu Creus	1,000	4,000	0.333
Joan Llonch Andreu	1,350	0	0.090
Jaime Guardiola Romojaro	83	83	0.011
Carlos Jorge Ramalho dos Santos Ferreira	10	0	0.001
Francesc Casas Selvas	1,099	0	0.073
Héctor María Colonques Moreno	52	493	0.036
Isak Andic Ermay	10	84,011	5.601
Joaquín Folch-Rusiñol Corachán	15,300	0	1.020
José Manuel Lara Bosch	180	0	0.012
José Permanyer Cunillera	897	770	0.111
Maria Teresa Garcia-Milà Lloveras	13	0	0.001
Miguel Bósser Rovira	929	561	0.099

Name of indirect holder	Held through: Name of direct holder	Number of direct voting rights	% of total voting rights
Isak Andic Ermay	Mayor Vent, S.L. Unipersonal	84,011	5.601

**Total percentage of voting rights held by members of the Board of Directors** **7.389**

Complete the following tables showing members of the Board of Directors holding options on shares in the Company:

**A.4** Describe any connections of a family, business, contractual or corporate nature between any holders of significant interests, where known to the Company, other than those of minor importance or arising in the normal course of business:

**Type of relationship:**

Corporate

**Brief description:**

Shareholder in Famol Participaciones, S.L.

**Name**

Inversiones Hemisferio, S.L.

**A.5** Describe any connections of a business, contractual or corporate nature between the holders of significant interests and the Company, other than those of minor importance or arising in the normal course of business:

**A.6** State whether the Company has been notified of any shareholder agreements affecting it within the meaning of Article 112 of the Stock Market Act. If so, give a brief description of the agreements and list the shareholders bound by them:

Yes  No

**Percentage of capital affected** **0**

**Brief description of agreement:**

Signed on 27 July 2006 to establish restrictions on the transfer of their shares in the company.

## Signatories to the shareholders agreement

Héctor María Colonques Moreno  
Miguel Bósser Rovira  
José Oliu Creus  
Isak Andic Ermay  
José Manuel Lara Bosch  
Joaquín Folch-Rusiñol Corachán

State whether the Company is aware of the existence of concerted actions between its shareholders. If so, give a brief description of these:

Yes  No

State whether there has been any change in, or cessation of, any such shareholders agreement or concerted actions during the year.

**A.7** State whether there is any individual or corporate entity that is exercising or is able to exercise control over the Company within the meaning of Article A.4 of the Stock Market Act [Ley del Mercado de Valores]. If so, give names:

Yes  No

**A.8** Complete the following tables to show the Company's holdings of its own shares:

At the year-end:

Number of direct shares	Number of indirect shares (*)	Total % of capital
4,449,933	0	0.371

(\*) Held through:

<b>Total</b>	<b>0</b>
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Give details of any significant changes during the year, within the meaning of Royal Decree 1362/2007:

Date of notification	Total direct shares acquired	Total indirect shares acquired	Total % of capital
10/01/2008	12,787,476	0	1.045
12/02/2008	12,703,734	0	1.038
27/03/2008	12,630,864	0	1.032
29/04/2008	12,304,301	0	1.005
18/06/2008	12,352,235	0	1.009
25/07/2008	12,342,420	0	1.008
23/09/2008	13,798,614	0	1.127
13/10/2008	13,035,733	0	1.065
19/11/2008	12,584,385	0	1.028
22/12/2008	6,928,398	0	0.568
<b>Capital gain/loss on the Company's own shares disposed of during the period</b>			<b>1,696,346</b>

**A.9** State the terms of any authorisation given by the General Meeting to the Board of Directors to acquire or transfer the Company's own shares, and the period within which it must be exercised:

The Ordinary General Meeting of Shareholders of Banco de Sabadell, S.A. held on second call on 29 March 2007, authorised the Board of Directors in the following terms in respect of item 7 on the agenda:

“To annul the resolution adopted by the General Meeting of 27 April 2006, to the extent that it has not been implemented, and to authorize the Company, either directly or through any of its subsidiaries, and within not more than eighteen months of the date of this Meeting, to acquire, at such a time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law and to charge any shares so acquired to results for the year and/or disposable reserves, provided that the Company may subsequently sell or redeem the said shares, and without prejudice to Article 75 and related articles of the Ley de Sociedades Anónimas. The authorisation shall extend to the acquisition of shares under the incentive scheme approved by this General Meeting.

To approve limits to or conditions for such acquisitions as follows:

- The nominal value of any shares so acquired, when added to those already held by the Bank and its subsidiary companies, shall not at any time exceed five per cent of the share capital of Banco de Sabadell, S.A., subject always to the restrictions placed on companies' regulatory authorities responsible for the markets on which the shares of Banco de Sabadell, S.A. are traded.
- Funds equal to the value of the Company's own shares recorded as assets on the balance sheet may be appropriated to an undistributable reserve shown as a liability on the Company's balance sheet. The reserve shall be maintained until such time as the shares have been sold or redeemed.
- All shares so acquired shall be fully paid shares.
- The purchase consideration shall not be less than the nominal value nor more than 20 per cent above the quoted or other price at which the shares are being valued at the date of purchase. All purchases by the Company of its own shares shall be in accordance with stock market regulations and practice.”

The Ordinary General Meeting of Shareholders of Banco de Sabadell, S.A. held on second call on 27 March 2008 authorised the Board of Directors in the following terms in respect of item 7 on the agenda:

“To annul the resolution adopted by the General Meeting of 29 March 2007, to the extent that it has not been implemented, and to authorize the Company, whether directly or through any of its subsidiary companies, within a period not exceeding eighteen months of the date of this General Meeting, to acquire, at such time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law including the charging thereof to profits for the year and/or disposable reserves, provided that the Company may subsequently sell or redeem the said shares, subject always to Article 75 and related articles of the SA Companies Act [Ley de Sociedades Anónimas].

To approve limits to or conditions for such acquisitions as follows:

- The nominal value of any shares so acquired, when added to those already held by the Bank and its subsidiary companies, shall not at any time exceed five per cent of the share capital of Banco de Sabadell, S.A., subject always to the restrictions placed on companies' purchases of their own shares by the regulatory authorities responsible for the markets on which the shares of Banco de Sabadell, S.A. are traded.
- Funds equal to the value of the Company's own shares recorded as assets on the balance sheet may be appropriated to an undistributable reserve shown as a liability on the Company's balance sheet. The reserve shall be maintained until such time as the shares have been sold or redeemed.
- All shares so acquired shall be fully paid shares.
- The purchase consideration shall not be less than the nominal value nor more than 20 per cent above the quoted or other price at which the shares are being valued at the date of purchase. All purchases by the Company of its own shares shall be in accordance with stock market regulations and practice.”

**A.10** State whether there are any restrictions under the law or the Articles of Association on the exercise of voting rights and/or the purchase or transfer of shares in the Company.

Yes  No

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**Maximum percentage of voting rights that a shareholder may exercise under legal restrictions:**

**0**

State whether there are any restrictions under the Articles of Association on the exercising of voting rights.

Yes  No

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**Maximum percentage of voting rights that a shareholder may exercise under the Articles of Association**

**10.000**

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**Description of the restrictions under the law or the Articles of Association on the exercising of voting rights.**

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The exercising of voting rights is restricted under Article 40 of the Articles of Association in order to safeguard the rights of small shareholders.

The maximum number of votes that may be cast by a shareholder is 10 per cent of the votes that can be cast at the General Meeting at which the vote is taken, regardless of the number of shares of which he or it is the holder. This restriction does not apply where a holding of more than 10 per cent of the share capital is acquired under the applicable law by the Bank Deposit Guarantee Fund [Fondo de Garantía de Depósitos en Establecimientos Bancarios].

For the purpose of determining the maximum number of votes that may be cast by a shareholder, only shares actually held by the shareholder in question shall be counted and the shares of any other shareholder or shareholders who have appointed him as a proxy shall not be included; the same limit of 10 per cent shall apply individually to each shareholder voting by proxy.

The restriction contained in the previous paragraphs shall likewise apply to the maximum number of votes that may be cast, whether jointly or individually, by two or more corporate shareholders belonging to the same group of companies and to the maximum number of votes that may be cast by an individual or corporate shareholder and any corporate shareholder or shareholders over which he or it has direct or indirect control.

In determining whether a group of companies exists or whether control is exercised for the purposes of the previous paragraph, Article 4 of the Stock Market Act shall apply.

Without prejudice to the restrictions on voting rights imposed above, all shares represented in person or by proxy at the General Meeting shall be counted for the purposes of determining whether a quorum is present, but the limit of 10 per cent established by this Article shall nevertheless apply to all such shares when a vote is taken.

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State whether there are any restrictions under the law on the acquisition or transfer of shares in the capital.

Yes  No

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**Description of the legal restrictions on the acquisition or transfer of shares in the capital.**

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It is a requirement under Articles 57, 58 and 60 of the Credit Establishments Discipline and Intervention Act 26/1988 [Ley de Disciplina e Intervención de las Entidades de Crédito] that clearance be obtained from the Bank of Spain for any proposed purchase of shares in a bank amounting to more than 5 per cent of its share capital, or any other proportion in excess of that amount as expressly indicated.

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**A.11** State whether the General Meeting has resolved to adopt measures to neutralise a takeover bid under the provisions of Act 6/2007.

Yes  No

If so, describe the measures adopted and the terms on which the restrictions will be ineffective.

## **B. Organizational structure of the company**

### **B.1 Board of Directors**

**B.1.1** Maximum and minimum number of Directors under the Articles of Association:

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<b>Maximum number of Directors</b>	<b>13</b>
<b>Minimum number of Directors</b>	<b>11</b>

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**B.1.2** Complete the following table of members of the Board:

Name of Director	Represented by	Office held	Date of first appointment	Date of most recent appointment	Method of appointment
José Oliu Creus	–	Chairman	29/03/1990	21/04/2005	General meeting
Joan Llonch Andreu	–	Deputy chairman	28/11/1996	29/03/2007	General meeting
Jaime Guardiola Romojaro	–	Managing director	27/09/2007	27/03/2008	General meeting
Carlos Jorge Ramalho dos Santos Ferreira	–	Director	27/03/2008	27/03/2008	General meeting
Francesc Casas Selvas	–	Director	20/11/1997	27/03/2008	General meeting
Héctor María Colonques Moreno	–	Director	31/10/2001	29/03/2007	General meeting
Isak Andic Ermay	–	Director	22/12/2005	27/04/2006	General meeting
Joaquín Folch- Rusiñol Corachán	–	Director	16/03/2000	21/04/2005	General meeting
José Manuel Lara Bosch	–	Director	24/04/2003	27/03/2008	General meeting
José Permanyer Cunillera	–	Director	21/03/2002	29/03/2007	General meeting
Maria Teresa Garcia-Milà Lloveras	–	Director	29/03/2007	29/03/2007	General meeting
Miguel Bósser Rovira	–	Director	29/03/1990	21/04/2005	General meeting
<b>Total number of Directors</b>					<b>12</b>

Give the names of all members of the Board who ceased to act in that capacity during the period:

Name of Director	Type of Director at time of cessation	Date of cessation
Jorge Manuel Jardim Gonçalves	Nominee director	31/12/2007

**B.1.3** Complete the following tables relating to the status of members of the Board:

**Executive Directors**

Name of Director	Committee proposing appointment	Office or position held
José Oliu Creus	Nomination and Remuneration Committee	Chairman
Jaime Guardiola Romojaro	Nomination and Remuneration Committee	Managing director
<b>Total number of Executive Directors</b>		<b>2</b>
<b>% of total Board members</b>		<b>16.667</b>

**Nominee Directors**

Name of Director	Committee proposing appointment	Name of shareholder nominating or represented by the Director
Carlos Jorge Ramalho dos Santos Ferreira Isak Andic Ermay	Nomination and Remuneration Committee Nomination and Remuneration Committee	Banco Comercial Português, S.A. Mayor Vent, S.L. Unipersonal

<b>Total number of Nominee Directors</b>	<b>2</b>
<b>% of total Board members</b>	<b>16.667</b>

**Independent Non-executive Directors**

Name of Director	Profile
Joan Llonch Andreu	Business/Academic
Francesc Casas Selvas	Business
Héctor María Colonques Moreno	Business
Joaquín Folch-Rusiñol Corachán	Business
José Manuel Lara Bosch	Business
Maria Teresa Garcia-Milà Lloveras	Academic
Miguel Bósser Rovira	Business

<b>Total number of Independent Non-executive Directors</b>	<b>7</b>
<b>% of total Board members</b>	<b>58.333</b>

**Other Non-executive Directors**

Name of Director	Committee proposing appointment
José Permanyer Cunillera	Nomination and Remuneration Committee

<b>Total number of other Non-executive Directors</b>	<b>1</b>
<b>% of total Board members</b>	<b>8.333</b>

State why these directors cannot be considered as either representing shareholders or as independent, and their links with the Company or its senior executives or with its shareholders.

**Name of Director**

José Permanyer Cunillera

**Company, executive or shareholder with whom related**

Banco de Sabadell, S.A.

**Reasons**

For having been an Executive Director of the Group in the last 5 years.

Indicate any changes in the status of any Director of the Bank during the period.

Name of Director	Date of change	Previous status	Current status
José Permanyer Cunillera	30/06/2008	Executive Director	Other Non-executive Director



**B.1.4** Give the reasons, if any, why Nominee Directors have been appointed by shareholders with a holding of less than 5% of the capital.

**Name of shareholder**

Fundo de Pensoes do Grupo BCP

**Reasons**

Carlos Jorge Ramalho dos Santos Ferreira, Chairman of Banco Comercial Português, S.A., has replaced Jorge Manuel Jardim Gonçalves, appointed by the then significant shareholder Banco Comercial Português, S.A., currently Fundo de Pensoes do Grupo BCP.

State whether the Company has turned down any formal petitions for a presence on the Board by shareholders whose holding is the same as or larger than other shareholders at whose request Nominee Directors have been appointed. If so, give the reasons for refusal:

Yes  No

**B.1.5** State whether any Director resigned before the end of his term of office, whether he explained to the Board his reasons for doing so, and in what form, and, if the whole Board was informed in writing, indicate below the reasons he gave:

Yes  No

**Name of Director**

Jorge Manuel Jardim Gonçalves

**Reason for resignation**

With effect as from 31 December 2007, Jorge Manuel Jardim Gonçalves wrote a letter of resignation from the Board of Directors of Banco de Sabadell, S.A. after having been replaced by Carlos Jorge Ramalho dos Santos Ferreira as Chairman of Banco Comercial Português, S.A.

**B.1.6** Indicate the powers delegated to the Managing Director(s), if any.

**Name of Director**

Jaime Guardiola Romojaro

**Brief description**

The powers of the Managing Director are set out in section "G. Other relevant information".

**B.1.7** Name any members of the Board holding office as Directors or senior executives of other companies in the same group as the Company:

Name of Director	Name of the company in the group	Office held
José Oliu Creus	Bansabadell Holding. S.L. Sociedad Unipersonal	Chairman
Joan Llonch Andreu	BancSabadell d'Andorra. S.A.	Director
Joan Llonch Andreu	Bansabadell Holding. S.L. Sociedad Unipersonal	Director
Jaime Guardiola Romojaro	Ibersecurities. Sociedad de Valores. S.A.U	Chairman
José Permanyer Cunillera	Aurica XXI. S.C.R.. S.A.	Director
José Permanyer Cunillera	Banco Urquijo Sabadell Banca Privada. S.A.	Deputy Chairman
José Permanyer Cunillera	BancSabadell d'Andorra. S.A.	Director
José Permanyer Cunillera	Bansabadell Inversió Desenvolupament. S.A.. Sociedad Unipersonal	Chairman
José Permanyer Cunillera	Sinia Renovables. S.C.R. de Régimen Simplificado. S.U.	Chairman
Miguel Bósser Rovira	Bansabadell Holding. S.L. Sociedad Unipersonal	Director

**B.1.8** Name any Directors of the Company who have notified the Company that they are members of the Board of Directors of other companies listed on official stock exchanges in Spain, other than companies in the Group.

Name of Director	Name of listed company	Office held
Joan Llonch Andreu	Companyia d'Aigües de Sabadell. S.A.	Director
José Manuel Lara Bosch	Antena 3 de Televisión. S.A.	Chairman
Maria Teresa Garcia-Milà Lloveras	Enagás. S.A.	Director
Maria Teresa Garcia-Milà Lloveras	Vueling Airlines. S.A.	Director

**B.1.9** State whether the Company has drawn up any rules on the number of Directorships its Directors may hold, and if so describe them.

Yes  No

**Description of the rules**

The company has been governed by the provisions of Act 31/1968 of 27 July 1968 on incompatibilities and limitations on chairmen, directors and senior executives in the private banking sector.

**B.1.10** With respect to recommendation 8 in the Unified Code, indicate the Company's general policies and strategies that the Board is responsible for approving:

Investment and financing policy	Yes
Definition of the structure of the group	Yes
Corporate governance policy	Yes
Corporate social responsibility policy	Yes
Strategic or business plan, management targets and annual budget	Yes
Policy on remuneration and assessment of the performance of senior executives	Yes
The risk control and management policy and the regular monitoring of internal information and control systems	Yes
The policy on dividends and purchases of treasury shares, especially the limits thereon	Yes

**B.1.11** Complete the following tables on the aggregate remuneration of Directors during the year.

a) For serving on the Board of Directors of the Company:

Item	€'000
Fixed remuneration	1,857
Variable remuneration	1,684
Subsistence allowances	0
Payments under the Articles of Association	1,886
Options on shares and/or other financial instruments	0
Others	4,697
<b>Total</b>	<b>10,124</b>

<b>Other benefits</b>	<b>€'000</b>
Advances	0
Loans	15,000
Pension Funds and Plans: Contributions	7,245
Pension Funds and Plans: Commitments	0
Life insurance premiums	0
Guarantees provided by the Company to Directors	2,566

b) For serving as Directors and/or holding positions as senior executives of companies in the Group:

<b>Item</b>	<b>€'000</b>
Fixed remuneration	0
Variable remuneration	0
Subsistence allowances	0
Payments under the Articles of Association	0
Options on shares and/or other financial instruments	0
Others	0
<b>Total</b>	<b>0</b>

<b>Other benefits</b>	<b>€'000</b>
Advances	0
Loans	0
Pension Funds and Plans: Contributions	0
Pension Funds and Plans: Commitments	0
Life insurance premiums	0
Guarantees provided by the Company to Directors	0

c) Remuneration paid to Directors, by status category:

<b>Type of Director</b>	<b>By the Company</b>	<b>By group undertakings</b>
Executive	8,638	0
Nominee Non-executive Directors	228	0
Independent Non-executive Directors	1,098	0
Other Non-executive Directors	160	0
<b>Total</b>	<b>10,124</b>	<b>0</b>

d) Directors' remuneration as a proportion of parent company's attributable profit:

<b>Total remuneration paid to Directors (€'000)</b>	<b>10,124</b>
<b>Total remuneration paid to Directors as % of attributable profit of parent company</b>	<b>1.5</b>

**B.1.12** Name any senior executives who are not also Executive Directors, and state the total remuneration earned during the year:

Name	Office held
José Luis Negro Rodríguez	Deputy Secretary to the Board - Comptroller General
María José García Beato	General Secretary
Miquel Montes Güell	Deputy General Manager
Fernando Pérez-Hickman Muñoz	Deputy General Manager
Jaume Puig Balsells	Deputy General Manager
José Tarrés Busquets	Deputy General Manager
Tomás Varela Muiña	Deputy General Manager
Cirus Andreu Cabot	Assistant General Manager
Luis Buil Vall	Assistant General Manager
Ignacio Camí Casellas	Assistant General Manager
José Canalias Puig	Assistant General Manager
Ramón de la Riva Reina	Assistant General Manager
Rafael José García Nauffal	Assistant General Manager
Salvador Grané Terradas	Assistant General Manager
Juan Mateo Grumé Sierra	Assistant General Manager
Jaime Matas Vallverdú	Assistant General Manager
Blanca Montero Corominas	Assistant General Manager
Enric Rovira Masachs	Assistant General Manager
Javier Vela Hernández	Assistant General Manager
Carlos Ventura Santamans	Assistant General Manager

<b>Total remuneration paid to senior executives (€'000)</b>	<b>7,529</b>
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**B.1.13** Describe in overall terms any guarantee clauses or other protection for Directors and senior executives of the Company or the group, including Executive Directors, in the event of dismissal or a change in the ownership/control of the Company. State whether such clauses or other protection must be made known to and/or approved by the decision-making bodies of the company or Group:

<b>Number of beneficiaries</b>	<b>14</b>
	<b>Board of Directors</b>
	<b>General Meeting</b>
<b>Clauses approved by</b>	<b>Yes</b>
	<b>No</b>

<b>Were the clauses reported to the General Meeting?</b>	<b>No</b>
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**B.1.14** State the procedure for fixing Directors' remuneration and any relevant provisions of the Articles of Association in this respect.

**Procedure for fixing Directors' remuneration and relevant provisions of the Articles of Association**

Article 81 of the Articles of Association requires that "the remuneration paid to Directors be deducted from the net distributable profit of the Company and that it should consist of not more than 3% of such profit; the Board has authority to fix Directors' annual remuneration up to that limit and is free to allocate it among the Directors and any honorary Directors as it sees fit, once mandatory appropriations to reserves have been made and after allowing for a shareholder dividend of 4%".

Subject to a resolution by the General Meeting in the terms of the SA Companies Act, Directors performing executive functions may also participate in incentive schemes approved by the Bank's management that provide remuneration in the form of shares or share options or linked to the value of the shares.

Under article 14 of the Regulations of the Board of Directors, one of the fundamental duties of the Nomination and Remuneration Committee is to make recommendations to the Board for a system and amount to pay the annual emoluments of the Chairman of the Board, the Executive Directors and the senior executives of the Bank and any scheme under which Board members are to share in the profits of the Company. It is also responsible for drawing up details of the remuneration payable to Directors for approval by the Board and for inclusion in its annual reporting documents.

State whether the full Board is responsible for approving the following decisions:

<b>Appointment and removal of senior executives, and their compensation clauses, on the chief executive's recommendation</b>	<b>Yes</b>
<b>Directors' remuneration and, for Executive Directors, additional remuneration for their executive duties and other terms to be respected in their contracts.</b>	<b>Yes</b>

**B.1.15** State whether the Board of Directors approves a detailed remuneration policy and specify the points it contains.

Yes  No

<b>Amount, and breakdown, of the fixed components of subsistence allowances for attendance at Board and Committee meetings, with an estimate of the resulting fixed annual remuneration</b>	<b>Yes</b>
<b>Variable remuneration items</b>	<b>Yes</b>
<b>Principal features of pension systems, with an estimate of their amount or equivalent annual cost</b>	<b>Yes</b>
<b>Conditions to be respected in the contracts of those performing senior management duties as Executive Directors</b>	<b>Yes</b>

**B.1.16** State whether the Board submits a report on the Directors' remuneration policy to the General Meeting for consultation purposes, to be voted on as a separate item on the agenda. Describe the aspects of the report relating to remuneration policy approved by the Board for future years, the most significant changes with respect to the policy currently applied, and an overall summary of how the remuneration policy was applied during the year. Describe the role performed by the Remuneration Committee, and state whether external advisers have been used and the names of such advisers.

Yes  No

**Matters covered by the remuneration policy**

The report on remuneration policy was voted on as item 1 on the agenda for the General Meeting. The remuneration of Directors and the annual remuneration of the Chairman of the Board, Executive Directors and senior executives of the Bank, and profit-sharing schemes for members of the Board.

**Role performed by the Remuneration Committee**

Under Article 14.3.c of the Regulations of the Board of Directors, one of the fundamental duties of the Nomination and Remuneration Committee is to make recommendations to the Board on the system and amount of annual emoluments paid to the Chairman of the Board, the Executive Directors and the senior executives of the Bank and any scheme under which Board members are to share in the profits of the Company, and to report on the policy for Directors' remuneration.

**Were external advisers used?**

**Names of the external advisers**

**B.1.17** Identify any members of the Board who are also Board members or senior executives of companies holding significant interests in the Company (if a listed company) and/or in companies in the group.

<b>Name of Director</b>	<b>Name of significant shareholder</b>	<b>Office held</b>
Isak Andic Ermay	Mayor Vent, S.L. Unipersonal	Director

Describe any material connections (other than as disclosed above) between Board members and significant shareholders and/or other companies in the same Group:

Name of Director	Name of significant shareholder	Relationship
José Oliu Creus	Famol Participaciones, S.L.	Shareholder
Isak Andic Ermay	Famol Participaciones, S.L.	Shareholder
Joaquín Folch-Rusiñol Corachán	Famol Participaciones, S.L.	Shareholder

**B.1.18** State whether there have been any changes in the Regulations of the Board of Directors during the year.

Yes  No

**B.1.19** Describe the procedures for appointment, re-appointment, evaluation and removal of Directors. Specify the responsible person or body, the procedure and the guidelines to be followed in each case.

Under Articles 51, 54 and 56 of the Articles of Association and Articles 14, 19 and 20 of the Regulations of the Board of Directors, the procedures for the appointment, re-election, evaluation and removal of Directors are as follows:

**1.- Appointment, re-election and evaluation:**

**1.a.** Composition: The Board of Directors shall be composed of a maximum of 13 and a minimum of 11 shareholders, appointed by the General Meeting. Any vacancies on the Board shall be filled by the General Meeting, unless the Board, in the interests of the Company, decides to co-opt directors in the terms of Article 138 of the SA Companies Act. Directors who are co-opted on to the Board shall hold office until the date of the next General Meeting.

**1.b.** Requirements: In order to be a member of the Board of Directors, it is necessary to hold a sufficient number of shares to represent a paid-up value of €1,000, which may not be transferred or disposed of until the accounts for the last year in which the Director held office have been approved. Independent Directors may be released from this requirement by resolution of the Board of Directors following a report by the Nomination and Remuneration Committee at the time of proposing their appointment.

Specifically, Royal Decree 1245/1995, published on 14 July, requires credit establishments to have a Board of Directors formed of persons of good professional and commercial standing who have the appropriate experience and expertise for performing their duties. The Royal Decree expressly states that such persons shall be considered to be of good professional and commercial standing if they have always abided by the laws governing economic activity and business life and have observed good commercial, financial and banking practices. Persons with criminal records or facing criminal charges or - in the case of the proceedings referred to in Title III of Book IV of the Criminal Procedure Act – who have been committed to trial for tax offences, breach of trust in the custody of documents, money laundering, violation of secrets or property offences shall not be considered to be of good professional and commercial standing. Directors must expressly declare in the letter of acceptance of their appointment that they meet the requirements of good standing and, where applicable, professional expertise.

**1.c. Restrictions**

Once they have reached the age of 70, Directors may complete the term of office for which they were appointed but may not be re-elected.

The following persons may not be members of the Board of Directors:

- a) Shareholders who are minors.
- b) Shareholders who are barred by law, are insolvent or are undischarged bankrupts, or have been convicted of crimes that prohibit them from holding public office or who have been found guilty of serious infringements or the law or of the Articles of Association, and those who by reason of their office may not carry on business.
- c) Shareholders who are civil servants or public employees whose duties are connected with the business of the Bank.
- d) Shareholders who have overdrafts with the Bank or have defaulted on their obligations to the Bank.

**1.d.** Term of office: Directors shall hold office for a maximum term of five years, after which they may be re-elected.

**1.e.** Procedures, evaluation and criteria:

Non-executive Directors must form the majority of the total number of members of the Board. Among the Non-executive Directors there must be a significant proportion of Independent Directors.

The Nomination and Remuneration Committee is responsible, inter alia, for submitting proposals to the Board regarding the appointment of Directors, in which case the Board may either make the appointments directly (co-opting) or accept the recommendations and submit them to the General Meeting. The Committee is also responsible for evaluating suitable candidates for membership of the various committees and making recommendations to the Board accordingly. It is responsible in particular for ensuring compliance with the rules governing the different categories of Directors on the Board.

**2.- Removal**

Directors shall be removed from office at the end of the period for which they were appointed or as the General Meeting or the Board of Directors, under the authority vested in them by the law or the Articles of Association, shall decide. At present the Board has no such authority. Article 51 of the Articles of Association states that the General Meeting may resolve upon the removal of a Director at any time.

Directors shall also be removed from office:

- a)** When they are barred from holding office by law or by the Articles of Association (e.g. under Article 56 of the Articles of Association).
- b)** When they have been charged with a criminal offence or have disciplinary proceedings taken against them by the regulatory authorities for a serious or very serious breach of duty.
- c)** When, by continuing to serve as a member of the Board, they may jeopardise the interests of the Company.

**B.1.20** Describe the circumstances in which Directors may be required to resign.

In accordance with the provisions of Article 20 of the Regulations of the Board of Directors:

- 1.-** Directors shall be removed from office at the end of the period for which they were appointed or as the General Meeting or the Board of Directors, under the authority vested in them by the law or the Articles of Association, shall decide.
- 2.-** Directors shall also be removed from office:
  - a)** When they are prohibited from holding office by law or by the Articles of Association
  - b)** When they have been charged with a criminal offence or have disciplinary proceedings taken against them by the regulatory authorities for a serious or very serious breach of duty.
  - c)** When, by continuing to serve as a member of the Board, they may jeopardise the interests of the Company.

**B.1.21** State whether the office of Chief Executive of the Company is held by the Chairman of the Board of Directors. If so, state what measures, if any, have been taken to limit the accumulation of powers in a single person.

Yes  No

**Measures to limit such risks**

There is no risk of accumulation of powers since all decisions are taken by the Executive Committee.

State whether there are rules that allow one of the Independent Directors to request a Board meeting or the inclusion of further items on the agenda, in order to coordinate and reflect the concerns of the Non-executive Directors, and to direct the evaluation by the Board of Directors.

Yes  No

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**Description of the rules**

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Article 17 (sections 1, 2 and 4) of the Regulations of the Board of Directors states as follows:

**1.** The Board of Directors shall meet once a month and whenever the Chairman considers it appropriate for the proper functioning of the Company. Notices of meetings should always include the agenda for the meeting, which should set out, inter alia, all business concerning subsidiary companies and Delegated Committees, and all proposals and suggestions put forward by the Chairman and other members of the Board and by the General Manager/s of the Bank, and should be sent not less than five working days before the date of the meeting, together with any related documents for distribution to Directors. The Board shall approve the minutes of meetings and fix the date of the next meeting.

**2.** The Chairman may call extraordinary meetings, indicating in the notice the purpose of the meeting. He may also call meetings at the request of any Director in accordance with the provisions of the Articles of Association. If the Chairman has not called a meeting requested by any Director within five working days, the Director in question may ask the first Deputy Chairman to call the meeting within the same time limit.

And Article 23.e) of the Regulations of the Board of Directors states that Directors are obliged in particular to request persons with the authority to do so to call an extraordinary meeting of the Board or to include on the agenda for the next meeting such items as they consider appropriate.

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**B.1.22** Are qualified rather than legal majorities required for some types of resolution?

Yes  No

Describe how resolutions are adopted by the Board of Directors, including any quorum and the type of majority required:

**Description of resolution:**

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Quorum	%
Article 57 of the articles of association: the majority of members, present in person or by proxy	0.00

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Type of majority	%
Absolute majority of votes, with the chairman having the casting vote	0

---

**Description of resolution:**

Article 59: all part of those powers that may by law be delegated are permanently delegated to members of the Board in the form of executive committees or managing - directors.

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Quorum	%
As above	0.00

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Type of majority	%
Two - thirds of its members	0.00

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**Description of resolution:**

Article 59 Bis of the articles of association: appointment of the chairman of the audit and control committee

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Quorum	%
As above	0.00

---

Type of majority	%
Favourable vote of two - thirds of its members	0.00

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**B.1.23** State whether there are any special requirements for holding office as Chairman of the Board, other than those applicable to Directors.

Yes  No

**B.1.24** State whether the Chairman has a casting vote.

Yes  No

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**Matters on which there is a casting vote**

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The casting vote applies to all resolutions of the Board of Directors.

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**B.1.25** State whether the Articles of Association or the Regulations of the Board of Directors establish any age limit for Directors.

Yes  No

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Age limit for Chairman	Age limit for Managing Director	Age limit for Directors
75	75	75

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**B.1.26** State whether there are any limits under the Articles of Association or the Regulations of the Board of Directors on the period for which Independent Directors may hold office.

Yes  No

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**Maximum number of years in office** **0**

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**B.1.27** If there are few or no female Directors, state the reasons why and the steps taken to correct this situation.

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**Explanation of reasons and of steps taken**

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By resolution of the Ordinary General Meeting of shareholders of the Bank passed on 29 March 2007, María Teresa García-Milà Lloveras was appointed a member of the Board of Directors to replace Juan Manuel Desvalls Maristany, who ended his mandate as a result of having reached the maximum age laid down in the Articles of Association.

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In particular, state whether the Nomination and Remuneration Committee has established procedures to ensure that the selection processes are not implicitly biased against the appointment of female Directors and that they deliberately seek candidates who meet the required profile.

Yes  No

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**Indicate the main procedures**

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At its meeting on 22 February 2007, the Board of Directors resolved to amend, inter alia, Article 14 of the Regulations of the Board of Directors relating to the Nomination and Remuneration Committee, extending the Committee's basic responsibilities by adding section "f) To promote gender diversity to the extent possible".

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**B.1.28** State whether there are formal procedures for voting by proxy on the Board of Directors. If so, give brief details.

None. However, in practice a letter from a Director appointing another Director as proxy is accepted.

**B.1.29** State the number of meetings of the Board of Directors held during the year. Also indicate, if applicable, the number meetings of the Board from which the Chairman was absent:

<b>Number of meetings of the Board of Directors</b>	<b>13</b>
<b>Number of meetings of Board of Directors from which the Chairman was absent</b>	<b>0</b>

State the number of meetings of Committees of the Board of Directors held during the year:

<b>Number of meetings of the Executive Committee</b>	<b>38</b>
<b>Number of meetings of the Audit Committee</b>	<b>5</b>
<b>Number of meetings of the Nomination and Remuneration Committee</b>	<b>11</b>
<b>Number of meetings of the Nomination Committee</b>	<b>0</b>
<b>Number of meetings of the Remuneration Committee</b>	<b>0</b>

**B.1.30** State the number of meetings of the Board of Directors held during the year at which not all its members were present. Proxies without specific instructions are to be considered as absences.

<b>Number of absences of Directors during the year</b>	<b>8</b>
<b>Number of absences as a percentage of the total number of votes during the year</b>	<b>5.130</b>

**B.1.31** State whether the individual and consolidated annual accounts submitted to the Board of Directors for formal approval have been certified:

Yes  No

If so, specify which person/persons certified the individual and consolidated annual accounts of the Company for approval by the Board

<b>Name</b>	<b>Office held</b>
José Oliu Creus	Chairman
Jaime Guardiola Romojaro	Managing director
Tomás Varela Muiña	Deputy General Manager - CFO

**B.1.32** Describe any mechanisms laid down by the Board of Directors to prevent the individual and consolidated annual accounts being laid before the General Meeting with a qualified Auditor's report.

The mechanisms in place are as follows:

**1.-** The Bank's internal departments will draw up the annual accounts clearly and in a way that gives a true and fair picture of its net worth, financial situation and results, applying generally accepted accounting principles to all the relevant information.

**2.-** The Articles of Association and the Regulations of the Board of Directors expressly provide for an Audit and Control Committee to be set up. Article 30 of the Regulations of the Board of Directors states that the Board's relations with the external Auditors shall be channelled through the Audit and Control Committee.

This Committee has Rules of Procedure that set out the principles on which it operates and the basic rules covering its organisation and functioning.

The Committee has the following principal duties in connection with economic and financial information:

**a)** To review both the individual and consolidated annual accounts of the Company before submitting them to the Board of Directors, and to ensure that the legal requirements are met and that generally accepted accounting principles are correctly applied.

**b)** To review the regular quarterly and half-yearly financial information for submission to the Board of Directors, and to ensure that accounting policies are consistently applied in drawing up the quarterly, half-yearly and annual accounts.

If, despite this, an Auditor's report is issued with qualifying statements, the annual report of the Audit and Control Committee would contain a section stating clearly where discrepancies had occurred.

**B.1.33** Is the Secretary to the Board of Directors a Director?

Yes  No

**B.1.34** Describe the procedures for the appointment and removal of the Secretary to the Board of Directors, stating whether his appointment and removal were recommended by the Nomination Committee and approved by the full Board.

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**Appointment and removal procedure**

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The Board of Directors shall appoint a Secretary, and if appropriate a Deputy Secretary, who need not be Directors. If they are not Directors they shall not have the right to vote. The Secretary and the Deputy Secretary shall be appointed and removed by the Board of Directors, in both cases on the basis of a report by the Nomination and Remuneration Committee.

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<b>Does the Nomination Committee recommend the appointment?</b>	<b>Yes</b>
<b>Does the Nomination Committee recommend the removal?</b>	<b>Yes</b>
<b>Does the full Board approve the appointment?</b>	<b>Yes</b>
<b>Does the full Board approve the removal?</b>	<b>Yes</b>

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Does the Secretary to the Board of Directors have the duty to ensure in particular that the recommendations on good corporate governance are respected?

Yes  No

**B.1.35** Indicate any mechanisms established by the Company to preserve the independence of Auditors, financial analysts, investment banks and rating agencies.

Article 59 bis of the Articles of Association states in relation to the Auditors:

“At all events an Audit and Control Committee must be set up, consisting of three Non-executive Directors, appointed by the Board of Directors, which shall also appoint the Chairman of the Committee, with the favourable vote of two-thirds of its members [...].

The Audit and Control Committee shall have the following responsibilities:

(...) **2.** Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of the external Auditors and establishing the terms of their engagement, their professional remit, and termination or non-renewal of their appointment; reviewing the performance of the auditing contract, and ensuring that the Auditor’s opinion on the annual accounts and the main contents of the Auditor’s report are drafted in clear, precise terms.

(...) **6.** Maintaining contact with the external Auditors to receive information on any issues that could threaten their independence or otherwise have a bearing on the auditing process, and on any other reports concerned with the auditing of accounts or required by legislation or by the regulations governing the auditing profession.

Article 30 of the Regulations of the Board of Directors is worded in similar terms:

“The Board’s relations with the external Auditors of the company shall be channelled through the Audit and Control Committee.”

The Rules of Procedure of the Audit and Control Committee include the provisions of the Articles of Association and of the Regulations of the Board of Directors, and state in Article 21.3 that “because of their status as Directors and members of the Committee, these members must act on an independent basis with respect to the rest of the organisation [...].”

With regard to financial analysts, information is provided to any analyst who requests it, without any restrictions whatsoever.

With respect to rating agencies, the Bank maintains relations with the main rating agencies in the market and the number and quality of such agencies is sufficient to ensure their independence.

In this connection, Royal Decree 1333/2005 containing subordinate legislation on abuse of the market issued under the Stock Market Act 24/1988 (published in the BOE on 23 November 2005) sets out in detail the conditions to be met for drawing up and presenting recommendations on investments and for disclosing any conflicts of interest that might affect anyone involved in drawing up such recommendations.

**B.1.36** State whether the Company has changed its external Auditor during the year. If so, name the outgoing and incoming Auditor.

Yes  No

Outgoing Auditor

Incoming Auditor

If there were any disagreements with the outgoing Auditor, give details of these.

Yes  No

**B.1.37** Indicate whether the firm of Auditors carries out any non-auditing work for the Company and/or the group, and if so, state the amount paid for such work and the proportion in which this amount stands to the total amount charged by the Auditors to the Company and/or the group:

Yes  No

	Company	Group	Total
Amount charged for non-auditing work (€'000)	128	37	165
Amount charged for non-auditing work as a % of total amount charged by the Auditors	15.270	8.990	13.200

**B.1.38** State whether the Auditor's report on the annual accounts for the previous year contains any qualifying statements. If so, state the reasons given by the Chairman of the Audit Committee for the content and scope of such qualifying statements.

Yes  No

**B.1.39** State the number of consecutive years for which the current Auditors have been auditing the annual accounts of the Company and/or the Group. Also state the number of years for which accounts have been audited by the current Auditors, as a percentage of the total number of years for which annual accounts have been audited.

	Company	Group
Number of consecutive years	26	24
Number of years for which accounts have been audited by current Auditors as % of number of years for which Company accounts have been audited	92.9	100.0

**B.1.40** Indicate any interests held by members of the Board of Directors of the Company in companies carrying on business of an identical, similar or complementary nature to that of the Company and the group as a whole, as disclosed to the Company. Also indicate any position or office held by them in those companies.

Name of Director	Name of company	% holding	Office or duties
José Oliu Creus	Banco Comercial Portugués, S.A.	0,000	Member of Senior Board
Jaime Guardiola Romojaro	Banco Bilbao Vizcaya Argentaria, S.A.	0,002	(none)
Carlos Jorge Ramalho dos Santos Ferreira	Banco Comercial Portugués, S.A.	0,000	Chairman of Board of Directors executive
Carlos Jorge Ramalho dos Santos Ferreira	Bank Millennium, S.A. (Polonia)	0,000	Chairman of Supervisory Board
José Permanyer Cunillera	Grupo Asegurador Sabadell, A.I.E.	0,000	Director

**B.1.41** State whether there is any procedure to ensure that Directors are able to obtain independent advice

Yes  No

**Details of procedure**

Article 21 of the Audit and Control Committee's Rules of Procedure gives its members the right to obtain independent professional advice in carrying out their duties.

**B.1.42** State whether any procedures are in place to ensure that Directors can obtain the information they need to prepare in good time for meetings of the Board and Committees, and describe these procedures.

Yes  No

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**Details of procedure**

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Article 17 of the Regulations of the Board of Directors states that “[...] Notices of meetings should always include the agenda for the meeting, which should set out, inter alia, all business concerning subsidiary companies and Delegated Committees, and all proposals and suggestions put forward by the Chairman and other members of the Board and by the General Manager/s of the Bank, and should be sent not less than five working days before the date of the meeting, together with any related documents for distribution to Directors.”

Article 21 states:

“**1.**-Directors have the widest powers to seek information on any aspect of the Company, to inspect the Company's books, records, documents and other items pertaining to the Company's operations, and to inspect all facilities and premises. This right to receive information applies to both Spanish and foreign subsidiaries.

**2.**-In order not to disrupt the ordinary running of the Company, the exercising of this right to information shall be channelled through the Chairman or the Secretary of the Board of Directors, who shall deal with requests from Directors by providing the information direct, offering appropriate interlocutors at the relevant organisational level, or taking such steps as may be necessary to enable them to perform any inspection or examination in situ.”

The Rules of Procedure of the Audit and Control Committee are worded in similar terms.

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**B.1.43** State and detail any rules in place that oblige the Directors to report and, if appropriate, resign in any circumstances that might jeopardise the Company's credit and reputation.

Yes  No

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**Describe the rules**

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Article 27 of the Regulations of the Board of Directors states that a Director must inform the Company of the shares he owns in it directly or through companies in which he has a significant holding. He must also inform the Company of any other shares owned directly or indirectly by his immediate family.

A Director must also inform the Company of all posts he holds and activities he performs in other companies or undertakings, and in general any fact or situation that may be relevant to his conduct as a Director of the Company.

Article 20 of the Regulations of the Board of Directors states that:

**1.** Directors shall be removed from office at the end of the period for which they were appointed or as the General Meeting or the Board of Directors, under the authority vested in them by the law or the Articles of Association, shall decide.

**2.** Directors shall also be removed from office:

- a) When they are barred from holding office by law or by the Articles of Association.
  - b) When they have been charged with a criminal offence or have disciplinary proceedings taken against them by the regulatory authorities for a serious or very serious breach of duty.
  - c) When, by continuing to serve as a member of the Board, they may jeopardise the interests of the Company.
- 

**B.1.44** State whether any member of the Board of Directors has informed the Company that he has faced criminal charges or has been committed to trial for any of the offences listed in Article 124 of the SA Companies Act.

Yes  No

State whether the Board of Directors has studied the case. If so, give a reasoned explanation of the decision taken as to whether or not the Director should remain in office.

Yes  No

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**Decision taken****Reasoned explanation**

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## B.2 Committees of the Board of Directors

### B.2.1 Give details of all Committees of the Board of Directors and their members.

#### Executive or Delegated Committee

Name	Office held	Type
José Oliu Creus	Chairman	Executive
Jaime Guardiola Romojaro	Committee Member	Executive
José Permanyer Cunillera	Committee Member	Other Non - Executive

#### Nomination and Remuneration Committee

Name	Office held	Type
Héctor María Colonques Moreno	Chairman	Independent
Isak Andic Ermay	Committee Member	Nominee
Joaquín Folch-Rusiñol Corachán	Committee Member	Independent
José Manuel Lara Bosch	Committee Member	Independent

#### Strategy Committee

Name	Office held	Type
José Oliu Creus	Chairman	Executive
Isak Andic Ermay	Committee Member	Nominee
Jaime Guardiola Romojaro	Committee Member	Executive
Joaquín Folch-Rusiñol Corachán	Committee Member	Independent
José Manuel Lara Bosch	Committee Member	Independent

#### Audit and Control Committee

Name	Office held	Type
María Teresa García-Milà Lloveras	Chairman	Independent
Francesc Casas Selvas	Committee Member	Independent
Joan Llonch Andreu	Committee Member	Independent

#### Risk Control Committee

Name	Office held	Type
José Permanyer Cunillera	Chairman	Other Non - Executive
Francesc Casas Selvas	Committee Member	Independent
Jaime Guardiola Romojaro	Committee Member	Executive
Joan Llonch Andreu	Committee Member	Independent
Miguel Bósser Rovira	Committee Member	Independent

## B.2.2 State whether the Audit Committee has the following duties:

To supervise the production and integrity of the financial information on the Company and on the group, and to review compliance with legal requirements, the proper demarcation of the perimeter of consolidation and the correct application of accounting principles.	Yes
To regularly review the internal control and risk management systems, so that the main risks are properly identified, managed and reported.	Yes
To ensure the independence and effectiveness of the internal auditing functions; to propose the selection, appointment, re-election and removal of the head of the internal auditing department; to propose the budget for the department; to receive regular information on its activities; and to check that senior executives take into account the conclusions and recommendations of its reports.	Yes
To set up and supervise a mechanism for employees to report in confidence, and if they wish anonymously, any irregularities of potential importance in the Company, particularly financial and accounting irregularities.	Yes
To make proposals to the Board for the selection, appointment, re-election and replacement of the external Auditor and its terms of service.	Yes
To receive regular information from the external Auditor on the audit plan and the results of carrying it out, and to check that senior management takes its recommendations into account.	Yes
To ensure the independence of the external Auditor.	Yes
In the case of groups, to facilitate matters so that the group's auditor can carry out the audits of the various companies in the group.	Yes

## B.2.3 Give a description of the Rules of Procedure and the responsibilities of each Board Committee.

### Committee

#### Audit and Control Committee

#### Brief description

Specific provision is made for the Committee in the Articles of Association (Article 59 bis) and in the Regulations of the Board of Directors (Article 13). Article 13 was amended by resolution of the Board of Directors on 22 February 2007 as regards its functions. Basic rules on the organization, procedure and governance of the Audit and Control Committee were approved by a decision of the Committee at its meeting on 20 October 2003. These Rules were approved and ratified, where applicable, by the Board of Directors of the Bank at a meeting on 30 October 2003 and were executed in a public deed on 18 November 2003 before the Sabadell notary Javier Micó Giner.

The Audit and Control Committee is responsible for reviewing the report of the Head of the Internal Audit department or the Comptroller General to ensure that banking and accounting best practice is being applied at all levels of the organization and to see that the General Manager and other senior executives take appropriate action in response to any conduct or working methods in the organization that could be inappropriate. The Committee is also responsible for ensuring that all measures, policies and strategies laid down by the Board are properly implemented.

The Committee meets at least once a quarter, and whenever called by its Chairman on his own initiative or at the request of any Committee member or at the request of the Chairman of the Board of Directors or the external Auditors, in order to perform the duties for which it is responsible.

It consists of three Non-executive Directors appointed by the Board; the Board also appoints the Committee Chairman, whose term of office is a maximum of four years, after which he is ineligible for re-appointment for one year after the end of his term.

The Board of Directors shall also appoint a Secretary to the Committee, who need not be a Director. The Secretary shall draw up the minutes of each meeting, which are approved at the same meeting or the immediately following one. The proceedings of meetings are reported to the Board of Directors at its next meeting, by reading out the minutes of each Committee meeting.

Without prejudice to such other duties as may be assigned to it by the Board, the Committee has the following basic responsibilities:

- a) Reporting to the General Meeting on questions put to it by shareholders on matters within its remit.
- b) Making recommendations to the Board of Directors, for submission to the General Meeting, regarding the appointment of the external Auditors, their terms of engagement, their professional remit, and the termination or non-renewal of their appointment; reviewing the performance of the auditing contract, and ensuring that the Auditor's opinion on the annual accounts and the main contents of the Auditor's report are drafted in clear, precise terms.
- c) Reporting on the annual accounts and the quarterly and half-yearly financial statements and the prospectuses required



to be filed with supervisory or regulatory authorities, ensuring that legal requirements are complied with and that generally accepted accounting principles are properly applied, and reporting on any proposed changes to those principles.

- d)** Supervising the internal audit department and reviewing the appointment and replacement of key personnel.
- e)** Keeping up to date with the process of financial reporting and the systems of internal control within the Company.
- f)** Maintaining contact with the external Auditor so as to receive information on any issues that could threaten their independence or otherwise have a bearing on the auditing process, and on any other reports concerned with the auditing of accounts or required by legislation or by the regulations governing the auditing profession.
- g)** Reporting on all matters referred to it by the Board of Directors within its area of responsibility.
- h)** All other responsibilities assigned to it by law or by the Articles of Association and any regulations made thereunder and any deriving from general rules on corporate governance.

In addition, the Committee will have the following duties:

- 1.** To ensure compliance with the law, internal regulations and requirements regulating the Company's business.
- 2.** To evaluate the sufficiency of and compliance with the Regulations of the General Meeting, the Regulations of the Board of Directors and the Code of Conduct of the Company, and in particular the Internal Rules of Conduct in matters relating to the Stock Market.
- 3.** To examine the degree of compliance with the regulations governing the Company and to propose to the Board of Directors any improvements it considers appropriate; and
- 4.** To supervise the corporate governance report to be approved by the Board of Directors for inclusion in the annual report and accounts.

## **Committee**

Risk Control Committee

### **Brief description**

Regulated in Article 15 of the Regulations of the Board of Directors, it is formed of four Directors, the General Manager/s, the Risk Manager and the Corporate Banking Manager.

The Risk Control Committee meets once a week and has the following responsibilities:

- a)** Setting overall levels of risk for each country, business sector and risk category and making recommendations to the full Board;
- b)** Establishing and recommending to the full Board maximum levels of risk to be assumed with individual lending institutions and customers and for the setting of maximum exposures in portfolios or individual investments in government or public sector securities, shares, bonds, options, swaps and generally any instrument or security involving a credit, investment, interest rate or liquidity risk for the Group;
- c)** Establishing and proposing to the full Board annual limits for investment in the property market, and policy and limits for different types of investment within this market;
- d)** Deciding and making proposals to the full Board on such delegations of authority as it may consider expedient for the approval and acceptance of individual risks within the limits set in accordance with the previous paragraphs;
- e)** Deciding on those individual risks which only the Risk Control Committee has authority to approve, as a result of the delegating of authority under the previous paragraphs;
- f)** Supervising and monitoring the proper exercise of authority delegated in accordance with d) above;
- g)** Reporting to the full Board each month on all transactions approved and carried out in the course of the previous month and any divergences or irregularities found and any action taken to rectify them;
- h)** Reporting to the full Board each quarter on levels of risk exposure, investments undertaken and the performance of those investments, and on any possible impact of changes in rates of interest on group revenue, and the extent to which such risks are consistent with the VaR levels approved by the Board; and
- i)** Submitting to the Board, for its approval, any variation of more than 10% and 20% in excess of the limits authorised under a) and b) above, respectively.

## **Committee**

Strategy Committee

### **Brief description**

Set up by resolution of the Board of Directors dated 22 February 2007, which amended the Regulations of the Board of Directors by the addition of Article 16 bis.

The Strategy Committee shall be formed of a minimum of five and a maximum of six members, all of whom shall be Directors and two of whom shall be the Chairman of the Board and the Managing Director; the Committee Secretary shall be the Secretary to the Board of Directors.

The Committee shall meet at least once every six months or at the request of the Chairman.

Its duties shall be to report on questions of strategy in general or those of particular importance or relevance.

## **Committee**

Nomination and Remuneration Committee

### **Brief description**

Contemplated in Article 59 ter of the Articles of Association, its regulations are set out in Article 14 Regulations of the Board of Directors and it is formed of four members, all of them Non-executive Directors. Article 14 was amended by resolution of the Board of Directors on 22 February 2007 as regards its functions.

The Nomination and Remuneration Committee is responsible for assessing the qualifications of suitable candidates for membership of the various committees and for making recommendations to the Board. The Committee meets at least once a year.

Without prejudice to such other duties as may be assigned to it by the Board, the Committee has the following basic responsibilities:

- a)** Drawing up and reviewing the principles to be applied in determining the composition of the Board of Directors and in selecting candidates;
- b)** Making recommendations to the Board on the appointment of Directors so that the Board may either make the appointment itself (co-option) or accept the recommendations and submit them to the General Meeting;
- c)** Making recommendations to the Board of Directors on the system of annual remuneration, and the amount of such remuneration, to be paid to the Chairman of the Board, the Executive Directors and senior executives of the Bank, and on schemes by which members of the Board may share in the profits of the Company; and reporting on the policy relating to Directors' remuneration.
- d)** Carrying out regular reviews of the suitability and effectiveness of remuneration schemes;
- e)** Ensuring that transparency in respect of remuneration is maintained.
- f)** Promoting gender diversity to the extent possible.

## **Committee**

Executive Committee

### **Brief description**

Article 12 of the Regulations of the Board of Directors states that:

The Executive Committee is responsible for coordinating management of the Bank at executive level and for adopting resolutions and decisions within the authority delegated to it by the Board of Directors. All decisions taken at meetings of the Committee are reported to the Board.

The Chairman of the Board is a member of the Executive Committee and acts as its Chairman.

The Committee meets whenever a meeting is called by the Chairman or, in his absence, by the Deputy Chairman. If the Committee as a whole or its Chairman so decides, any person from inside or outside the Company may be invited to attend and to speak at meetings for any specified purpose, having regard to the matter under consideration.

The Secretary to the Committee is appointed by the Board of Directors and need not be a Director. The Board also decides who will replace the Secretary in the event of absence or illness.

Resolutions passed by the Committee are written up in a Minutes Book and signed by the Chairman and the Secretary, or failing them by the persons standing in for them at the meeting in question.

**B.2.4** State what discretion, if any, each of the committees has to seek advice, to consult and to delegate responsibility.

<b>Committee</b>	<b>Brief description</b>
Audit and Control Committee	See point B.2.3
Risk Control Committee	See point B.2.3
Strategy Committee	See point B.2.3
Nomination and Remuneration Committee	See point B.2.3
Executive Committee	See point B.2.3

**B.2.5** State whether any rules of procedure for committees are in place, the place where these rules are available for consultation and any changes to the rules during the year. Also specify whether any voluntary annual report has been drawn up on the activities of each committee:

**Committee**

**Brief description**

Section B.2.3 sets out the sections of the Articles of Association or of the Regulations of the Board of Directors containing the rules of procedure and the responsibilities of the various committees. These documents are available on the website [www.bancosabadell.com](http://www.bancosabadell.com) under “Shareholder and Investor Information” > “Corporate Governance”.

The Audit and Control Committee has drawn up Rules of Procedure which have been filed with the Mercantile Registry, and are also available on the website [www.bancosabadell.com](http://www.bancosabadell.com). The Committee prepares an annual report on its activities.

There have been no changes to the Regulations of the Board of Directors during the year.

The Audit and Control Committee draws up an annual report on its activities for submission to the Board of Directors of the Bank.

**B.2.6** State whether the composition of the Executive Committee reflects the proportional split of the different types of Directors on the Board:

Yes  No

**If not, explain the composition of the Executive Committee.**

The composition of the Executive Committee, as laid down in the Regulations of the Board of Directors, is a minimum of 3 members and a maximum of 5, including its Chairman, who is the Chairman of the Board of Directors. The rest of the members are freely appointed by the Board of Directors from among the Directors. The Board shall also appoint its Secretary, who need not be a Director.

The composition and duties of the Executive Committee do not reflect this proportional split since the Executive Committee's only duty is to coordinate the executive management of the Bank and its responsibilities only extend to the powers of its members in the terms decided by the Board. The Executive Committee as such has no powers delegated to it by the Board.

## C. Transactions with related parties

**C.1** State whether the full Board is the only body responsible for approving – subject to a favourable report by the Audit Committee or any other committee – operations between the Company and its Directors, significant shareholders or shareholders represented on the Board, or with persons related to them.

Yes  No

**C.2** List any significant transactions involving a transfer of funds or obligations between the Company or a group undertaking and a significant shareholder of the Company.

**C.3** List any significant transactions involving a transfer of funds or obligations between the Company or a group undertaking and a Director or senior executive of the Company.

**C.4** List any significant transactions carried out by the Company with other companies in the group which have not been eliminated in the preparation of the consolidated financial statements and are not, having regard to their nature and purpose, in the normal course of business.

**C.5** State whether during the year the members of the Board of Directors have been involved in any conflict of interests, in the terms of Article 127 ter of the SA Companies Act.

Yes  No

**C.6** Specify the mechanisms established for detecting, identifying and resolving possible conflicts of interest arising between the Company and/or the group and its Directors, senior managers and significant shareholders.

The main instruments which the Banco Sabadell group has put in place to deal with possible conflicts of interest among its Directors, senior executives and significant shareholders are as follows:

**1.** Under the Regulations of the Board of Directors, Board members are bound by a duty of loyalty and confidentiality and are required to disclose any interest they may have in the Company itself or in other companies outside the group.

Specifically, Article 12 of the Regulations states that a Director may not provide professional services to Spanish companies whose corporate objects, or any part thereof, are similar to those of the Company. An exception is made for companies in the same group. Before accepting any management post in another company or undertaking, a Director must notify the Nomination and Remuneration Committee.

Article 27 of the Regulations of the Board of Directors states that a Director must inform the Company of the shares he owns in it directly or through companies in which he has a significant holding. He must also inform the Company of any other shares owned directly or indirectly by his immediate family. A Director must also inform the Company of all posts he holds and activities he performs in other companies or undertakings, and in general any fact or situation that may be relevant to his conduct as a Director of the Company.

**2.** The Banco Sabadell group's Code of Conduct provides a set of rules for the guidance of all persons employed by the group and its stakeholders (customers, suppliers, shareholders, central, regional and local government and the local community) based on principles which we consider fundamental to carrying on business.

It expressly contemplates the rules applicable to possible conflicts of interest with customers and suppliers and sets out guidelines for such cases.

**3.** The Banco Sabadell group's Internal Rules of Conduct for matters relating to the Stock Market lay down guidelines that embody the principles of stock market transparency, fair pricing and investor protection.

Particularly relevant in this respect is Article Four, which governs the "Priority of customer's interests and conflicts of interest" and Article Eight, which states:

“Directors and employees shall make a declaration to the group, which they shall keep up to date, setting out significant relations of a financial, business, family or other nature with customers of the group for services related to the stock market or with listed companies.”

At all events the direct or indirect ownership of over 5% of the shares in companies that are customers for stock market services, provided it is known that the company is a customer of the group and that the work involves significant services, or holdings of over 1% in listed companies, shall be considered an economic relationship.

Relations up to the second degree of consanguinity or affinity (ascendants, descendants, siblings and spouses of siblings) with customers for stock market services (with the same exception provided above) or with persons holding administrative or management posts in companies that are customers for such services or with listed companies shall at all events be considered a family relationship.

The declaration shall also include other relationships that, in the opinion of a neutral, independent observer, could compromise the impartiality of a Director or employee. In the event of reasonable doubt in this respect, Directors and employees must consult the ad hoc body.

**4.** The Banco Sabadell group's Corporate Ethics Committee, composed of senior executives representing a range of functional areas, is responsible for fostering ethical conduct throughout the organization and for making proposals and giving advice to the Board of Directors and the group's central services and business units on decisions involving issues that could lead to value conflicts. The Committee is also responsible for overseeing the group's compliance with its self-imposed obligations as set out in the Code of Conduct or in the Internal Rules of Conduct for matters relating to the Stock Market.

To help it in this task, the Corporate Ethics Committee can call upon the resources of the Compliance Department, which has been given extensive powers by the Board to have access to all documents and information it requires to perform its supervisory function.

**C.7** Is more than one company in the group listed in Spain?

Yes  No

Identify the subsidiaries listed in Spain.

## D. Risk Control Systems

**D.1** Overview of Company and/or group policy with regard to risk, giving details and assessments of the risks covered by the system and explanations to show the effectiveness of the system for each type of risk.

Risk is inherent in any banking business. Banco Sabadell is aware that the accurate and efficient management and control of risk helps to maximize shareholder value and ensure an appropriate level of solvency.

Risk management and control at Banco Sabadell comprises a comprehensive array of principles, policies, procedures and advanced valuation methods integrated within an effective decision-making structure. Banco Sabadell has established a number of fundamental principles governing the management and control of risk. These are:

### *Solvency*

Banco Sabadell has opted for a conservative, balanced risk policy to ensure sustained, profitable business growth in line with the group's strategic objective of maximizing value creation.

A structure of limitations is vital to ensure that concentrations of risk do not build up that could compromise a significant proportion of the group's resources. Consequently, the risk variable is included in decision-taking across the organization and is quantified using a single measure: economic capital.

### *Responsibility*

The Board of Directors is committed to processes for the management and control of risk: approval of policies, limits, management models and procedures, measurement techniques, and supervision and control. At the executive level there is a clear separation of functions between risk-originating business units and the units responsible for managing and controlling risk.

### *Risk management and control*

The ongoing management of risk is supported by robust control procedures to ensure compliance with specified limits, clearly defined responsibilities, the monitoring of indicators and predictive alerts, and the use of advanced risk assessment methodologies.

#### **Types of risk addressed by control systems:**

##### Credit risk

Credit risk is the possibility of losses arising as a result of borrowers failing to meet their obligations or a loss in value due simply to a deterioration in borrower quality.

##### Market risk

Market risk includes the following risks:

- **Discretionary risk:** Discretionary risk is the possibility of loss of value of investments due to fluctuating market risk factors (equity prices, interest rates, exchange rates, implied volatilities, correlations, etc.).
- **Structural risk:** This risk arises from the ongoing customer-based commercial banking and corporate finance businesses. Management of structural risk seeks to ensure stability at the margin by maintaining appropriate levels of liquidity and capital strength.

Structural risk can be broken down into interest rate risk and liquidity risk.

Interest rate risk is caused by changes in the interest rates, as shown by the position or slope of yield curves, that provide benchmarks for asset, liability and off balance sheet positions. Gaps or mismatches arise between these items because of differences in repricing and maturity dates so that rate changes affect them at different times, which in turn affects the robustness and stability of results.

Liquidity risk can be defined as the possibility of defaulting on debts, even if only on a temporary basis, due to a lack of liquid assets or an inability to access the markets to refinance those debts at a reasonable cost.

##### Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from unforeseen external events. This includes legal risk.

##### Insurance risk

This is the actuarial and financial risk arising on insurance policies sold by the group's insurance associates.

##### Reputational risk

Reputational risk arises from internal practices that could result in our stakeholders (customers, suppliers, government agencies and the communities in which we operate) seeing us in an unfavourable light.

- Breaches of regulatory requirements.
- A lack of concern for the welfare of the community in which the group operates.
- Conduct falling below generally accepted ethical standards.

The group has a number of risk control systems in place which are appropriate to the commercial banking businesses in which it operates and the type of risk that it seeks to undertake.

These control systems are embodied in procedures for the approval, monitoring, mitigation or recovery of risks of the types described above, and are themselves subject to supervision.

One part of the control system is risk assessment based on the use of advanced measurement techniques. The Basle Committee on Banking Supervision has been working on a new capital adequacy regulatory framework for financial institutions known as Basle II, a fundamental principle of which is that a bank's regulatory capital requirements should be more closely related to risks actually incurred, based on previously validated parameters and internal estimates.

Being fully aware that having an advanced methodology ensures that risks incurred can be reliably assessed and actively managed, Banco Sabadell is following the guidelines provided by the new banking regulations in developing the components required to complete its risk measurement systems.

On the basis of the measures of risk provided by these new methodologies, Banco Sabadell has developed a consolidated risk measurement model with a common unit of measurement, economic capital, the purpose of which is to

determine the capital requirement on the basis of internal parameters appropriate to ensure a specified level of solvency. Evaluating risk in terms of an assigned capital requirement means that risk can be related to return, from individual customer up to business unit level. Banco Sabadell has developed an analytical “risk-adjusted return on capital” (RaRoC) system which provides this assessment and incorporates it within the transaction pricing process.

In the management of credit risk, the last few years have seen the implementation of advanced measurement models based on internal data, tailored to particular counterparty categories and segments (businesses, retailers, individuals, property developers and development projects, project finance, structured financing, financial institutions and countries), thus allowing transactions to be differentiated on the basis of risk and assessments to be made of the probability of default or the degree of severity in the event of default actually occurring.

All these advances have been possible thanks to the very considerable efforts of the last few years, which testify to the importance that the group attaches to these new risk management techniques, an aspect which is not unrelated to performance.

The control systems in use for each type of risk are described in the following sub-paragraphs.

### **Credit risk**

Generally speaking, the management and control systems that have been put in place to assess, mitigate or reduce credit risk are based on procedures which are described in detail below, and on conservative policies to ensure diversification and to reduce concentrations in particular counterparties and in the acceptance of guarantees.

#### *Approval, monitoring and recovery*

To maximize the opportunities for doing business with customers and to guarantee an appropriate degree of security, responsibility for approval and monitoring of risk is shared between the relationship manager and the risk analyst, who by maintaining effective communication are able to obtain a comprehensive view of the circumstances of each customer.

The relationship manager monitors the business aspect through direct contact with the customer and by handling his day-to-day banking, while the risk analyst takes a more system-based approach involving the use of alerts.

The Board of Directors delegates powers and discretion to the Risk Control Committee, which is then able to sub-delegate authority at each decision-making level. The implementation of a control of attributions in the admission supports allows the delegation fixed for each level to be based on the expected loss calculated for each of the business operations presented.

Electronic processing of corporate credit applications for different segments has streamlined the decision-making process and significantly reduced response times to customers as well as increasing efficiency and reducing management and administrative costs.

By analysing indicators and early warning alerts, and by conducting regular rating reviews, the quality of a risk can be constantly monitored in an integrated way.

The establishment of effective processes for managing existing risk exposures also benefits the process of managing past due accounts. The early identification of risks of probable default allows proactive measures to be taken, with risks being transferred to recovery specialists who are best equipped to determine the most suitable type of recovery procedure in each case.

#### *Credit Rating*

For some years now, credit risk exposures to corporate customers have been assigned a rating based on an internal estimate of the probability of default. Based on factors that are predictors of the probability of default within one year, the system is designed for different market segments. The rating model is revised each year on the basis of an analysis of actual default data.

Each rating score is assigned an anticipated default rate which allows consistent comparisons to be made across segments and with the ratings of independent rating agencies, according to a master scale.

#### *Credit scoring*

For credit risk exposures to individuals, scoring systems are used. These are based on the quantitative modelling of historic data that identify key predictive factors. Two types of scoring are used:

- Behavioural scoring, in which the system classifies all customers and includes information on how they operate with each of the different products. This classification serves as the basis for monitoring behaviour, while it is also used for approving new products and even for pre-approvals.

- Application scoring, which is used to evaluate applications for personal and mortgage loans and credit cards. When all transaction data have been entered, the system generates a result based on estimates of borrowing capacity, financial position and the quality of any collateral or other security.

Banco Sabadell's policy is to complete the development of its own credit risk assessment tools in the course of the next few years.

#### *Country risk*

This is the risk associated with the debts of a country analysed as a class on the basis of factors other than credit risk. It manifests itself when a borrower is unable to meet his foreign currency liabilities to external creditors because the country will not allow access to, or transfers to be made in, that currency, or where a recovery action against the borrower would fail for jurisdictional reasons.

An overall exposure limit is set for each country, which applies across the whole group. These limits are approved by the Risk Control Committee and are constantly monitored to ensure that any deterioration in the political, economic or social situation in a country can be foreseen and acted upon in good time. Both for deciding limits and for subsequent follow-up, the rating of each country is used as a support tool.

#### *Credit risk due to market operations*

Credit risk due to market trading operations, or counterparty risk, is exposure to other financial institutions arising from financial dealings which may be spot transactions, where the amount of the risk is comparable to the nominal amount of the transaction, or transactions in derivative products not traded on organized markets, where in the great majority of cases the transaction amount is below the notional value.

Banco Sabadell has developed a system for the assessment of counterparty risk which generates results that reflect the potential future exposure that could arise from these different positions; these are monitored each day on an integrated basis and reports on these exposures and on compliance with approved limits are sent to the risk control units or functions.

To mitigate exposure to counterparty risk, Banco Sabadell maintains a solid base of CSA (Credit Support Annex) contracts and continues to handle new contracts with counterparties exposed to greater risk in derivatives. The provision of guarantees significantly reduces the risk incurred with these counterparties.

### **Market risk**

#### *Discretionary risk*

Discretionary risk is measured by the VaR (Value at Risk) method, which allows exposures arising on different types of financial market transactions to be analysed in the same way. The VaR provides an estimate of the anticipated potential maximum loss on a position that would result from an adverse, but normal, movement in any of the identified parameters that affect market risk. This estimate is expressed in money terms and is calculated at a specified date, to a specified confidence level and for a specified time horizon. The estimate takes account of different levels of market risk factors.

Market risk is monitored on a daily basis, calculating VaR, gap and sensitivity levels, and reports on current risk levels and on compliance with the limits assigned to each unit are sent to the risk control bodies. This makes it possible to observe changes in exposure levels resulting from changes in financial product prices and volatilities.

Risk control of this kind is supplemented by specific simulation exercises and extreme market scenarios (stress testing). The reliability of the VaR methodology is validated by back testing techniques which are used to verify that the VaR estimates are within a specified confidence level.

#### *Structural risk*

##### **a) Interest rate risk**

The management of interest rate risk focuses on overall financial exposure for the group as a whole and involves proposing alternative business or hedging strategies to allow business results to be achieved that are appropriate to market conditions and the balance sheet position.

Generally speaking, techniques to mitigate interest rate risk are based on the use of fixed interest instruments and financial derivatives as interest rate hedges.

A number of methodologies are used to measure interest rate risk. These include interest rate gap analysis which measures the sensitivity of net interest income to changes in interest rates over a one-year horizon. By this technique, volumes of asset and liability items are grouped according to their maturity date (for fixed rate instruments) or their re-



pricing date (for floating rate instruments). This analysis provides an estimate of the effect that a change in interest rates will have on net interest income, assuming that all rates change by the same amount and in a sustained way.

Gap analysis is supplemented by a simulation technique that measures the effects of different interest rate movements on different maturities, that is, changes in the slope of the yield curve. These simulation techniques assign a probability to each scenario so as to arrive at a more precise estimate of the effect that interest rate movements might have.

Another approach is to measure the sensitivity of net asset values to changes in interest rates by duration gap analysis. This measures the effect of interest rate changes over a longer time horizon.

#### **b) Liquidity risk**

Liquidity risk may be caused by external factors such as a financial market downturn or a systemic crisis or reputational risk issues, or internally, by an excessive concentration of maturing liabilities.

Banco Sabadell keeps a close watch on the day-to-day evolution of its liquid asset position and holds a diversified portfolio of such assets. It also carries out yearly projections to anticipate future needs.

It uses liquidity gap analysis to manage foreseeable differences between cash inflows and outflows over a medium-term horizon. In addition, systematic checks are made to verify that the group's ability to raise funds on the capital markets is sufficient to satisfy its requirements in the medium and long term.

Liquidity risk is mitigated by a clear policy of using the wholesale capital markets to diversify its sources of funds through programmes of medium term debt or securitization issues.

The Banco Sabadell group has in place a number of programmes to raise finance on the long and medium term capital markets, and short term commercial paper issue programmes to ensure the diversification of its sources of funds. The group is an issuer of mortgage bonds and is active in developing new sources of finance such as asset-backed securities, which provide a further instrument for the management of liquidity risk.

In addition, the Bank carries out regular liquidity gap analyses in order to assess the cash inflows and outflows and their impact on the position under different scenarios. Within this framework, it has a contingency plan for dealing with any unexpected situations that might produce an immediate need for funds. This plan, which is regularly updated, identifies the Bank's assets that can be liquidated in the short-term and sets out the courses of action in the event of having to obtain additional liquidity.

#### **Operational risk**

Operational risk arises from the risk of loss resulting from inadequate or failed internal processes, people and systems or from unforeseen external events.

Banco Sabadell pays special attention to this type of risk, and the effective management of operational risk is decentralised in the different process managers distributed throughout the organisation. All these processes are identified on the corporate processes map, which facilitates the integration of information according to the organisational structure. The group has a central unit specialising in operational risk management, and its principal functions are to coordinate, supervise and promote the identification, evaluation and management of the risks by the process managers, on the basis of the management model adopted.

The Board of Directors and senior executives are directly and effectively involved in the management of this risk, by approving and implementing the management framework proposed by the Operational Risk Committee, composed of senior executives in the Company's different areas of operation, thus ensuring that audits are carried out regularly on the application of the management framework and the reliability of the information reported, as well as internal validation checks on the operational risk model.

The management of operational risk is based on two lines of action:

- The first is based on detection, monitoring and active management through the use of key risk indicators leading to the establishment of alerts for increases in exposure, identification of the causes thereof, and measurement of the effectiveness of controls and improvements.

This is supplemented by analysis of the processes, identification of related risks, qualitative evaluation of these and of the associated controls, all carried out jointly by the process managers and the central operational risk unit. The result is an evaluation that indicates the exposure to future risk and enables the Bank to anticipate trends and to plan targeted mitigating action.

In subcontracted processes, the exposure to operational risk is analysed in respect of service agreements, operational and financial solvency of businesses and ease of replacement due to interruption of the service.

At the same time we check that the processes identified as highly critical in the face of a service failure have specific business continuation plans defined and in place.

On the risks identified, an estimate is made of the reputational repercussions that could arise from any of them.

- The second line of action is based on experience. It consists in collecting in a database all the losses of the Company, so as to provide information on the operational risks incurred per line of business and the reasons for them, in order to take action to minimise such risks.

Banco Sabadell has set up a historical database of actual losses from operational risk. This is integrated into and reconciled with the accounts and is continually updated as information is received on losses and also on recoveries, whether due to our own recovery procedures or to insurance cover.

### Insurance risk

Insurance risk is controlled by means of a robust risk measurement system based on actuarial techniques with parameters set at conservative values. It is normally mitigated through reinsurance.

### Reputational risk

Controls for reputational risk have been established at a number of levels in three main areas which are seen as critical by the group:

- Measures to prevent our branch network being used for criminal or terrorist-related money laundering activities:
  - A dedicated unit specializing in the detection, analysis and tracking of suspicious transactions.
  - An automatic process for tracking payments on a massive scale. This sends out alerts which are then analysed by the specialist unit.
  - A system of continuous staff training and the integration of reputational issues into the group's internal rules and procedures.
- Measures to ensure compliance with the various regulatory requirements that apply to the group's business in all countries where it operates, including its operations in the Spanish market:
  - The Compliance, Corporate Social Responsibility and Corporate Governance Department is involved in all new product development processes with a view to ensuring that from the outset products comply with regulatory requirements, particularly those concerning transparency and the protection of customers, the markets and personal data.
  - The group has set up a team of Compliance Reporting Officers who are responsible for verifying that operations conform to the regulations that apply to specific areas of business and report to the Compliance Department on a regular basis.
- Measures to verify compliance with the principles laid down in our Code of Conduct and to encourage higher standards of compliance by adopting rules and procedures which can be integrated into our day-to-day working practices. Stock market dealing by employees, Directors and others bound by the Code is subject to systematic disclosure requirements and monitoring by the Compliance, Corporate Social Responsibility and Corporate Governance Department. Other aspects relating to the Code of Conduct, control of market abuse and MiFID requirements are monitored by the Department by such means as the Corporate Ethics Committee considers are necessary to ensure compliance.

272 **D.2** State whether any of the different types of risk (operational, technological, financial, legal, reputational, tax, etc.) that affect the Company and/or its group have materialised during the year.

Yes  No

If so, indicate the circumstances giving rise to them and whether the control systems worked properly.

**D.3** State whether there is a committee or other body responsible for setting up and supervising these control systems.

Yes  No

If so, give details of its functions.

## **Name of committee or body**

Responsibilities in relation to Risk Management

### **Description of functions**

The Board of Directors is responsible for laying down general guidelines as to how the risk management and control function is to be distributed organizationally and for establishing the broad risk management strategy.

Within the Board itself, three committees are involved in the management and control of risk:

The Executive Committee is responsible for coordinating management of the Bank at executive level and for adopting resolutions and decisions within the authority delegated to it by the Board of Directors. All decisions taken at meetings of the Committee are reported to the Board.

The Risk Control Committee, which (i) determines overall levels of risk for each country, business sector and risk category and makes appropriate recommendations to the full Board; (ii) establishes and makes recommendations to the full Board on maximum levels of risk for operations with individual lending institutions and customers, and for setting maximum exposures in portfolios or individual investments in government or public sector securities, shares, bonds, options, swaps and generally any instrument or security involving a risk of default or an investment, interest rate or liquidity risk for the group; (iii) establishes and recommends to the full Board annual limits for investment in the property market and the criteria and volumes to be applied for different types of investment within this market; (iv) decides and makes recommendations to the full Board on such delegations of authority as it may consider expedient for the approval and acceptance of individual risks within set limits as set out above; (v) decides on individual risks which only the Risk Control Committee itself can approve by virtue of the authority vested in it under previous sub-paragraphs; (vi) supervises and monitors the proper exercise of any authority delegated under sub-paragraph (iv) above; (vii) reports to the full Board every month on all transactions approved and carried out during the previous month, and any divergences or anomalies observed and any corrective action taken; (viii) reports to the full Board every quarter on levels of risk exposure, investments and investment performance, the possible impact of interest rate changes on group revenues, and the degree to which these exposures conform to the VaR limits approved by the Board; and (ix) seeks the Board's approval for any change of more than 10% and 20% in excess of the limits authorized under (i) and (ii) above, respectively.

The Audit and Control Committee, which is responsible for (i) reporting to the General Meeting on matters raised by shareholders within its area of responsibility; ii) proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of the external Auditors, establishing the terms of their engagement, their professional remit, and their termination or non-renewal; reviewing the performance of the auditing contract, and ensuring that the Auditor's opinion on the annual accounts and the main contents of the Auditor's report are drafted in clear, precise terms; iii) reporting on the annual accounts and the quarterly and half-yearly financial statements and prospectuses required to be filed with supervisory or regulatory authorities, ensuring that legal requirements are complied with and that generally accepted accounting principles are properly applied, and reporting on any proposed changes to those principles; (iv) supervising the internal audit function and reviewing the appointment and replacement of those with internal audit responsibilities; (v) keeping up to date with the process of financial reporting and the systems of internal control within the Company; (vi) maintaining contact with the external Auditors to receive information on any issues that could threaten their independence or otherwise have a bearing on the auditing process, and on any other reports concerned with the auditing of accounts or required by legislation or by the regulations governing the auditing profession; (vii) reporting on all matters referred to it by the Board of Directors within its area of responsibility; (viii) all other responsibilities assigned to it by law or by the Articles of Association and any regulations made thereunder and any deriving from general rules on corporate governance.

The executive functions involved in the process of risk management and control are as follows:

- **Global Risk Committee:** the body that defines the criteria relating to the identification, management and control of risk considered from a global viewpoint, as well as its interaction with business. Certain specific objectives that are specially monitored by this committee are the Master Plan for the Implementation of Basle II and the study and proposal of internal risk models to be approved by the Board of Directors.
- **Financial Department:** As part of the planning and budgeting process, the department draws up proposals for risk structures and overall limits, and for allocations of capital in line with the set strategy; provides information to the various decision-making and risk management functions or units regarding overall risk exposures and monitors the implications; sees that the risk variable is taken into account in all decisions; and oversees specific risk management models, ensuring that these approaches are in line with generally accepted principles and methodologies, particularly so far as the supervisory authorities are concerned.

- Risk Department: The department is responsible for establishing risk management guidelines, methodologies and strategies. It defines and establishes the risk management approach, develops advanced internal measurement systems on the basis of supervisory requirements for the quantification and differentiation of risk, and actively promotes the operational use of these systems. It lays down procedures to ensure optimum performance by the credit function. It manages and integrates the various risk exposures according to the authority limits assigned to each level, through a selective approval of risk in such a way as to ensure risk quality, while fostering growth and maximizing profitability.
- Assets and Liabilities Committee: The committee draws up standards to ensure effective management of the group's structural balance sheet risk acquired in the course of business and of the market risk. It oversees interest rate, liquidity, exchange and equity risk, and proposes alternative business or hedging strategies to ensure that business objectives will be achieved having regard to market conditions and balance sheet considerations.
- Operational Risk Committee: The committee defines the strategies and framework for the management of operational risk and establishes the operating priorities for this based on assessment of the risk exposure of the different business and corporate departments.
- Compliance, Corporate Social Responsibility and Corporate Governance Department: It oversees compliance with the legal requirements, operating procedures and ethical principles that govern the group's activities, including the prevention of money laundering and the financing of terrorist groups by establishing procedures and alerts. It is also responsible for driving all aspects of quality management by establishing corporate quality models and systems and providing training, motivation, research and technical support.
- Internal Audit Department: Reports directly to the Audit and Control Committee and oversees effective implementation of management policies and procedures and assesses the appropriateness and effectiveness of management and control activities in each functional and executive unit.

With regard to the group-wide management of risk, a stable structure of management and responsibility has been set up incorporating a system of controls in which primary responsibility for control is assigned to line managers as part of their basic managerial functions: planning, implementation, control and correction of deviations.

Internal Audit thus has the task of acting as a guarantor of the effectiveness of the management and control structure and of the system itself, and for evaluating any deviations in risk measurement terms.

This new conception of auditing is, in fact, entirely consistent with the Basle II Accord, under which the Committee is responsible for supervising the adequacy and effectiveness of controls set up for different areas of responsibility, and for acting as internal consultants on the systematic identification and control of risk and the establishment of management methodologies and systems.

In line with this approach, Internal Audit has drawn up programmes of work in four main areas:

- Control audits. The purpose of these is to verify, for a particular area of operations, that the various risks associated with that area have been identified, assessed and controlled by the managers responsible, and that controls are of the approved type and are being implemented.
- Management audits. These are to ensure that the indicators included in each unit's scorecard or "instrument panel" are properly analysed, and to take corrective action in the event of any deviation from target levels.
- Verification audits. These have the aim of validating the information used as a basis for the drawing up of quality indicators to ensure that indicators are a fair reflection of reality.
- Compliance audits. These ensure that all internal group activities are in accordance with legal and regulatory requirements and ethical standards that apply at any given moment in time.

The Deputy Secretary to the Board of Directors and Comptroller General is responsible for managing the work of the Internal Audit Department and of the Compliance, Corporate Social Responsibility and Corporate Governance Department in such a way as to ensure that it fulfils their mission, which is to see that the control system and risk management policies are appropriate and will at all times facilitate the achievement of the group's aims.

**D.4** Identify and describe the processes in place for ensuring compliance with the regulatory requirements that apply to the Company and/or the group.

One of the core aspects of the Banco Sabadell group's policy, and the basis of its organisational philosophy, is rigorous compliance with all items of legislation. The achievement of business goals must be compatible at all times with compliance with the law.

The direct consequences of infringement of legislation and the loss of image in the eyes of the regulator, the market, employees, customers and the media are making it increasingly necessary and important to manage compliance risk, this being understood as the risk of legal or administrative penalties, significant financial loss or damage to reputation through failure to comply with laws, regulations, internal rules and codes of conduct applicable to the banking business.

Aware of this, the group has a compliance unit with the mission to promote and ensure the highest levels of compliance and ethics in the group, managing compliance risk in order to minimise the possibility of any such risk materialising and to ensure that any defaults are identified, reported and resolved as quickly as possible.

In order to carry out this mission, the group has opted for a central compliance unit in the parent company with decentralised functions in the subsidiaries and overseas offices. It is a flexible, risk-focused approach that adapts easily to the group's strategy at any given time and makes use of synergies, particularly in those aspects with complex global impacts that require technological developments and where the main challenge is the standardisation of levels of compliance control in the group by establishing compulsory minimum standards irrespective of the field of business or the country in which the group is operating.

This model is driven by two main elements: i) a system of subordination to the parent company by the compliance officers in each of the subsidiaries and overseas offices (functionally subordinate to the central compliance unit and hierarchically subordinate to the manager of the subsidiary/overseas office), who report regularly to the central unit and ensure compliance with legislation in all the countries and fields of business in which they operate; ii) a robust central compliance unit that provides services to the whole group and is moving from a model aimed at management of specific risks towards a model of global compliance risk management. In this model, the core processes are distribution and controlled implementation of new legislation applicable to the group, and risk focused control of correct compliance with legislation already in force.

This risk-focused methodology classifies regulations according to the associated compliance and reputational risks and establishes the level of rigor and the control programme to be executed by the central compliance unit in each case. Combating money laundering, combating and blocking the financing of terrorism, market abuse, internal rules of conduct and MiFID, for example, are classified as high risk and therefore require direct integrated control by the compliance unit. With respect to other regulations, the programme will be articulated through a combination of direct controls by sampling and indirect controls through monitoring indicators of each risk.

The Banco Sabadell group employs a specific methodology to continue its progress with all aspects of compliance, through four main tools: i) technology for obtaining the maximum levels of compliance and causing the minimum impact; ii) ongoing training and information for the persons involved; iii) Clear procedures; and iv) efficient communication channels.

**TECHNOLOGY** to incorporate Compliance in the group's operating procedures and consequently to achieve a high level of conformity with applicable legislation.

**TRAINING** based on the ongoing instruction of all employees, with an annual training plan adapted to the requirements of any given moment and any given group, in order to convey, emphasise and clarify concepts in the most sensitive areas or those where there is a special risk.

Clear **PROCEDURES** are of vital importance so that the persons involved know how to act in any given case; and for particular queries or special cases another essential element is an efficient **CHANNEL OF COMMUNICATION**.

### **Structure and functions of the Compliance Department**

The Compliance Department forms part of the Compliance, Corporate Social Responsibility and Corporate Governance Department, which reports directly to the Comptroller General, and through him to the Chairman and the Board of Directors. These three executive lines are thus kept independent of each other in order to avoid conflicts of interest between their aims and strict compliance with regulations and codes of conduct.

The main duties of the Compliance Department can be summarised as follows:

- Controlling the implementation of new legislation.
- Identifying, classifying and prioritizing the risks of non-compliance.
- Drawing up a annual programme for reviewing the risks of non-compliance.
- Directly managing and controlling the main risks of non-compliance.
- Detecting and managing incidents of non-compliance.
- Mitigating risks by promoting and establishing procedures and controls.
- Reporting on the Management of Non-Compliance Risks to the senior management.

### **Combating Money Laundering and Combating and Blocking the Financing of Terrorism**

The Banco Sabadell group has a well defined policy and rigorous procedures for identification, acceptance and knowledge of our customers to prevent the group being used for activities connected with money laundering or terrorist financing.

The group has an Internal Control and Communication Unit, headed by the Comptroller General, whose mission it is to ensure compliance in the group with the laws on Combating Money Laundering and Blocking the Financing of Terrorism, on which all the companies in the group bound by these laws and all the areas of special risk in the Bank are represented.

The infrastructure for these controls consists of i) group rules on Combating Money Laundering as well as specific rules for each subsidiary bound by Spanish laws and for the subsidiaries and offices overseas. These rules are adjusted to their specific business activities and to local legislation, although they must at all times comply with the minimum group standards; ii) group rules on Blocking the Financing of Terrorism; iii) a Know Your Customer questionnaire for entering all personal and banking details about each customer; iv) a policy for the acceptance of customers, with different levels of authorization according to the associated money laundering risk; v) an intelligent system for tracking suspicious operations that triggers alerts based on defined parameters, which are handled and analysed and if necessary reported to SEPBLAC, the Spanish anti-money laundering authority; and vi) a mechanised system of control that detects possible coincidences with persons linked to terrorist activities. These coincidences are dealt with immediately, and if necessary are reported to the regulator; vii) Banco Sabadell group has a training policy covering all employees, which sets out the various lines of action, from initial training for all persons joining the group, an annual training programme with face-to-face or distance courses for all employees, and specific courses for certain groups. In addition, regular specialised newsletters are sent out containing articles and news of interest, so that employees – particularly those in contact with customers – are kept up to date with new practices; viii) an annual report drawn up by an external expert assessing the procedures and control systems in place.

### **Stock Market Control and MiFID**

The Banco Sabadell group is committed to safeguarding the integrity of the markets since it provides a full range of services related to stock market operations and the Bank is also listed on the Spanish stock exchanges. In accordance with applicable legislation, the group undertakes to ensure market transparency, correct market pricing and investor protection by establishing procedures, developing IT applications for management and control, and providing training courses for employees.

The Corporate Ethics Committee, chaired by the Comptroller General, is responsible for controlling and monitoring compliance in the group with the stock market code of conduct and general code of conduct. The Compliance Department is the operating arm of this Committee, and acts with its express authority in the direct management and control of associated compliance risks.

The group has in place i) Internal Rules of Conduct for matters relating to the Stock Market, approved by the Board of Directors, which provides the relevant employees with details of the application of the rules for dealing on the stock market. It covers concepts such as insider information, price manipulation, separate areas and conflicts of interest, laying down general directives on how to proceed and the channels of communication to use. It is a tool that facilitates the detection and notification of instances of non-compliance; ii) a Conflicts of Interest Policy which identifies the different types of conflict that can arise and the procedure for the prevention, handling and reporting of these; iii) procedures and tools for detecting suspected operations involving market abuse (price manipulation or insider trading). These operations are analysed and if necessary are reported to the stock market regulator (CNMV); iv) internal rules for the handling of privileged information and the reporting of suspicious operations; v) a control programme to ensure that Banco Sabadell group meets the requirements concerning investor protection set out in the Stock Market Act (which transposes the MiFID into Spanish legislation); vi) policies for the execution and handling of orders, for outsourcing, and for safekeeping of financial instruments; vii) the necessary procedures for carrying out suitability and appropriateness tests for correct customer classification and ensuring the right investment in accordance with their investor profile; viii) a policy of ongoing training in MiFID and the Rules of Conduct for matters relating to the Stock Market.

## E. General Meeting

**E.1** State whether there are any differences in the quorum for the General Meeting with respect to the minimums laid down in the SA Companies Act. If so, give details.

Yes  No

	% of difference in quorum from Art. 102 of the Act for general resolutions	% of difference in quorum from Art. 103 of the Act for special resolutions
Quorum on first call	0	0
Quorum on second call	0	0

**E.2** State whether there are any differences in voting majorities with respect to the provisions of the SA Companies Act.

Yes  No

Describe how they differ from the rules established by the SA Companies Act:

**E.3** Describe the rights of shareholders at General Meetings, where these are at variance with the provisions of the SA Companies Act.

Under the Articles of Association, Banco Sabadell shareholders are entitled to exercise all the rights of members under the SA Companies Act.

With regard to the shareholders' right to receive information, shareholders are able to access the Annual Accounts and other documents required to be submitted to the General Meeting for approval, and the Auditor's report on the accounts, on the Banco Sabadell group website [www.bancosabadell.com](http://www.bancosabadell.com). Shareholders also have access on this website to the wording of and reasons for the proposed resolutions that the Board will submit to the General Meeting for approval.

At its meeting on 24 February 2005, the Board of Directors resolved, pursuant to the provisions of Article 10.9 of the Regulations for General Meetings, to consider that the Bank's online banking system provides all necessary safeguards in respect of authenticity and legal certainty to enable electronic proxy mechanisms to be used, and consequently the Board authorized its use for this purpose for General Meetings and this facility was announced in the notices of meetings.

Article 9.4 of the Regulations for General Meetings requires the Board of Directors to make arrangements, subject to appropriate safeguards to guarantee authenticity and security, for resolutions proposed by shareholders to be likewise made available on the Company's website, in which case the Board of Directors would use the website to notify the proposing shareholders of its acceptance or rejection of their proposed resolutions and, in so doing, to make the content of such resolutions known to other shareholders.

Shareholders may, in addition, use the website to access the Articles of Association and the Regulations for General Meetings, the Regulations of the Board of Directors, the Rules of Procedure of the Audit Committee, the Internal Rules of Conduct for matters relating to the Stock Market, the Code of Conduct, the Annual Report on Corporate Governance and the Annual Report on Corporate Social Responsibility, and they may also consult any of the documents registered in the Mercantile Register, on such conditions as to access as the Registry may determine.

**E.4** Indicate any measures to encourage shareholder participation in General Meetings:

The Bank has always sought to encourage shareholder participation at General Meetings by sending out a shareholder newsletter and by notifying individual shareholders directly of General Meetings (in addition to published announcements in the press and in the Mercantile Registry Gazette - BORME); it also makes arrangements to allow forms of proxy and specific voting instructions to be deposited at any branch, which has produced a high participation in General Meetings.

Article 14.5 of the Regulations provides that, if possible and subject to suitable guarantees with respect to legal

security and the authenticity of expressions of shareholders' wishes, the Board may establish systems of postal or electronic voting.

**E.5** State whether the role of Chairman of the General Meeting is performed by the Chairman of the Board of Directors. If so, state what measures are in place to guarantee the independence and proper conduct of General Meetings.

Yes  No

**E.6** Indicate any amendments to the Regulations for General Meetings during the year.

**E.7** Give details of attendances at General Meetings held during the year to which this report refers.

#### Attendance figures

Date of General Meeting	% present in person	% present by proxy	% of votes cast by remote means (Electronic votes)	% of votes cast by remote means (Others)	Total
27/03/2008	4.050	66.630	0.000	0.000	70.680

**E.8** Summarise the resolutions adopted at General Meetings held in the year to which this report refers and state the proportional majorities by which resolutions were adopted.

#### Ordinary General Meeting held on 27 March 2008.

##### Resolution One

To approve the Annual Accounts (Balance Sheet, Profit and Loss Account and Notes to the Accounts) and Report of the Directors (including the Report on Remuneration Policy) of Banco de Sabadell, S.A. and its consolidated group for the year ended 31 December 2007, the stewardship exercised by the Directors of the Bank in the year from 1 January to 31 December 2007, and the proposed allocation of profits for the year, with profits being apportioned as follows:

To voluntary reserves:	261,405,814.70 Euros
To dividends:	342,723,830.40 Euros
Interim dividend paid	0.13 Euros per share
Final dividend to be paid as of 2 April 2008	0.15 Euros per share

This resolution was adopted by a majority of 99.78% of all voting shares represented in person or by proxy, with 1,078,764 votes in favour, 2,321 abstentions and 10 votes against.

##### Resolution Two

**2.1** On the recommendation of the Nomination and Remuneration Committee, to ratify the co-opting on to the Board of Directors of Jaime Guardiola Romojaro, holder of identity card number 37688964-Z, as an Executive Director and, pursuant to Article 51 of the Articles of Association, to confirm his appointment as a member of the Board of Directors for a term of five years as from the date hereof.

**2.2** On the recommendation of the Nomination and Remuneration Committee, and pursuant to the provisions of Article 51 of the Articles of Association, since his term of office is about to expire, to re-elect José Manuel Lara Bosch, holder of identity card number 46204247-F, as a member of the Board of Directors with the status of Independent Director, for a further term of five years.

**2.3** On the recommendation of the Nomination and Remuneration Committee, and pursuant to the provisions of Article 51 of the Articles of Association, since his term of office is about to expire, to re-elect Francesc Casas Selvas, holder of identity card number 38999306-T, as a member of the Board of Directors with the status of Independent Director, for a further term of five years.



**2.4** On the recommendation of the Nomination and Remuneration Committee, and pursuant to the provisions of Article 51 of the Articles of Association, to appoint Carlos Jorge Ramalho dos Santos Ferreira, holder of Portuguese identity card number 304328-2, as a member of the Board of Directors with the status of Nominee Director, for a term of five years. This appointment is made to fill the vacancy on the Board caused by the resignation of Jorge Manuel Jardim Gonçalves.

*Resolution (2.1)* was adopted by a majority of 99.78% of all voting shares represented in person or by proxy, with 1,078,706 in favour, 2,311 abstentions and 59 votes against.

*Resolution (2.2)* was adopted by a majority of 99.77% of all voting shares represented in person or by proxy, with 1,078,556 in favour, 2,300 abstentions and 239 votes against.

*Resolution (2.3)* was adopted by a majority of 99.78% of all voting shares represented in person or by proxy, with 1,078,730 in favour, 2,331 abstentions and 34 votes against.

*Resolution (2.4)* was adopted by a majority of 99.78% of all voting shares represented in person or by proxy, with 1,078,759 in favour, 2,298 abstentions and 39 votes against.

### **Resolution Three**

To approve the Merger Proposal signed by the Directors of Banco de Sabadell S.A. (absorbing company) and Europea de Inversiones y Rentas, S.L., Single Member Company (absorbed company) filed with the Barcelona Mercantile Registry on 13 February 2008, and accordingly to approve the merger by absorption of Europea de Inversiones y Rentas, S.L. by Banco de Sabadell, S.A., involving the winding up but not the liquidation of the absorbed company and the transfer of its assets and liabilities en bloc to the absorbing company by universal succession, with Banco de Sabadell, S.A. being subrogated in all the rights and obligations of the absorbed company without any reservation or limitation whatsoever.

This merger resolution is approved, subject to the authorizations required by legislation, on the basis of the circumstances set out below, in compliance with the provisions of Article 228 of the Mercantile Registry Regulations.

Name and registered offices of the companies involved in the merger and registration particulars in the Mercantile Register.

#### **a.1** Absorbing company

BANCO DE SABADELL, S.A. was incorporated for an unlimited duration by public deed number 620 executed in the presence of the Sabadell notary Antonio Capdevila Gomá on 31 December 1881, and its Articles of Association have been adapted to the current SA Companies Act (hereinafter BANCO SABADELL). It is registered in the Barcelona Mercantile Register in volume 20093, folio 1, page B-1561. According to its Articles of Association, its registered offices are currently at Plaça de Sant Roc 20, Sabadell. Its tax number is A-08000143.

#### **a.2** Absorbed company

EUROPEA DE INVERSIONES Y RENTAS, S.L., Single Member Company, was incorporated for an unlimited duration by deed number 4436 attested by the Madrid notary José Antonio Torrente Secorum on 17 November 1988. Its Articles of Association were adapted to the current SA Companies Act and the company was converted into a private limited company by deed number 6170 executed on 1 December 2000 in the presence of the notary Javier Micó Giner (hereinafter EUROPEA DE INVERSIONES Y RENTAS). It is registered in the Barcelona Mercantile Register in volume 39814, folio 31, page B-352308, entry number 34. According to its Articles of Association, its registered offices are currently at Carrer Sena 12-1º, Pl.A.E. Can Sant Joan, Sant Cugat del Vallès. Its tax number is B-78671666.

#### **b)** Description

Europea de Inversiones y Rentas, wholly owned by Banco Sabadell, is the registered owner of, among others, the site on which the corporate offices of the Bank are located, at Carrer Sena 12, Sant Cugat del Vallès. The company is also the registered owner of the adjacent site on which the extension to the corporate offices is at present under construction in order to house other units of the Bank's central services.

It is in the interests of both companies to carry out the merger by absorption of Europea de Inversiones y Rentas by Banco Sabadell, in order to simplify the corporate, organisational and operating structure of the Banco Sabadell group, thus optimising the process of construction of the extension to the building, facilitating the financial and corporate development of the operation and allowing better use of the group's resources.

**c) Procedure for the merger**

The merger will be carried out, subject to a resolution by the General Meeting of Shareholders of Banco Sabadell and the sole member of Europea de Inversiones y Rentas, in the form of a merger by absorption. Consequently, Banco Sabadell will absorb Europea de Inversiones y Rentas by acquiring en bloc all its assets and liabilities, with the extinction of the latter company and universal succession to all its rights and obligations by the absorbing company.

The Merge Balance Sheets of the companies involved will be those dated 31 December 2007, approved by the General Meeting of Shareholders of Banco Sabadell and by the sole member of Europea de Inversiones y Rentas simultaneously with the approval of the merger.

**d) No exchange of shares will be applicable**

Since Banco Sabadell (the absorbing company) is the sole member of Europea de Inversiones y Rentas and consequently owner of all the shares in the absorbed company, under Article 250 of the Consolidated Text of the SA Companies Act there is no need to indicate in the Merger Proposal either an exchange ratio or an exchange procedure.

For this same reason, there is no need for an increase of capital of the absorbing company increased or for reports by the Directors or by independent experts on the Merger Proposal.

**e) Date of operations for accounting purposes**

The date as from which operations by Europea de Inversiones y Rentas will be considered for accounting purposes as having been carried out by Banco Sabadell will be 1 January 2008.

**f) Shares and special rights**

Pursuant to the provisions of Article 235.e) of the SA Companies Act, it is expressly stated that there are no holders of special classes of shares or special rights other than the shares in Europea de Inversiones y Rentas, and therefore this point need not be considered in the merger operation.

**g) Advantages**

No advantages of any kind will accrue to independent experts, since there are no independent experts involved, or to the Directors of the companies involved in the merger.

To approve as the Merger Balance Sheet, pursuant to the provisions of Article 239 of the SA Companies Act, the audited Balance Sheet of Banco de Sabadell, S.A. as at 31 December 2007.

Pursuant to the provisions of the final paragraph of Article 238 of the SA Companies Act, it is hereby declared that there has been no relevant change in the assets or liabilities of the companies involved in the merger since the date on which the Merger Proposal was drawn up.

The Articles of Association of Banco de Sabadell, S.A. will not undergo any amendments as a consequence of the merger with Europea de Inversiones y Rentas, S.L., since no increase of capital will be made as Banco de Sabadell, S.A. is the sole member and consequently owner of all the shares in the company.

Pursuant to the provisions of Article 96 of Royal Legislative Decree 4/2004 of 5 March 2004 approving the Consolidated Text of the Corporate Income Tax Act, approval is given for the merger to be subject to the fiscal neutrality regime laid down in Chapter VIII of Title VII thereof, which is an essential condition of the operation and for which purpose the merger will be notified to the competent authorities in due time and form.

This resolution was adopted by a majority of 99.79% of all voting shares represented in person or by proxy, with 1,078,778 votes in favour, 2,302 abstentions and 14 votes against.

**Resolution Four**

To authorize the Board of Directors, with such broad powers as may be required in law, and in accordance with the provisions of Article 153.1.b) of the SA Companies Act, to increase the share capital once or more often in such amount, on such dates and terms and in such other circumstances as it may decide, up to the maximum amount and within the time limit laid down in the Act; to fix the type of shares, to offer those shares not subscribed within the deadline for preemptive subscription, to establish that if not all the shares are subscribed the capital will be increased solely by the amount subscribed, and to amend the section of the Articles of Association relating to capital.

The authorization includes fixing any share premium, issuing non-voting redeemable preference shares and financial instruments indexed or otherwise linked to the Bank's shares issued in the increase of capital, and applying for the listing and delisting of the new shares, as well as any other formalities required for the new shares to be admitted to quotation on

Spanish and foreign stock exchanges, in compliance with the procedures of each of such stock exchanges. It also includes authorization to exclude preemptive subscription rights in respect of shares issued under authorization when so required in the interests of the Company in the terms of Article 159.2 of the SA Companies Act.

This resolution was adopted by a majority of 99.56% of all voting shares represented in person or by proxy, with 1,076,341 votes in favour, 2,310 abstentions and 2,443 votes against.

#### **Resolution Five**

To authorize the Board of Directors to issue non-convertible debentures, subordinated or otherwise, which may be known as such or as preference shares, bonds, mortgage-backed bonds or any similar name, and any other fixed-interest securities, in one or more stages for a period of three years from today's date.

The Board is also expressly authorized to carry out a programme for the issue of bank promissory notes, which may be known as bank promissory notes or by any similar name, in one or more stages for a period of three years from today's date.

The Board may freely determine the total amount of each issue or programme and the maturity dates, interest rates and other applicable conditions, although the number of outstanding debentures or promissory notes may at no time exceed the limits laid down by law; and the Board is authorized in general, without any limitation whatsoever, to perform all such public or private acts as may be necessary or considered advisable by the Board for the implementation of this resolution, and if necessary to appoint the Trustee representing the debenture-holders and approve the basic rules governing legal relations between the Bank and the holders of the securities issued.

To authorize the Board, when it deems fit and subject to obtaining the necessary official authorizations and the agreement of the Syndicate of debenture-holders, to amend the terms for the redemption of the fixed-interest securities issued and their respective maturity dates and the rates of interest payable for each of the issues carried out pursuant to this authorization.

The Board is also expressly authorized to delegate and substitute these powers, in accordance with the provisions of the SA Companies Act.

This resolution was adopted by a majority of 99.78% of all voting shares represented in person or by proxy, with 1,078,755 votes in favour, 2,301 abstentions and 39 votes against.

#### **Resolution Six**

To authorize the Board of Directors, in accordance with the general regime on the issue of debentures and with the provisions of Article 319 of the Mercantile Registry Regulations, to issue debentures and any other loan stock convertible into new and/or outstanding shares in the Company, as well as warrants or other similar securities giving a direct or indirect right to subscribe or acquire new or outstanding shares in the Company, provided that:

- 1.** The securities that the Board of Directors is hereby authorized to issue may be issued in one or more stages, at any time within a maximum period of five (5) years from the date on which this resolution is passed.
- 2.** The maximum total amount of the issue/s of securities under this authority shall be TWO THOUSAND MILLION EUROS (€2,000,000,000) or the equivalent in any other currency.
- 3.** Under this authorization, and merely by way of example but not limited thereto, the Board of Directors shall be responsible for determining for each issue the amount, place (Spain or abroad), currency (and if in a foreign currency, the equivalent in euros), denomination (bonds or debentures, including subordinated debentures or any other form admitted by law); the date or dates of issue; the number of securities and their nominal value, which in the case of bonds and debentures shall not be less than the nominal value of the shares; in the case of warrants and similar securities, the issue price and/or premium, the exercise price (which may be fixed or variable) and the procedure, time limit and other conditions applicable to the exercising of the rights of subscription or acquisition of the underlying shares; the rate of interest (whether fixed or variable) and the procedure for payment of coupons; whether the issue is in perpetuity or redeemable, and in the latter case the redemption period and maturity date; the redemption rate, premiums and blocks, and guarantees; whether the securities are represented by certificates or book entries; preemptive subscription right or exclusion thereof, and the subscription regime; applicable legislation; and to apply for the securities issued to be admitted to quotation on official or unofficial, organised or unorganised, Spanish or foreign, secondary markets, subject to the applicable requirements in each case. And in general, any other terms and conditions of the issue; and if applicable to appoint the Trustee of the debenture-holders and to approve the basic rules governing the legal relations between the Bank and the Syndicate of debenture-holders, if it is necessary to establish such a Syndicate.

**4.** For the purposes of determining the rules and forms of conversion and/or exchange, the following criteria are established:

**4.1** Convertible and/or exchangeable bonds and debentures:

**i.** The securities (whether bonds, debentures or any other type admitted in law) issued pursuant to this resolution shall be convertible into new shares in the Bank or exchangeable for outstanding shares in the Bank, at the conversion and/or exchange rate to be fixed by the Board of Directors, which is also authorized to determine whether they are convertible or exchangeable and whether they are necessarily or voluntarily convertible and/or exchangeable; and whether they are voluntarily convertible or exchangeable at the option of the holder or of the issuer, at such frequency and during such period as may be laid down in the issue resolution, which may not exceed thirty (30) years as from the date of issue.

**ii.** If the issue is convertible and exchangeable, the Board may also establish that the issuer reserves the right to opt at any time between converting the securities into new shares or exchanging them for outstanding shares in the Bank, specifying the nature of the shares to be delivered at the time of effecting the conversion or exchange and the possibility of opting for a combination of new shares and outstanding shares in the Bank, and even for settling the difference in cash. At all events, the issuer must give equal treatment to all the holders of fixed income securities who convert and/or exchange on the same date.

**iii.** For conversion and/or exchange purposes, securities representing loan stock shall be valued at their nominal amount and the shares at the fixed rate determined in the resolution passed by the Board of Directors under this authorization, or at the rate determined on the date/s indicated in the Board resolution, and as per the listed price of the shares in the Bank on the date/s or in the period/s taken as a reference point in the resolution, with or without a discount, and at all events with a minimum of the higher of the average closing price of the shares on the continuous market on the Spanish stock exchanges, during the fifteen calendar days prior to the date of conversion or exchange, and the closing price of the shares on the same continuous market on the day before the conversion or exchange. In addition, a discount on this minimum price per share may be fixed but may not be more than 25%.

**iv.** On conversion and/or exchange, any fractions of shares to be delivered to the debenture-holder shall be rounded down to the next full number and each holder shall receive this difference in cash.

**v.** In no case shall the value of shares for the purposes of converting debentures into shares be less than their nominal value. Pursuant to the provisions of Article 292.3 of the SA Companies Act, debentures may not be converted into shares when the nominal value of the shares is lower than the nominal value of the debentures.

At the time of approving an issue of convertible debentures under the authorization conferred by the General Meeting, the Board of Directors shall issue a report by the Directors setting out, on the basis of the foregoing criteria, the rules and forms of conversion specifically applicable to the issue in question. This report shall be accompanied by the Auditor's report referred to in Article 292 of the SA Companies Act.

**4.2** Warrants and other similar types of securities that give direct or indirect entitlement to the subscription or acquisition of new or outstanding shares in the Company.

The Board of Directors is authorized to determine in the widest terms the criteria applicable to the exercising of rights of subscription or acquisition of shares in the Company deriving from securities of this type issued under the authorization granted hereby, and to apply the criteria laid down in section 4.1 above to such issues, duly adapted as necessary in order to be compatible with the legal and financial regime governing such securities.

**5.** Inasmuch as any securities issued under this authorization may be converted into and/or exchanged for shares, their holders shall have all rights afforded to them under applicable legislation and in particular those relating to the preemptive subscription rights and anti-dilution clause in the cases laid down by law, unless the General Meeting or the Board of Directors, in the terms of and in compliance with Article 159 of the SA Companies Act, decides on the exclusion of all or part of the preemptive subscription rights of shareholders and the holders of convertible debentures, warrants and other similar securities.

*(continued in section G)*

**E.9** State whether the Articles of Association require ownership of a minimum number of shares for attending General Meetings.

Yes  No

**E.10** Describe and explain Company policy on appointing proxies for General Meetings.

The Bank has in the past provided every facility for shareholders to appoint proxies by sending out announcements informing them of the General Meeting and giving details of the business on the Agenda, together with a form of proxy on which they may appoint any other shareholder they choose, with the Bank taking responsibility for the reception and registration of proxy forms. At present, mechanisms are in place for electronic proxy voting for General Meetings and this facility is announced in the notices of meetings

**E.11** State whether the Company is aware of any policy of institutional investors to take part in Company decision making:

Yes  No

**E.12** Give the address and explain how access may be had to corporate governance information on the Company's website.

The contents required to be published pursuant to Law 26/2003 of 17 July 2003 on transparency of listed companies, as indicated in Order ECO/3722/2003 of 26 December 2003 and as required by the CNMV Circular 1/2004 of 17 March 2004 on the Annual Report on Corporate Governance of listed companies, are directly accessible on the corporate website [www.bancosabadell.com](http://www.bancosabadell.com) in the section on "Shareholder and Investor Information".

**F. Degree of adherence to recommendations on Corporate Governance**

Indicate the degree of compliance by the Company with the recommendations on corporate governance in the Unified Good Governance Code. If none of the recommendations has been complied with, specify the recommendations, guidelines, practices or criteria that are applied by the Company.

**1.** The Articles of Association of listed companies should not limit the maximum number of votes that may be cast by a single shareholder or contain other restrictions that make it difficult to obtain control of the company by purchasing its shares on the stock market.

See sections: A.9, B.1.22, B.1.23 and E.1, E.2

**Explain**

Art. 40 of the Articles of Association establishes a limit of 10% of votes cast at a General Meeting, unless the Bank Deposit Guarantee Fund acquires a holding of more than 10%. These limitations were in place when the Company was floated and were approved by shareholders representing at least 75% of the voting rights.

**2.** When the parent company and a subsidiary company are listed, both should define publicly and precisely:

**a)** The respective fields of business and any business relations between them, as well as those between the subsidiary and the other companies in the group;

**b)** The mechanisms for settling any conflicts of interest that might arise.

See sections: C.4 and C.7

Complies  Not applicable

**3.** Although not expressly required by company legislation, operations involving structural changes in the Company should be submitted to the General Meeting for approval, in particular the following operations:

**a)** The conversion of listed companies into holding companies by the "subsidiarisation" or transfer to dependent companies of essential activities hitherto carried on by the Company itself, even when the Company maintains full control of them;

**b)** The acquisition or disposal of essential operating assets when this involves an effective change in the corporate objects;

c) Operations having an effect equivalent to that of winding up the Company.

**Complies**  **Not applicable**

4. The detailed proposals for resolutions to be passed by the General Meeting, including the information referred to in recommendation 28, should be made public at the time of publishing the notice of the General Meeting.

**Complies**  **Not applicable**

5. Those matters that are substantially independent of each other should be voted on separately at the General Meeting so that shareholders may exercise their voting preferences separately. This rule should be applied in particular to:

a) The appointment or ratification of Directors, which should be voted on individually;

b) In the case of amendments to the Articles of Association, individual articles or a group of articles that are substantially independent of each other.

See section: E.8

**Complies**  **Not applicable**

6. Companies should allow votes to be split so that financial intermediaries that are recognised as shareholders but act on behalf of different clients may cast their votes in accordance with their clients' instructions.

See section: E.4

**Complies**  **Not applicable**

7. The Board should perform its duties with a single purpose and independence of judgement, dispense the same treatment to all shareholders and be guided by the interests of the Company, this being understood as maximising the economic value of the business on a sustained basis.

It should also ensure that in its relations with stakeholders the Company abides by the laws and regulations; performs its obligations and contracts in good faith; respects the customs and practices of the sectors and territories in which it operates; and observes any additional principles of social responsibility that it has voluntarily accepted.

**Complies**  **Not applicable**

8. The Board is responsible, as its core mission, for approving the strategy of the Company and the necessary organisation for implementing it, and for ensuring that the management achieves the targets set and respects the corporate objects and interests of the Company. To this end, the full Board has the power to approve:

a) The Company's general policies and strategies, and in particular:

i) The strategic or business plan, management targets and annual budget;

ii) Investment and financing policy;

iii) The structure of the group;

iv) The corporate governance policy;

v) The corporate social responsibility policy;

vi) The policy on remuneration and assessment of the performance of senior executives;

vii) The risk control and management policy and the regular monitoring of internal information and control systems;

viii) The policy on dividends and purchases of own shares, especially the limits thereon.

See sections: B.1.10, B.1.13, B.1.14 and D.3

b) The following decisions:

i) Appointment and removal of senior executives, and their compensation clauses, on the chief executive's recommendation

See section: B.1.14

ii) Directors' remuneration and, for Executive Directors, additional remuneration for their executive duties and other terms to be respected in their contracts.

See section: B.1.14

- iii) Any financial information that the Company, as a listed company, is obliged to publish regularly.
- iv) Investments and operations of all kinds that because of their size or special features are of a strategic nature, unless the General Meeting is responsible for approving them;
- v) The issue or acquisition of holdings in special purpose companies or companies resident in countries or territories classified as tax havens, and any other transactions or operations of a similar nature that because of their complexity could impair the group's transparency.

**c)** Operations between the Company and its Directors, significant shareholders or shareholders represented on the Board or with persons related to them (“transactions with related parties”).

The Board's authorization will not, however, be required for transactions with related parties that meet all of the following three conditions:

- 1<sup>a</sup>.** They must be carried out under contracts with standardised terms that are applied en masse to a number of clients;
- 2<sup>a</sup>.** They must be carried out at prices that are applied in general by anyone acting as a supplier of the goods or services in question;
- 3<sup>a</sup>.** The amount must not exceed 1% of the Company's annual earnings.

It is recommended that the Board should approve transactions with related parties on the recommendation of the Audit Committee or any other body asked to review them; and that the Directors affected, in addition to not voting or appointing proxies to do so, should leave the meeting room while the Board deliberates and votes on the transaction.

It is recommended that these powers attributed to the Board should not be delegated, save for those set out in sections b) and c), which may be exercised in emergencies by the Delegated Committee and subsequently ratified by the full Board.

See sections: C.1 and C.6

**Complies**  **Not applicable**

**9.** The Board should be of the necessary size to function in an efficient, participatory manner, and it is therefore recommended that it have no less than five and no more than fifteen members.

See section: B.1.1

**Complies**  **Not applicable**

**10.** The Independent and Nominee Non-Executive Directors should constitute an ample majority on the Board and the number of Executive Directors should be kept to the essential minimum, taking into account the complexity of the corporate group and the holdings by the Executive Directors in the capital of the Company.

See sections: A.2, A.3, B.1.3 and B.1.14

**Complies**  **Not applicable**

**11.** If there is any Non-executive Director who cannot be considered either Nominee or Independent, the Company should explain this circumstance and his links with the Company, its senior executives or its shareholders.

See section: B.1.3

**Complies**  **Not applicable**

**12.** Among the Non-executive Directors, the proportion between the number of Nominee Directors and Independent Directors should reflect the proportion between the capital of the Company represented by the Nominee Directors and the rest of the capital.

This strict proportionality may be relaxed, so that the weight of the Nominee Directors is greater than the number that would correspond to the total percentage of capital represented by them:

- 1.** In companies with high capitalisation in which there are few or no shareholdings that can be considered by law as significant, but where there are shareholders owning packets of shares with a high absolute value.
- 2.** In the case of companies in which there are a large number of shareholders represented on the Board who have no links with each other.

See sections: B.1.3, A.2 and A.3

**Complies**  **Not applicable**

**13.** The number of Independent Directors should represent at least one-third of the total number of Directors.

See section: B.1.3

**Complies**  **Not applicable**

**14.** The nature of each Director should be explained by the Board to the General Meeting that is to appoint him or ratify his appointment, and should be confirmed or reviewed each year in the Annual Report on Corporate Governance, after verification by the Nomination Committee. The Report should also state the reasons why Nominee Directors have been appointed at the request of shareholders representing less than 5% of the capital; and the reasons for the rejection of any formal requests for a presence on the Board from shareholders with a holding that is the same or larger than other shareholders at whose request Nominee Directors have been appointed.

See sections: B.1.3 and B.1.4

**Complies**  **Not applicable**

**15.** If there are few or no female Directors, state the reasons why and the steps taken to correct this situation; and whether in particular the Nomination Committee is ensuring that when new vacancies are filled:

- a) The selection procedures are not implicitly biased against the appointment of female Directors;
- b) The Company deliberately seeks out, and includes among the potential candidates, women who meet the required professional profile.

See sections: B.1.2, B.1.27 and B.2.3

**Complies**  **Not applicable**

**16.** The Chairman, as the person responsible for the efficient operating of the Board, should ensure that Directors receive sufficient information in advance; should stimulate discussions and the active participation by the Directors in Board meetings; should safeguard their freedom to express their opinion and to take a particular position; and should organise and coordinate with the chairmen of the relevant committees the regular assessment of the Board and of the Managing Director or Chief Executive.

See section: B.1.42

**Complies**  **Not applicable**

**17.** When the Chairman of the Board is also the Chief Executive of the Company, one of the Independent Directors should be authorized to request the calling of a Board meeting or the inclusion of further items on the agenda; to coordinate and reflect the concerns of the Non-executive Directors; and to direct the assessment by the Board of its Chairman.

See section: B.1.21

**Complies**  **Not applicable**

**18.** The Secretary to the Board should ensure in particular that the actions of the Board:

- a) Comply with the letter and the spirit of the law and regulations, including those approved by regulatory bodies;
- b) Comply with the Articles of Association of the Company and with the Regulations for the General Meeting, the Regulations of the Board of Directors and any other Company regulations;
- c) Take account of the recommendations on good corporate governance set out in the Unified Code accepted by the Company.

To safeguard the Secretary's independence, impartiality and professionalism, his appointment and removal should be recommended by the Nomination Committee and approved by the full Board; and the procedure for his appointment and removal should be set out in the Regulations of the Board of Directors.



See section: B.1.34

**Complies**  **Not applicable**

**19.** The Board should meet at the necessary intervals to perform its duties efficiently, and should follow the schedule of meetings and business drawn up at the beginning of the year. Each Director may propose additional items to be included on the agenda.

See section: B.1.29

**Complies**  **Not applicable**

**20.** Absences by Directors from Board meetings should be limited to essential circumstances and should be quantified in the Annual Report on Corporate Governance. And if the appointment of a proxy is essential, it should be given with voting instructions.

See sections: B.1.28 and B.1.30

**Complies**  **Not applicable**

**21.** When the Directors or the Secretary voice concerns about any particular proposal or, in the case of Directors, about the state of the Company, and such concerns are not allayed at the Board meeting, they should be recorded in the minutes at the request of the person voicing them.

**Complies**  **Not applicable**

**22.** The full Board should assess once a year:

- a) The quality and efficiency of the functioning of the Board;
- b) On the basis of the report received from the Nomination Committee, the performance of their duties by the Chairman of the Board and by the Chief Executive of the Company;
- c) The functioning of the Board committees, on the basis of the reports received from them.

See section: B.1.19

**Complies**  **Not applicable**

**23.** All Directors should be entitled to request such additional information as they consider necessary on matters that are the responsibility of the Board. And, unless otherwise laid down in the Articles of Association or the Regulations of the Board of Directors, they should address their request to the Chairman or to the Secretary to the Board.

See section: B.1.42

**Complies**  **Not applicable**

**24.** All Directors should be entitled to obtain from the Company the advice they require for the performance of their duties. And the Company should provide suitable channels for exercising this right, which in special circumstances may include external advice at the Company's expense.

See section: B.1.41

**Complies**  **Not applicable**

**25.** Companies should draw up an orientation programme to provide new Directors with a rapid and sufficient knowledge of the business and of its rules of corporate governance. They should also offer Directors refresher programmes when circumstances make this advisable.

**Complies**  **Not applicable**

**26.** Companies should require Directors to devote the necessary time and effort to their duties so as to perform them efficiently, and consequently:

- a) Directors should inform the Nomination Committee of their other professional commitments in case these might interfere with the performance of their duties;
- b) Companies should draw up rules on the number of committees on which their Directors may sit.

See sections: B.1.8, B.1.9 and B.1.17

**Complies**  **Not applicable**

**27.** The proposal for the appointment or re-election of Directors made by the Board to the General Meeting of shareholders, and the co-opting of Directors, should be approved by the Board:

- a) On the recommendation of the Nomination Committee, in the case of Independent Directors;
- b) Following a report by the Nomination Committee, in the case of all other Directors.

See section: B.1.2

**Complies**  **Not applicable**

**28.** Companies should publish the following information about their Directors on their websites, and should keep it updated:

- a) Professional profile and biographical details;
- b) Other boards of directors of which they are members, whether or not the companies are listed companies;
- c) The category of Director, indicating in the case of Nominee Directors the shareholder represented or with which the Director has links.
- d) Date of first appointment as a Director of the Company, and of subsequent appointments; and
- e) The number of shares and share options held in the Company.

**Complies**  **Not applicable**

**29.** Independent Directors should not remain as such for a continuous period of more than 12 years.

See section: B.1.2

### Explain

There are two Independent Directors whose contribution to the Board is considered very valuable by the Board and by the shareholders.

**30.** Nominee Directors should resign when the shareholder they represent sells all its shares in the Company. And they should also do so, in the corresponding number, when the shareholder reduces its holding to a level that requires a reduction in the number of Nominee Directors representing it.

See sections: A.2, A.3 and B.1.2

**Complies**  **Not applicable**

**31.** The Board of Directors should not propose the removal of any Independent Director before the expiry of the term of office for which he was appointed, other than for reasons that are justified in the opinion of the Board and subject to a report by the Nomination Committee. In particular, justified reasons will be considered to exist when the Director has failed to perform his duties or is in one of the circumstances described in section III.5 of the definitions given in this Code.

The removal of Independent Directors may also be proposed as a result of takeover bids, mergers or other similar corporate operations that involve a change in the capital structure of the Company, when such changes in the structure of the Board are the result of the proportionality criterion indicated in Recommendation 12.

See sections: B.1.2, B.1.5 and B.1.26

**Complies**  **Not applicable**

**32.** Companies should draw up rules requiring Directors to report and if applicable resign in any situations that might jeopardise the Company's credit and reputation and, in particular, obliging them to inform the Company of any criminal charges in which they are involved and of the outcome of any subsequent trial.

If a Director has faced criminal charges or has been committed to trial for any of the offences listed in Article 124 of the SA Companies Act, the Board should examine the case as soon as possible and, in the light of the specific circumstances of the case, decide whether or not the Director should remain in his post. The Board should give a reasoned report on this in the Annual Report on Corporate Governance.

See sections: B.1.43 and B.1.44

**Complies**  **Not applicable**

**33.** All Directors should clearly voice their objections when they consider that any proposal submitted to the Board would be against the Company's interests. And they should do the same, particularly the Independent Directors and others not affected by the potential conflict of interests, in the case of decisions that might be detrimental to the shareholders not represented on the Board.

When the Board has passed significant or repeated resolutions about which a Director has voiced serious reservations, the Director in question should act in consequence and if he decides to resign he should explain the reasons for doing so in the letter referred to in the following recommendation.

This Recommendation also extends to the Secretary to the Board, even when he is not a Director.

**Complies**  **Not applicable**

**34.** When a Director resigns or otherwise leaves the Board before the expiry of his term of office, he should explain the reasons for doing so in a letter to be sent to all members of the Board. And, without prejudice to this resignation being notified as a significant event, the reasons should be reported in the Annual Report on Corporate Governance.

See section: B.1.5

**Complies**  **Not applicable**

**35.** The remuneration policy approved by the Board should include at least the following:

- a)** Amount, and breakdown, of the fixed components of subsistence allowances for attendance at Board and Committee meetings, with an estimate of the resulting fixed annual remuneration;
- b)** Variable remuneration components, including in particular:
  - i) Categories of Directors to which they apply, with an explanation of the relative importance of the variable remuneration components with respect to the fixed components;
  - ii) Criteria for assessing the results on which the right to remuneration in the form of shares, share options or any variable component is based;
  - iii) Basic parameters and grounds for any annual bonus system or other benefits not paid in cash; and
  - iv) An estimate of the absolute amount of the variable remuneration under the proposed remuneration scheme, according to the degree of materialisation of the hypothesis or achievement of the targets taken as a reference.
- c)** The main features of the benefit schemes (e.g. supplementary pensions, life insurance and the like), with an estimate of their amount or equivalent annual cost.
- d)** Conditions to be respected in the contracts of those performing senior management duties as Executive Directors, including:
  - i) Duration;
  - ii) Period of notice; and
  - iii) Any other clauses relating to hiring bonuses, and any compensation or protection clauses for early termination of the contract between the Company and the Executive Director.

See section: B.1.15

**Complies**  **Not applicable**

**36.** Remuneration in the form of shares in the Company or in other companies in the group, share options or instruments indexed to the share value, and variable remuneration linked to the performance of the Company or benefit schemes should be limited to Executive Directors.

This recommendation will not extend to remuneration in the form of shares when these are subject to the Directors continuing to hold them until they cease to be Directors.

See sections: A.3 and B.1.3

**Complies**  **Not applicable**

**37.** The remuneration paid to Non-executive Directors should be sufficient to remunerate the work, qualifications and responsibilities demanded by the post, but not so high as to compromise their independence.

**Complies**  **Not applicable**

**38.** Remuneration related to the Company's results should take into account any qualifying statements in the external Auditor's report that reduce the results.

**Complies**  **Not applicable**

**39.** In the case of variable remuneration, the remuneration policies should include the necessary technical precautions to ensure that such remuneration is in line with the professional work of the beneficiaries and does not depend simply on the general performance of the markets or of the business sector to which the Company belongs or other similar circumstances.

**Complies**  **Not applicable**

**40.** The Board should submit a report on the Directors' remuneration policy to the General Meeting for consultation purposes, to be voted on as a separate item on the agenda. This report should be made available to the shareholders, separately or in any other form that the Company considers appropriate.

The report will focus particularly on the remuneration policy approved by the Board for the current year and the policy, if any, for future years. It will cover all the matters referred to in Recommendation 35, save for those points that might mean disclosing sensitive commercial information; and it will highlight the most significant changes in the policies with respect to those applied during the year to which the General Meeting refers. It will also include an overall summary of how the remuneration policy was applied during the past year.

The Board should also report on the role of the Remuneration Committee in drawing up the remuneration policy and, if external advice has been sought, it should state the name of the advisers providing it.

See section: B.1.16

**Complies**  **Not applicable**

**41.** The Notes to the Accounts should detail the individual remuneration of the Directors during the year and should include:

**a)** An individualised breakdown of the remuneration of each Director, which will include where applicable:

- i) The attendance allowances and other fixed remuneration as a Director;
- ii) Any additional remuneration as chairman or member of any Board committee;
- iii) Any remuneration by way of profit-sharing or bonuses, and the reason why it was awarded;
- iv) Contributions on behalf of the Director to defined-contribution pension plans; and any increase in the Director's consolidated rights in the case of contributions to defined-benefit plans;
- v) Any compensation agreed or paid in the case of termination of the Director's duties;
- vi) The remuneration received as a director of other companies in the group;
- vii) The remuneration paid to Executive Directors for performing their executive functions; viii) Any remuneration component other than those listed above, regardless of its nature or the company in the group paying it, particularly in the case of an operation between related parties or if omission of the remuneration would distort the true and fair view of the total remuneration received by the Director.

**b)** An individualised breakdown of any allotment to Directors of shares, share options or any other instrument linked to the share value, with details of:

- i) Number of shares or share options allotted in the year, and the conditions for exercising the options;
- ii) Number of share options exercised during the year, indicating the number of shares affected and the exercise price;
- iii) Number of unexercised options at the year end, indicating their price, date and other requirements for exercising them;
- iv) Any change during the year in the conditions for exercising options already allotted.

**c)** Information on the relationship during the past year between the remuneration obtained by the Executive Directors and the Company's results or other performance indicators.

### Partly complies

With respect to Recommendation 41 of the Unified Good Governance Code relating to details of the remuneration of individual Directors being included in the Notes to the Accounts, Banco Sabadell gives an individualised breakdown in the Notes to the Accounts as per sections a).i) and iv) and b) of Recommendation 41, whereas the provisions of sections a).iii), vi) and viii) are not applicable. Hence the fact that it only partly complies with this requirement.

**42.** When there is a Delegated or Executive Committee (hereinafter “Delegated Committee”), the structure of the different categories of Directors on it should be similar to that of the Board and its secretary should be the Secretary to the Board. See sections: B.2.1 and B.2.6

### Explain

The composition and duties of the Executive Committee do not reflect this proportionality since the Committee's only duty is to coordinate the executive management of the Bank and its responsibilities only extend to the powers of its members in the terms decided by the Board. The Executive Committee as such has no powers delegated to it by the Board.

**43.** The Board should always be informed of the matters dealt with and the decisions taken by the Delegated Committee, and all members of the Board should receive copies of the minutes of meetings of the Delegated Committee.

**Complies**  **Not applicable**

**44.** In addition to the Audit Committee required by the Stock Market Act, the Board of Directors should set up a Nomination and Remuneration Committee or a separate Nomination Committee and Remuneration Committee.

The rules relating to the composition and functioning of the Audit Committee and the Nomination and Remuneration Committee or Committees should be set out in the Regulations of the Board of Directors, and should include the following:

**a)** The Board should appoint the members of these Committees, taking into account the expertise, skills and experience of the Directors and the remits of each Committee; it should discuss their recommendations and reports; and the Committees should report to it on their activities and account for the work carried out, at the first full Board meeting after their meetings.

**b)** The Committees should be composed solely of Non-executive Directors, with a minimum of three. The above is without prejudice to the presence of Executive Directors or other senior executives, when specifically decided by the committee members.

**c)** Their chairmen should be Independent Directors.

**d)** They should be able to obtain external advice when considered necessary for the performance of their duties.

**e)** Minutes should be drawn up of their meetings and copies sent to all the members of the Board.

See sections: B.2.1 and B.2.3

**Complies**  **Not applicable**

45. Supervision of compliance with the internal codes of conduct and the rules on corporative governance is the responsibility of the Audit Committee, the Nomination Committee or, if these exist separately, the Compliance Committee or Corporate Governance Committee.

Complies  Not applicable

46. The members of the Audit Committee, and in particular its chairman, should be appointed on the basis of their expertise and experience in accountancy, auditing or risk management.

Complies  Not applicable

47. Listed companies should have an internal auditing department that, under the supervision of the Audit Committee, ensures the proper functioning of the internal information and control systems.

Complies  Not applicable

48. The person in charge of the internal auditing department should submit to the Audit Committee its annual working plan; inform it directly of any incidents that arise in the course of implementing the plan; and present an activity report at the end of each year.

Complies  Not applicable

49. The risk control and management policy should identify the following at least:

- a) The different types of risk (operating, technological, financial, legal, reputational, etc.) that the Company faces, including among the financial or economic risks, any contingent liabilities and other off-balance-sheet risks;
- b) The level of risk that the Company considers acceptable;
- c) The measures in place to mitigate the impact of the risks identified if they materialise;
- d) The internal information and control systems that will be used to control and manage the risks, including contingent liabilities or off-balance sheet risks.

See section: D

Complies  Not applicable

50. The duties of the Audit Committee should include:

1. In relation to the internal information and control systems:

- a) To supervise the production and integrity of the financial information on the Company and on the group, and to review compliance with legal requirements, the proper demarcation of the perimeter of consolidation and the correct application of accounting principles.
- b) To regularly review the internal control and risk management systems, so that the main risks are properly identified, managed and reported.
- c) To ensure the independence and effectiveness of the internal auditing functions; to propose the selection, appointment, re-election and removal of the head of the internal auditing department; to propose the budget for the department; to receive regular information on its activities; and to check that senior executives take into account the conclusions and recommendations of its reports.
- d) To set up and supervise a mechanism for employees to report in confidence, and if they wish anonymously, any irregularities of potential importance in the Company, particularly financial and accounting irregularities.

2. In relation to the external Auditor:

- a) To make proposals to the Board for the selection, appointment, re-election and replacement of the external Auditor and its terms of service.
- b) To receive regular information from the external Auditor on the audit plan and the results of carrying it out, and to check that senior management takes its recommendations into account.
- c) To ensure the independence of the external Auditor, to which effect:
  - i) The Company should notify the CNMV, as a significant event, of the change of Auditor and attach a declaration on the existence of any disagreements with the outgoing Auditor and the contents of these;
  - ii) It should ensure that the Company and the Auditor respect the rules on the provision of services other than auditing services, the limits on the concentration of the Auditor's business and, in general, all other regulations for ensuring the independence of Auditors;
  - iii) In the event of the external Auditor resigning, it should examine the circumstances leading to the resignation.

**d)** In the case of groups, to facilitate matters so that the group's Auditor can carry out the audits of the various companies in the group.

See sections: *B.1.35, B.2.2, B.2.3 and D.3*

**Complies**  **Not applicable**

**51.** The Audit Committee should be able to summon any employee or senior executive of the Company, and also order them to appear without the presence of any other executive.

**Complies**  **Not applicable**

**52.** The Audit Committee should inform the Board, before the Board takes any decisions, on the following matters indicated in Recommendation 8:

**a)** Any financial information that the Company, as a listed company, is obliged to publish regularly. The Committee should ensure that the interim accounts are drawn up in accordance with the same accounting principles as the annual accounts, and for this purpose it should consider whether a limited audit by the external Auditor should be carried out.

**b)** The issue or acquisition of holdings in special purpose companies or companies resident in countries or territories classified as tax havens, and any other transactions or operations of a similar nature that because of their complexity could impair the group's transparency.

**c)** Transactions with related parties, unless this duty to provide prior information has been attributed to another supervisory and control committee.

See sections: *B.2.2 and B.2.3*

**Complies**  **Not applicable**

**53.** The Board of Directors should aim to submit the accounts to the General Meeting without any qualifications or reservations in the Auditor's report, and in those exceptional cases where there are qualifications or reservations both the chairman of the Audit Committee and the Auditors should explain clearly to the shareholders the contents and scope of such qualifications and reservations.

See section: *B.1.38*

**Complies**  **Not applicable**

**54.** The majority of the members of the Nomination Committee – or the Nomination and Remuneration Committee, if there is a single committee – should be Independent Directors.

See section: *B.2.1*

**Complies**  **Not applicable**

**55.** In addition to the functions indicated in the preceding Recommendations, the Nomination Committee should have the following duties:

**a)** To assess the expertise, skills and experience required on the Board, and consequently to define the duties and aptitudes needed in candidates for each vacancy and to calculate the amount of time and effort required to properly perform their work.

**b)** To examine or organise, as they deem fit, the succession to the Chairman and the Chief Executive and to make recommendations to the Board so that the succession takes place in an orderly and well-planned manner.

**c)** To report on the appointments and removals of senior executives proposed to the Board by the Chief Executive.

**d)** To report to the Board on the gender diversity issues indicated in Recommendation 14 of this Code.

See section: *B.2.3*

**Complies**  **Not applicable**

**56.** The Nomination Committee should consult the Chairman and the Chief Executive of the Company, especially in the case of matters relating to the Executive Directors.

And any Director should be able to ask the Nomination Committee to be taken into consideration as a potential candidate to cover vacancies for Directors.

**Complies**  **Not applicable**

**57.** In addition to the functions indicated in the preceding Recommendations, the Remuneration Committee should have the following duties:

**a)** To propose to the Board of Directors:

- i) The remuneration policy for Directors and senior executives;
- ii) The individual remuneration of Executive Directors and the other terms and conditions of their contracts;
- iii) The basic terms and conditions of senior executives' contracts.

**b)** To ensure observance of the remuneration policy laid down by the Company.

See sections: B.1.14 and B.2.3

**Complies**  **Not applicable**

**58.** The Remuneration Committee should consult the Chairman and the Chief Executive of the Company, especially in the case of matters relating to the Executive Directors and senior executives.

**Complies**  **Not applicable**

## **G. Other relevant information**

If you consider that there is any significant principle or aspect of corporate governance practice applied by the Company that is not covered by this report, give details of any such principle or aspect below.

**A.1** The Board of Directors of Banco de Sabadell S.A. decided at its meeting on 27 November 2008, pursuant to the resolution passed by the General Meeting of Shareholders on 27 March 2008, to redeem 24,013,680 treasury shares held by the Bank, using the free reserves for this purpose and allocating €3,001,710, being the nominal value of the redeemed shares, to a capital redemption reserve. These shares represent 1.962% of the capital. It was therefore necessary to amend Article 7 of the Articles of Association as regards the amount of capital. After obtaining the relevant administrative authorizations, on 12 December 2008 the public deed of redemption of 24,013,680 shares and consequent amendment of Article 7 of the Articles of Association relating to the amount of capital was registered in the Barcelona Mercantile Register.

**A.6** The shareholders agreement on the transfer of shares does not explicitly contemplate affected capital. For further information, see relevant fact no. 69323 for Banco de Sabadell S.A. notified to the CNMV on 2 August 2006.

**B.1.2** Miquel Roca i Junyent was appointed Secretary at the meeting of the Board of Directors held on 13 April 2000, and José Luis Negro Rodríguez was appointed Deputy Secretary at the Board meeting held on 21 December 2006.

**B.1.6** The following powers have been delegated to the Managing Director, Jaime Guardiola Romojaro:

**1.** To make any contracts and to enter into binding agreements generally and carry out any acts or enter into any contracts for the administration, disposal and protection of assets of any description including real property assets and all rights in rem in respect thereof. These powers shall therefore include, without limitation, the following: to purchase and sell, whether for cash or deferred payment, encumber, mortgage or charge and generally dispose of property, rights or claims of any kind; to constitute, accept and extinguish rights in rem, including any purchase options and defeasance clauses required to be recorded in the Property Registry and other similar rights or claims; to set up, alter or terminate companies of any description and hold any position or office in or under the same, and attend, speak and vote at general and other meetings thereof.



- 2.** To draw, accept, take or acquire, negotiate, discount, endorse, collect and guarantee bills of exchange, promissory notes, receipts, invoices, cheques and commercial documents of all kinds, whether endorsable or not and whether made out to a named person or to bearer; enter protests on non-acceptance or non-payment and sign any documents required for any of the aforesaid purposes.
- 3.** To pay and receive money of any amount and for any title or estate and cash payment orders by government at central, provincial, municipal or Autonomous Community level.
- 4.** To open ordinary cash or securities current accounts and current accounts guaranteed by securities and by person credit, with any bank, credit or savings institution, including in particular the Bank of Spain or any branch thereof; to stand surety for any account or accounts opened by third parties and extend, renew, clear, settle or close the same, and sign any agreements, invoices or other documents required therefor; to make drafts on any of the aforesaid accounts whether such accounts have been opened under the authority of this Power or are currently held or opened in the future by the Grantor hereof or by any other person on its behalf, and sign cheques, notes, drafts or any other documents accepted for this purpose; to collect from any such banks or the Bank of Spain or any branch thereof books of cheques, notes or drafts to make drafts on any or all the aforesaid accounts and confirm acceptance of any balance thereof. To make contracts assigning limits for future loans secured by personal guarantee and conclude rediscounting agreements with the Bank of Spain.
- 5.** To give and receive money on loan and credit facilities of any description with or without collateral or other security. To accept, vary, postpone and extinguish any mortgage, lien, pledge with transfer of possession or otherwise, antichresis, aval, bond or any other personal third party guarantee as security for loans, credit facilities and any other transactions with or by the Bank, and for this purpose to sign certificates of delivery or other public or private documents as necessary.
- 6.** To withdraw deposits of cash, securities or jewellery and sign receipts or other documents in respect thereof, withdraw any assets pledged as security for loans or credit or on loans for goods and to sign any documents required; to withdraw any assets transferred to the Grantor in any lending transaction it may carry out and sign receipts in respect thereof; request the transfer, at the risk and expense of the Grantor, of any assets deposited and any loans and credit and associated collateral, from any premises of the Bank of Spain or other bank to any other premises of the Bank of Spain or such other bank, or from one bank to another.
- 7.** To buy, sell or transfer any personal property including shares of the Bank of Spain or any other bank.
- 8.** To receive, open and respond to postal, telegraphic or telephonic communications addressed to the Bank, including registered letters, and take possession of and give receipts for any assets declared to be for the Bank.
- 9.** To receive interest or dividends on securities deposited with any banks as aforesaid and the value of any securities that are redeemed, and sign payment orders or drafts as necessary; to charge any amounts to be paid into current accounts demanded by the Grantor for the benefit of any other person, when such payments are cancelled.
- 10.** To apply to the Bank of Spain and other banks for the hire of safe deposit boxes with the same authority as the Grantor to open the same as and when he sees fit, and for this purpose to sign such documents as the Bank of Spain or other bank may require.
- 11.** To approve the opening of current accounts, savings accounts, deposit and term accounts, certificates of deposit and deposits of securities and accounts of any other nature; and to hire and open safe deposit boxes and sign any documents necessary for the same to be fully operational.
- 12.** To act on behalf of the Bank when any debtor of the Bank is compounded with creditors or subject to a temporary suspension of payments or engaged in insolvency or bankruptcy proceedings and to attend meetings and appoint trustees and administrators, accept or reject proposals by the debtor and continue until the conclusion of proceedings, accept mortgages, pledges, antichresis or any other security, reach settlements on the exercise of claims and remedies, accept the decisions of arbitrators in legal or equitable arbitration.

**13.** To appear or make representations, whether in person or through counsel or such other authorized representatives as he shall appoint by power of attorney or otherwise, in or to any authority, court, hearing, jury, tribunal, office, commission, committee, union, ministry, employment tribunal, national fund or institution, department or authority of central, provincial or municipal government in any Autonomous Community and any other official body, and to institute, commence, pursue, abandon or reach settlements in any proceedings, litigation, suit, judicial process, application or appeal and approve pleadings drafted on behalf of Banco de Sabadell, S.A. when required and reply to interrogatories on the Bank's behalf, represent the Bank in all matters and generally carry out all acts of administration, management and commerce.

**14.** To represent the Bank at meetings of shareholders, members or associates, in the companies or associations in which the Bank is a shareholder, member or associate, with the full right to speak, vote and object, without any limitation whatsoever.

**15.** To give or furnish bonds, pledges and guarantees of any kind and assume liability either jointly or jointly and severally with the principal debtor, surrendering the benefits of order, discussion and division or other benefits and without limit as to type or amount to any natural or legal person or any bank or savings institution including, in particular, the Bank of Spain and any other official credit institution or any company, firm, organization, office, entity or official body whether of central, institutional, regional, provincial or local government, and in particular the aforementioned public bodies and authorities and local tax offices so as to be answerable to the Treasury for the monies in respect of which the guarantee was given and to issue avals, including avals by pledge without the deposit of any security, to the General Deposit Fund of the Ministry of Finance, and revoke any such bonds or guarantees and discharge the same in any manner deemed expedient.

**16.** To serve or respond to any notice or process, receive service of notices and serve notice on and engage notaries for the issue of any notarial acts.

**17.** To take on and dismiss employees and make any determinations as to promotion, responsibilities, emoluments, bonuses and compensation; to initiate, pursue and conduct employment-related proceedings until decided and brought to a conclusion.

**18.** To substitute such person or persons as he shall see fit without any limitation whatsoever to exercise all or any of the powers granted hereunder and specify powers, discretions and methods of operation, and revoke any such substitution.

**B.1.11.a)** The item "Others" includes the allocations effected in 2008 but in respect of incentive schemes or pluriannual rights (2005, 2006 and 2007) and extraordinary rights accrued in 2007 and previous years. The contributions to pension plans in the amount of €7,245 million were made through insurance policies.

**B.1.11.c)** The amounts paid to Executive Directors include fixed, variable and extraordinary payments (see note B.1.11.a) accrued to Mr. Permanyer in the period during which he was an Executive Director, although he became an Other Non-executive Director during the year.

**B.1.11.d)** Without imputing the extraordinary allocations for previous years (see note B.1.11.e), the remuneration relating to the profit attributed to the parent company is 0.81%.

The percentages shown in table B.1.11.d) and in the above paragraph are calculated on the profits attributed to the group.

**B.1.12** In addition to the senior executives' remuneration indicated, payments into pension plans amounting to €2,195,000 were made through insurance policies.

**B.1.25** Although an age limit of 75 is indicated in the form, the Articles of Association do not specify a maximum age for Directors, but do specify a maximum age for being appointed Director (70); in no circumstances may a Director be over 75 during a term of office, which is limited to 5 years.

**B.1.29** In addition to the information given in this point, meetings of the following Board Committees were held during the year:

**B.2.1** In addition to the information given in this point, the following persons attended the Committee meetings indicated:

Executive Committee: José Luís Negro Rodríguez, as Secretary.

Audit and Control Committee: Miquel Roca i Junyent, as Secretary.

Strategy Committee: Miquel Roca i Junyent, as Secretary.

**C.2.** No relevant transactions were carried out with significant shareholders; and any transactions effected were in the normal course of business and were carried out on an arm's length basis.

**C.3.** No transactions that could be considered significant were conducted with Directors or senior executives of the Company. All transactions carried out were in the normal course of company business, either at arm's length or on the same terms as apply to employees.

*(continued from D.2)*

In credit risk, the present general financial and economic crisis has meant an increase in bad debts, which has manifested itself most significantly in segments related to real estate. Even so, the Company's NPL ratios are lower than the average for the sector and its levels of cover are higher.

This performance can be attributed largely to an approach based on management by responsibility and a structured method of analysis requiring appraisal by both the relationship manager and the risk analyst, together with internal measurement systems which are constantly being upgraded. Management controls, the use of credit rating and scoring systems in the decision-taking process and the forward-looking nature of risk control systems are indicative of the effectiveness built into these processes and the high predictive power of the tools employed.

With respect to credit risk related to market dealing, the in-depth analysis that precedes the setting of exposure limits for different counterparties, and the constant monitoring of these limits, ensures that possible increases in exposure quality can be detected in advance and their possible impact on the Banco Sabadell group reduced to a minimum. As a result, the group has not had any significant losses of this type during the year although they have been one of the principal sources of losses in other banks and international markets.

As for the liquidity risk, the global financial crises has led to a drastic closure of the credit markets to which the Bank had access through numerous bond and asset securitization programmes. This has meant making adjustments to the liquidity policy and increasing the financing capacity through traditional markets such as deposit taking. Advantage has been taken of specific opportunities to access the financial markets when possible, and the level of liquid assets required by the European Central Bank as collateral has been increased by generating asset-backed debt instruments in order to establish a second line of liquidity as a prudent reserve.

Cases attributable to operational risk have been few in number and of minor importance. The main problems in recent years have arisen from procedures relating to asset operations. To a very minor degree, there have been incidents involving fraud or error in transaction handling, albeit with negligible impact, and IT system failures.

With regard to market risk, unrealized losses on open positions (both discretionary and structural) taken by the group can, on occasion, occur as a result of market fluctuations. The system of assigning limits mitigates the likelihood that such losses will be incurred and ensures that the risks undertaken are relatively small. Where market movements have been adverse during the year, dealing limits have worked well, with VaR limits triggering alerts in periods of extreme volatility; stop-loss limits have also helped to keep losses to a minimum.

Finally, the insurance risk on life assurance products has been mitigated by a strict control of the selection of risks operated by the group's insurance subsidiary and the use of conservative actuarial tables. This company has adopted the financial guidelines that apply across the group, in line with insurance industry standards of consistency, profitability, security, liquidity, dispersion and diversification. The company assigns investments to insurance risks in the manner required by Article 33 a) of the Private Insurance Regulations [Reglamento de Ordenación y Supervisión de los Seguros Privados], thus ensuring that the timing and amount of cash inflows coincides with the satisfaction of obligations related to the insurance portfolio.

The controls that are in place have ensured that circumstances giving rise to claims are identified and suitable action taken to keep claims within reasonable limits (section D.2).

**E.5** The General Meeting is chaired by a Director appointed for the purpose by the Board of Directors, who may or may not be the Chairman of the Board. The normal practice is for the Board of Directors to appoint the Chairman of the Board to chair the General Meeting. To ensure the independence and proper conduct of General Meetings, Regulations for General Meetings were adopted in 2003, providing detailed rules for the transparent conduct of proceedings.

*(continued from E.8)*

**6.** The delegation of powers to the Board of Directors includes the following by way of example:

**i.** The authority under Article 159.2 of the SA Companies Act to exclude any or all of the preemptive subscription rights of shareholders and holders of convertible debentures, warrants and similar securities, when so required for the purpose of obtaining funds in Spanish and foreign markets or otherwise when this is in the Company's interests. At all events, if the Board decides to abolish the preemptive subscription rights in a specific issue of convertible debentures, warrants and similar securities under this authority, at the time of approving the issue and in accordance with applicable legislation it must produce a detailed report setting out the specific corporate reasons for this measure, which will be included in the report referred to in Article 159.2 of the SA Companies Act. These reports must be made available to shareholders and holders of convertible debentures, warrants and similar securities and presented at the next General Meeting held after the resolution on the new issue.

**ii.** The authority to increase the capital by the amount necessary to cover applications for exercising conversion and/or subscription rights. This authority may only be exercised by the Board to the extent that the sum of the increase to cover the issue of convertible debentures, warrants and similar securities plus the other increases of capital made under authority granted by the General Meeting does not exceed the limit of half the capital laid down in Article 153.1.b) of the SA Companies Act. This authority to increase the capital includes the authority to issue, in one or more stages, the shares required for the exercising of conversion and/or subscription rights, and to amend the section of the Articles of Association relating to the amount of capital and, if necessary, to cancel the part of the increase that has not been used up in the exercising of conversion and/or subscription rights.

**iii.** The authority under Article 159.2 of the SA Companies Act to exclude any or all of the preemptive subscription rights of shareholders and holders of warrants and similar securities in the increases of capital referred to above, when so required in the interests of the Company. At all events, if the Board decides to abolish the preemptive subscription rights in any or all increases of capital, it must, when adopting the resolution to increase the capital, produce a detailed report setting out the specific corporate reasons for this measure, which will be included in the report referred to in Article 159.2 of the SA Companies Act. These reports must be made available to shareholders and holders of convertible debentures, warrants and similar securities and presented at the next General Meeting held after the resolution on the new issue.

**iv.** The authority to develop and specify the rules and forms applicable to exercising rights of conversion, exchange, subscription and/or acquisition of shares deriving from the securities to be issued, taking into account the criteria laid down in point iv) above.

At successive General Meetings, the Board shall inform the shareholders of any use it has made of the authority to which this resolution refers.

The delegation of powers to the Board of Directors comprises the express authority to delegate them to such Director or Directors as it deems fit and the widest powers required in law for the interpretation, application, execution and development of the foregoing resolutions on the issue of securities convertible into or exchangeable for shares in the Company, in one or more stages, and the respective increase of capital; to rectify and supplement them to the extent necessary and to fulfil all legal requirements for implementing them, to correct omissions or defects in the resolutions as indicated by any Spanish or foreign authorities, officials or organisations, and to pass all such resolutions and execute all such public or private documents as may be considered necessary or practical in order to adapt the preceding resolutions on the issue of convertible or exchangeable securities and the respective increase of capital to the oral or written indications of the Mercantile Registrar or, in general, of any other competent Spanish or foreign authorities, officials or organisations.

This resolution was adopted by a majority of 99.73% of all voting shares represented in person or by proxy, with 1,078,128 votes in favour, 2,314 abstentions and 653 votes against.

### Resolution Seven

To annul the resolution adopted by the General Meeting of 29 March 2007, to the extent that it has not been implemented, and to authorize the Company, either directly or through any of its subsidiary companies, within a period not exceeding eighteen months from the date of this General Meeting, to acquire, at such time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law including the charging thereof to profits for the year and/or distributable reserves, provided that the Company may subsequently sell or redeem the said shares, subject always to Article 75 and related articles of the SA Companies Act.

To approve limits to or conditions for such acquisitions as follows:

- The nominal value of any shares so acquired, when added to those already held by the Bank and its subsidiary companies, shall not at any time exceed five per cent of the share capital of Banco de Sabadell, S.A., subject always to the restrictions placed on companies' purchases of their own shares by the regulatory authorities responsible for the markets on which the shares of Banco de Sabadell, S.A. are traded.
- Funds equal to the value of the Company's own shares recorded as assets on the balance sheet may be appropriated to an undistributable reserve shown as a liability on the Company's balance sheet. The reserve shall be maintained until such time as the shares have been sold or redeemed.
- All shares so acquired shall be fully paid shares.
- The purchase consideration shall not be less than the nominal value nor more than 20 per cent above the quoted or other price at which the shares are being valued at the date of purchase. All purchases by the Company of its own shares shall be in accordance with stock market regulations and practice.

To reduce the share capital of the Company, for the purpose of redeeming such of the Bank's own shares as may be on its balance sheet, against profits or distributable reserves and in such amount as may be appropriate or necessary at the time, up to the maximum amount of own shares held at any time.

To authorize the Board of Directors to implement this Resolution to reduce the capital, which may be carried out once or more often within a period not exceeding eighteen months from the date of adoption of this Resolution, by performing such acts and granting such authorizations as may be necessary under the SA Companies Act and other applicable items of legislation; and in particular, within the period and limits indicated above, to fix the date(s) of the reduction(s) of capital, as considered appropriate; to indicate the amount of the reduction; to determine the use to which the funds are to be put and to provide the guarantees and comply with the requirements laid down by law; to amend Article 7 of the Articles of Association to show the new amount of capital; to request the delisting of the redeemed shares; and in general, to adopt such resolutions as may be necessary for the redemption and consequent reduction of capital; and also to designate the persons who are to formalise the relevant documents.

This resolution was adopted by a majority of 99.78% of all voting shares represented in person or by proxy, with 1,078,679 votes in favour, 2,311 abstentions and 105 votes against.

### Resolution Eight

Pursuant to the provisions of Royal Decree-Act 7/1996 of 7 June 1996 on Urgent Measures of a tax nature and for the reinforcement and liberalisation of business activities, to transfer to distributable reserves the total balance in the Revaluation Reserve (Royal Decree-Act 7/1996) in the amount of thirty-four million eight hundred and ninety-nine thousand five hundred and ninety-five euros and four cents (€34,899,595.04).

This resolution was adopted by a majority of 99.78% of all voting shares represented in person or by proxy, with 1,078,760 votes in favour, 2,302 abstentions and 33 votes against.

### Resolution Nine

Pursuant to Article 204 of the SA Companies Act and on the recommendation of the Audit and Control Committee to the Board of Directors, to reappoint PricewaterhouseCoopers Auditores, S.L., tax number B-79031290, as Auditors of the Company's accounts and the consolidated annual accounts of the group for a further period of one year.

This resolution was adopted by a majority of 99.79% of all voting shares represented in person or by proxy, with 1,078,771 votes in favour, 2,296 abstentions and 28 votes against.

### Resolution Ten

To grant express authority to the Chairman of the Board of Directors, José Oliu Creus, the Secretary to the Board, Miquel Roca Junyent, and the Deputy Secretary, José Luis Negro Rodríguez, or to any person replacing them in the offices of Chairman, Secretary and Deputy Secretary respectively, to enable any one of them to act as follows on behalf of the Bank:

To take such steps as may be necessary to obtain the relevant authorizations or registrations at the Bank of Spain, Ministry of Economy and Finance, Directorate-General of the Treasury and Financial Policy, the CNMV and the entity responsible for keeping the register of book entries; to appear before a notary to execute the resolutions passed in one or more public deeds and to perform such acts as may be practical or necessary for their implementation in full and their registration, where applicable, in public registries and in particular in the Mercantile Register of the province. This authority extends to the rectification, clarification, interpretation, specification or supplementing of the resolutions adopted in all deeds or documents executed to implement them, and in particular in respect of the Directors appointed, as well as the correction of all defects, omissions or errors in form or substance that would prevent the registration of the resolutions in the Mercantile Register of the province, including signing any amendments that may be necessary or may become apparent in the opinion of the Mercantile Registrar or be required by the competent authorities, without the need to consult the General Meeting. And to carry out on behalf of the Company any legal acts required to execute and fully implement the above resolutions.

This resolution was adopted by a majority of 99.78% of all voting shares represented in person or by proxy, with 1,078,765 votes in favour, 2,294 abstentions and 36 votes against.

In this section you may include any other relevant information, explanations or reservations relating to earlier sections of the report; repetition of information or views already given should be avoided.

Specifically, indicate whether the Company is subject to legislation other than Spanish legislation in matters of corporate governance and if so, include any information that must be disclosed and is not covered by this report.

**Binding definition of Independent Director:**

State whether any of the Independent Directors has or has had any relation with the Company, its significant shareholders or its senior executives that, if it had been sufficiently significant or important, would have meant that the Director could not be considered an Independent Director in the terms of section 5 of the Unified Good Governance Code:

Yes  No

**Date and signature:**

This annual report on corporate governance was approved by the Company's Board of Directors at its meeting on 12 February 2009

State whether any Directors voted against this Report or abstained on a motion to approve it.

Yes  No