BancoSabadell

BASEL II -
PILLAR 3 DISCLOSURES

31 December 2009

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ABBREVIATIONS

AIRB	Advanced Internal Ratings-Based
ALC	Asset and Liability Committee
AMA	Advanced Measurement Approach
BSC	Bank of Spain Circular
CCF	Credit Conversion Factor
CEC	Corporate Ethics Committee
CERO	*Consorcio Español de Riesgo Operacional* (Spanish banks participating in Global Operational Risk Database)
CESCE	*Compañía Española de Crédito a la Exportación* (Spanish Export Credit Insurance Company)
CIRBE	*Central de Información de Riesgos del Banco de España* (Bank of Spain's Central Credit Register)
CIS	Collective Investment Scheme
CRMT	Credit Risk Mitigation Techniques
CSP	Capital Self-Assessment Process
CSR	Capital Self-Assessment Report
DLGD	Downturn Loss Given Default
EAD	Exposure at Default
ECAI	External Credit Assessment Institution
EDR	Expected Default Rate
EL	Expected Loss
GMRA	Global Master Repurchase Agreement
ICRC	Internal Control and Reporting Committee
IRB	Internal Ratings-Based
ISDA	International Swaps and Derivatives Association
ISDA-CSA.	ISDA Credit Support Annex
ISMA	International Securities Markets Association
LGD	Loss Given Default
LTV	Loan-to-value
MIFID	Markets in Financial Instruments Directive
NACB	New Basel Capital Accord
ORX	Operational Risk Exchange
OTC	Over the Counter
PD	Probability of Default
RaRoC	Risk-adjusted Return on Capital
RBA	Ratings-based Approach
RW	Risk Weight
SME	Small and Medium Enterprise
SIV	Special Investment Vehicle
VaR	Value at Risk

1. Introduction

The purpose of this report is to meet the obligations of the financial institutions that form the Banco Sabadell Group to publish information for the market according to the framework set out in Chapter 11 of the Bank of Spain's Circular 3/2008 ("BSC 3/2008", or the "Capital Adequacy Circular"), entitled "Market Disclosure Obligations", which specifies the minimum amount of information that must be disclosed in the document "Basel II - Pillar 3 Disclosures". All references to "the Group", "Banco Sabadell" and "Banco Sabadell Group" in this report are references to undertakings included within the Group for capital adequacy purposes, details of which are provided in this report.

In accordance with the Group's market disclosure obligations and with rules 110 - 117 of BSC 3/2008, this document provides information on:

- The Group's eligible capital and capital ratio determined according to criteria set out in the Bank of Spain's Capital Adequacy Circular.

- Risk management objectives comprised within Banco Sabadell's policy on:

    a) Risk management strategies and processes.

    b) The structure and organization of the risk management function.

    c) The nature and scope of the Group's risk measurement and reporting systems.

    d) Policies for hedging and reducing risk, and strategies and processes for constantly monitoring the effectiveness of those policies.

- A set of figures to provide a view of the Group's risk profile in the different categories of risk for which disclosure is required: credit and dilution risk, market risk in the trading book, operational risk, specific data on equity investments and equity instruments not included in the trading book, and interest rate risk on non-trading positions.

The information provided in this report relates to the position at 31 December 2009 unless otherwise indicated, and was approved by the Audit and Control Committee of Banco de Sabadell, S.A. at its meeting of 23 March 2010.

1. General disclosure requirements

1.1 Scope of application

a) Company names

The names of the entities falling within the scope of application, to which the following section refers, are listed in Annex I. Banco de Sabadell, S.A. is the parent company of the Group.

b) Scope of application - basis of consolidation

The scope of application of this report is the consolidated group of credit institutions making up the Banco Sabadell Group for the purposes of BSC 3/2008. Details of these undertakings are set out in Annex I, which shows whether they are fully consolidated, proportionally consolidated or investee companies.

The differences between a consolidated group of credit institutions for the purposes of BSC 3/2008 and a group of credit institutions as defined in Rule 3 of the Bank of Spain's Circular 4/2004 ("BSC 4/2004" or the "Accounting Circular") arise, for the most part, from the fact that the former consists only of financial institutions consolidated by reason of their principal business, and includes:

i) Credit institutions.

ii) Companies providing investment services.

iii) Investment companies as defined by article 9 of Law 35/2003 of 4 September on Institutions of Collective Investment.

iv) Companies engaging in the management of institutions of collective investment, pension funds or mortgage or asset securitization funds, and set up with the corporate object of managing such funds.

v) Venture capital companies and companies managing venture capital funds.

vi) Companies whose principal business is the holding of shares or equity investments in other companies, except where the company is a mixed financial holding company subject to supervision at financial conglomerate level and is not under the control of a credit institution.

vii) Any entity, regardless of its name, status or nationality, carrying on the business normally carried on by the companies or institutions mentioned above.

Nominee or trust companies are required to be consolidated if their business involves an extension of the business of one or more financial entities required to be consolidated or consists largely of providing ancillary services to those entities.

Insurance companies, however, are not included in consolidated groups of credit institutions.

Under Bank of Spain Circular 4/2004, on the other hand, a group of credit institutions exists when the “dominant” or parent company is a credit institution or has as its principal business the holding of equity investments in one or more “dependent” or subsidiary credit institutions, or where the group includes one or more credit institutions and the operations of these institutions form the largest part of the group’s business. A company is deemed to have control of another company where any of the following conditions applies:

i) It holds a majority of the voting rights.

ii) It has the power to appoint or remove a majority of members of the board of directors.

iii) It is able, through agreements with other shareholders, to hold a majority of voting rights.

iv) Using its own votes exclusively, it has appointed a majority of members of the board of directors who are holding office at the time the consolidated accounts are due to be approved and have been in office for the two immediately preceding years. This does not mean that a company whose directors have been so appointed must be consolidated if it is linked to another company in any of the ways mentioned in i) or ii) above.

It will be seen from the above that there are differences between the two consolidated groups. Consequently, the following companies are fully consolidated in the published financial statements prepared in accordance with BSC 4/2004, but are accounted for by the equity method for capital adequacy purposes under BSC 3/2008:

- Compañía de Cogeneración del Caribe Dominicana S.A.
- Compañía de Electricidad y Cogeneración del Uvero S.A.
- Assegurances Segur Vida, S.A.

while the following company is proportionally consolidated in the published financial statements, but accounted for by the equity method for capital adequacy purposes under BSC 3/2008:

- Jerez Solar S.L.

Equity investments of more than 10% in financial companies which would be consolidable by reason of their business but are not part of the consolidated group and are deductible directly from regulatory capital, are held in the following undertakings:

- Centro Financiero BHD
- Dexia Sabadell, S.A.
- Banco del Bajío
- Sociedad de Cartera del Valles, S.I.C.A.V., S.A.

Equity investments in insurance and reinsurance companies or in undertakings whose principal business is the taking of shareholdings in insurance companies within the meaning of article 185.1 of the SA Companies Law [*Ley de Sociedades Anónimas*], or where the Group has a direct or indirect holding of 20% or more in the share capital or voting rights of the company, are as follows:

- BanSabadell Seguros Generales, S.A. de S. y R.
- BanSabadell Vida, S.A. de S. y R.
- Assegurances Segur Vida, S.A.

c) Possible material, practical or legal impediments on the immediate transfer of funds

There is at present no material, practical or legal impediment on the immediate transfer of funds or repayment of liabilities between subsidiary companies and the parent company or any indication of any such impediment foreseeably arising in the future.

d) Subsidiary undertakings with own funds below the minimum capital requirement

There are no subsidiary undertakings not included in the consolidated group whose own funds are below the applicable minimum regulatory capital requirement.

e) Exemptions from minimum capital requirements

On 29 October 2009 the Banco Sabadell Group was given permission by the Bank of Spain to claim exemption under BSC 3/2008 in relation to individual capital requirements for the following subsidiary companies:

- BanSabadell Fincom, E.F.C., S.A.
- Banco Urquijo Sabadell Banca Privada, S.A.
- BanSabadell Financiación, E.F.C., S.A.

The Group has produced evidence to show that all the conditions for exemption required by rule 5 of BSC 3/2008 are satisfied, including the low degree of materiality of risks of third parties in the subsidiaries relative to those held by the Group.

1.2 Risk management objectives and policies

a) Risk management strategies and processes

The Board of Directors of Banco Sabadell has established basic principles concerning the management and control of risk:

- Solvency: Banco Sabadell has opted for a prudent and balanced policy on risk to ensure sustained and profitable business growth in line with the Group's strategic objectives for maximum value creation.

  It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant proportion of the Bank's capital resources. For this reason, the risk variable is taken into account in decisions at every level and is quantified according to a single measure: economic capital.

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

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

The risk control function is involved in all key Group processes, including strategic business and budgetary planning, risk-adjusted return on capital and capital assessment.

CREDIT AND DILUTION RISK

Credit and dilution risk is the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality. This category includes counterparty risks (largely in the form of exposure to derivative instruments not traded on organized markets) and concentration risk.

The aim of risk management here is to develop a sound policy on risk acceptance based on a rigorous analysis of borrowers' ability to repay loans as loan applications are referred by business units. Some form of security or collateral may be required as an additional means of protection in the event of a customer having difficulty in meeting the repayments on his debt, but this is not the basis on which loan acceptance decisions are taken and is not a substitute for appropriate analysis or information.

A key aspect in the process of managing and controlling risk is the adjusting of processes to suit each borrower segment, thus ensuring a consistent approach to customer evaluation that draws on structured sources of information and is supported by robust decision aids and effective management and information systems. This is done in such a way as to ensure objectivity and independence in a process of analysis centred on a Basic Risk Management Team and clearly demarcated areas of responsibility through delegation of authorities and strong internal control procedures. Finally, the Group applies overarching policies in the form of limits on exposure and the acceptance of guarantees which must be complied with in every case.

MARKET RISK IN THE TRADING PORTFOLIO

Market risk is defined as the possibility of losses in the market values of positions held in financial assets as a result of changes in the risk factors affecting their market prices, including equity risk, interest rate risk and currency risk, as well as volatilities in those factors or correlations between them.

The aim of the management and control process is to maintain continuous oversight to ensure that treasury operations are conducted so that risk is kept within the established exposure limits. One key aspect of policy guiding these processes is a clear separation of functions with the aim of ensuring that the risk control function remains completely independent.

OPERATIONAL RISK

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

The aim of risk management and control here is to identify potential sources of risk and prevent them from materializing by means of specific mitigation plans. As a general principle, the management of operational risk focuses on the points where the risks originate, that is, the various processes and activities undertaken by Banco Sabadell, where there is a person directly in charge to perform an ongoing assessment of each administrative or commercial process from a broad perspective so as to be aware of both potential and actual events and seek actively to mitigate these through improvement initiatives.

STRUCTURAL RISKS (INTEREST RATE, CURRENCY, EQUITY AND LIQUIDITY RISK)

Interest rate risk on non-trading positions is caused by changes, as reflected in the position or slope of the yield curve, in the interest rates to which asset, liability and off-balance sheet positions are linked. Gaps or mismatches arise between these items because of differences in repricing and maturity dates so that rate changes affect them at different times; this in turn affects the robustness and stability of the income they produce.

Currency risk is caused by changes in the currency exchange rates that affect any open positions held by Banco Sabadell, particularly the exposures attributable to its subsidiaries and branches in foreign countries.

The equity risk associated with equity investments not included in the trading portfolio is caused by price changes affecting the exposures resulting from these investments.

Liquidity risk is the risk of losses being incurred in the event of the Bank's being unable to meet payment commitments, even if only temporarily, because of a lack of liquid assets or of its being unable to access the markets to refinance debts at a reasonable cost. Liquidity risk may be caused by external factors such as a financial market downturn, a systemic crisis or reputational issues, or internally, by an excessive concentration of maturing liabilities.

The main aim of management and control in this case is to identify alternative business or hedging strategies that will meet business objectives and are appropriate to market conditions and the Group's balance sheet position. The key policy in liquidity risk management is to focus on the overall financial exposure of the Group as a whole.

b) Risk management - structure and organization

The Banco Sabadell Group has a well defined structure in place for the management and control of risk, with clearly demarcated areas of responsibility. Details of this are published in the Group's Annual Report on Corporate Governance.

Based on principles laid down by the Board of Directors, the Risk Control Committee and the Risk Department draw up, on behalf of the Board, policies on risk, exposure levels and acceptance, monitoring and recovery procedures.

The Global Risk Committee is responsible for laying down principles for identifying, managing and controlling risks from a group-wide perspective and for how these principles interrelate with business.

The Group has risk control systems in place that are appropriate to the commercial banking market in which it operates and to its desired risk profile. These control systems are integrated into the risk acceptance, monitoring, mitigation and recovery procedures described above and are themselves subject to supervision.

Policies are communicated to different levels of the organization so as to guide decision making processes by organizing action plans and regularly reviewing their results. This may be achieved by means of internal rules and procedures or through specialized training programmes.

BOARD OF DIRECTORS AND BOARD COMMITTEES

The Board of Directors is responsible for establishing overall policy on the allocation of responsibilities for managing and controlling risks and for laying down basic strategic principles for this purpose.

Three committees of the Board of Directors are involved in risk management and control:

- The Executive Committee, whose function is to coordinate the Bank's Executive Function and to take decisions within the scope of the powers and discretions delegated to it by the Board. All decisions taken at meetings of the Committee are reported to the Board of Directors.

- The Risk Control Committee, which *(i)* sets and makes recommendations to the full Board on overall levels of risk for each country, business sector and risk type; *(ii)* sets and makes recommendations to the full Board on maximum risk levels for transactions with individual customers and lending institutions, and for use in setting maximum risk levels for portfolios or individual investments in public funds, shares, bonds, options, swaps and generally any instruments or securities that carry a risk of default or some form of investment, interest rate or liquidity risk for the Group; *(iii)* sets and makes recommendations to the full Board on annual limits for property market investments and on policy and volumes for different types of real estate; *(iv)* sets and makes recommendations to the full Board on the delegation of such powers as it considers necessary for the approval and acceptance of individual risks, subject to the limits referred to above; *(v)* decides on those individual risks for the approval of which the Risk Control Committee is solely responsible, in accordance with the powers delegated to it as mentioned above; *(vi)* monitors and oversees the proper discharge of responsibilities delegated under (iv) above; *(vii)* reports to the full Board each month on transactions approved and executed in the course of the previous month and any divergences or irregularities that are identified and any action taken to rectify them; *(viii)* reports to the full Board each quarter on the levels of risk incurred, the investments made and the performance of those investments, and the possible implications for Group revenue of changes in interest rates and the extent to which risks are consistent with the VaR (*Value at Risk*) levels approved by the Board; and *(ix)* submits to the Board, for prior approval, any change in the limits referred to in (i) and (ii) above that exceed authorized levels by more than 10% and 20% respectively.

- The Audit and Control Committee, which is responsible for *(i)* reporting to the General Meeting on all matters raised at general meetings by shareholders, within its terms of reference; *(ii)* making recommendations to the Board of Directors, for submission to the General Meeting, on the appointment of external auditors, setting their terms of engagement, the scope of their professional mandate and, if applicable, the termination or non-renewal of their engagement; reviewing performance of the auditing agreement and ensuring that the opinion on the annual accounts and the main findings of the auditors' report are expressed in a clear and precise way; *(iii)* reporting on the annual accounts and the quarterly and half-yearly financial statements and any prospectuses required to be filed with the regulatory or supervisory authorities; monitoring regulatory compliance; ensuring that generally accepted accounting principles have been correctly applied, and reporting on any proposed amendments to those principles; *(iv)* supervising the work of the internal audit function and reviewing appointments and replacements of key internal audit personnel; *(v)* keeping up to date with the company's financial reporting process and internal control systems; *(vi)* meeting with the external auditors to receive reports on any issues that could compromise their independence or other matters related to the process of auditing accounts, and any other reports required by the legislation, rules or professional standards applicable to external audit; *(vii)* reporting on any issues referred to the Committee by the Board of Directors that are within its terms of reference; and *(viii)* any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or any generally applicable rules on corporate governance.

EXECUTIVE DEPARTMENTS AND COMMITTEES

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

- Global Risk Committee: The committee lays down rules and principles on the identification, management and control of risk from a group-wide perspective, and how these interrelate with business. Matters for which the Committee has particular responsibility include the Basel II implementation Master Plan and reviewing and making proposals on internal risk models for submission to the Board of Directors.

- Risk Department: Responsible for establishing guidelines and a methodology and strategy for risk management. The Department decides on and establishes the Group's risk management model and develops, in line with supervisory requirements, advanced internal measurement systems to quantify and differentiate risks, and approves these tools for operational use. It also establishes procedures for optimizing the credit function. It manages and integrates exposures in accordance with preset discretion levels through selective risk acceptance processes in such as way as to combine high risk quality with growth and business profitability.

- Finance 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 strategic objectives; provides decision-making and risk management functions or units with information on overall risk exposures and monitors the implications; ensures that the risk variable is taken into account in all decisions; and oversees specific risk management models, ensuring that these are in line with generally accepted principles and methodologies, particularly so far as the supervisory authorities are concerned.

- Asset and Liability Committee (ALC): The committee draws up policies to ensure that the structural balance sheet risk acquired by the Group in the course of its business and the Group's market risk are managed effectively. It monitors interest rate, currency, equity and liquidity risk and proposes alternative business, market and hedging strategies to ensure that business objectives will be achieved having regard to market conditions and balance sheet considerations.

- Operational Risk Committee: The committee provides strategic guidelines and establishes a framework for the management of operational risk. It sets operational priorities based on its assessment of the risk exposure of the different business units and central service departments.

- Compliance, Corporate Social Responsibility and Corporate Governance Department: The Department seeks to ensure compliance with all legal and regulatory requirements, internal procedures and codes of conduct that are relevant to the Group's business including the prevention of money laundering and the financing of terrorist groups, abuse of market power and investor protection (MIFID), by establishing procedures and systems of alerts.

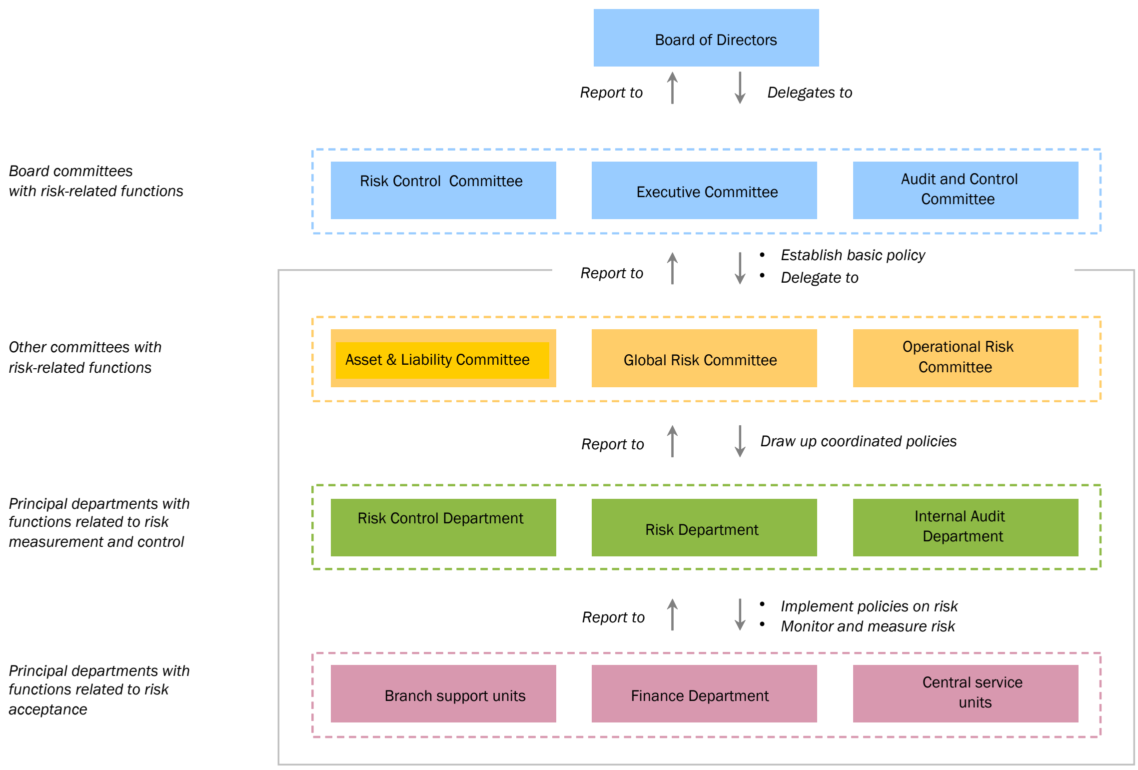
- Internal Control and Reporting Committee (ICRC): Under the Chairmanship of the Comptroller General, the Committee works to ensure compliance with Spanish legislation on money laundering [*Ley de Prevención del Blanqueo*] and against the financing of terrorism [*Ley de Bloqueo a la Financiación del Terrorismo*] on a Group-wide basis. All Group undertakings subject to this legislation and all Banco Sabadell areas of special risk are represented on the Committee.

- Corporate Ethics Committee (CEC): Chaired by the Comptroller General, the Committee is responsible for the monitoring and oversight of the Group's compliance with its code of conduct on trading on the stock market and with its general Code of Conduct.

- 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.

To summarize this section, a diagrammatic representation of the main areas of risk management within the Banco Sabadell Group is given below:

Risk management structure



c) Measurement and reporting systems

Risk assessment is achieved with the help of advanced measurement methodologies which the Group has been developing through a set of internal risk measurement models with the aim of bringing a rigorous approach to the process of management and control. In addition, an independent internal validation framework is in place to determine whether these models are meeting certain minimum requirement, having regard to the purposes for which they are being used. As a final stage, the whole measurement process is subject to oversight by Internal Audit.

These measurement tools have been provided with a full range of reporting processes adapted to each type of risk, which is essential for successful management and control and forms a comprehensive reporting system that is compliant with needs at different levels of the organization. The system feeds into the acceptance and supervision processes for the different types of risk and the associated recovery procedures.

Some of the key risk measurement systems for each type of risk are:

CREDIT AND DILUTION RISK

The system for measuring credit risk is based on the credit rating and credit scoring tools used in risk management (i.e. risk acceptance and monitoring). The tools are adapted for different borrower categories and counterparty types (credit rating for corporate customers, real estate developers, project finance, financial institutions and countries; credit scoring for mortgage and consumer loans and behavioural scoring for personal loans). This ensures that borrower- or loan-related risks can be rated and differentiated and estimates made of the probability of default, loss severity and degree of exposure in the event of default actually occurring.

All this allows the aggregate credit risk profile for particular loan portfolios to be analysed not only for risk exposure but also, thanks to more precise metrics, for expected loss and internally-assigned economic capital.

MARKET RISK IN THE TRADING PORTFOLIO

Market risk is measured by the VaR methodology used for risk management (setting of limits) and control, which means that risks on different kinds of financial market transaction can be aggregated and analysed in the same way. 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 market risk factors that have been identified. This estimate is expressed in money terms and is calculated at a specified date, to a specified confidence level (99%) and for a specified time horizon. The estimate takes account of different levels of market risk factors.

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. Techniques of this kind are supplemented by special simulation exercises and extreme market scenarios ("stress testing"), the purpose of which is to analyse different macroeconomic scenarios and their impacts.

OPERATIONAL RISK

Although for regulatory capital purposes operational risk is measured by the standard method of taking a fixed percentage of gross income, internally the Group carries out measurements based on historical data of losses due to operational risk which is continually updated as information is received on losses and also on recoveries, whether resulting from the Bank's own efforts or from insurance provision. These measurements also take account of data from evaluations by process managers of the operating or business processes for which they are responsible, as well as external data on operational risk.

All this information is fed into a scorecard or instrument panel in summary form at different levels of the organization for distribution in a consistent form, thus ensuring that it is accessible to all departments and that operational risk can be actively managed.

STRUCTURAL RISK

The management of interest rate risk requires a system of assessment based on a number of methodologies. One is to measure the sensitivity of net interest income to changes in interest rates over a one-year horizon. This is done by means of static (repricing gap) or dynamic (net interest income simulation) tests based, in the latter case, on different assumptions about balance sheet growth and changes in the slope of the yield curve. Another technique that is used is to measure the sensitivity of equity to changes in interest rates by duration gap analysis. This measures the effect of interest rate changes over a longer time horizon.

To assess liquidity risk, gap analysis is used to manage foreseeable mismatches between cash inflows and outflows over a medium-term horizon. 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 long and medium term.

d) Risk hedging and mitigation policies - strategies and processes to monitor effectiveness

Risk hedging and mitigation policies are in place for each type of risk. Details of policies for the main types of risk are given below. The effectiveness of these policies is verified as part of the Group's internal control procedures, with ultimate supervision being provided by internal audit processes set up for the purpose.

CREDIT AND DILUTION RISK

The acceptance of a credit risk follows a rigorous analysis of the borrower's ability to repay or discharge the proposed loan or other transaction. Some form of security or collateral may be required as an additional means of protection in the event of a customer having difficulty in meeting the repayments on his debt, but this is not the basis on which loan acceptance decisions are taken and is not a substitute for appropriate analysis or information.

Banco Sabadell accepts commonly-used types of security such as mortgages, financial collateral and third-party guarantees or avals. These are always appropriate to the type of risk involved and the likelihood of recovery.

All these risk mitigation techniques are framed in a manner that affords full legal certainty, that is, in contracts that are legally binding on all parties and can be enforced in all relevant jurisdictions, thus ensuring that the security can be realized at any time. The whole contract process is subject to internal review for legal soundness and legal opinions may be sought from international experts where contracts are drawn up under the laws of a foreign country.

Guarantees involving a charge on property are drawn up as public instruments and executed before a notary to be fully valid and effective as against third parties. A public instrument, in the case of a real property mortgage, will then be registered with the appropriate land registry to make its effectiveness in law and vis-à-vis third parties complete. In the case of a chattel mortgage or pledge, the pledged items are generally deposited with the Group. Contracts are not open to unilateral termination by borrowers and the security remains in effect until the loan has been repaid in full.

A personal guarantee or suretyship in favour of a Banco Sabadell Group company may be arranged and will again, in all but exceptional cases, be in the form of a notarially authorized public instrument to ensure that the contract is drawn up to give maximum legal security and that legal proceedings can be taken to enforce it in the event of default. Such contracts give the Bank a direct, irrevocable, first demand claim against the guarantor.

For financial market trading, the Group has set up contractual netting rights and agreements with the majority of financial counterparties with which it trades in derivative instruments, as well as collateral security agreements for derivatives and repos. By providing appropriate security, these arrangements ensure that any risk incurred is significantly reduced. To make the security completely effective, contracts entered into with counterparties make use of ISMA (International Securities Markets Association), GMRA (Global Master Repurchase Agreement) and ISDA (International Swaps and Derivatives Association) agreements, as well as the ISDA Credit Support Annex (ISDA-CSA) where ISDA-developed contract documents are being used.

OPERATIONAL RISK

In its approach to managing operational risk the Group focuses on identifying specific risk areas and taking preventive action by means of risk mitigation programmes. These range from setting up indicators or controls at specified stages of a process or developing business improvement and continuity plans, to seeking outside insurance cover for extreme events so as to provide protection against loss or damage, whether personal, reputational or financial.

STRUCTURAL RISKS

The management of interest rate risk focuses on identifying alternative business or hedging strategies that will meet business objectives and are appropriate to market conditions and the Group's balance sheet position. Interest rate risk hedging may include derivative instruments to neutralize the adverse effects that interest rate movements may have on asset and liability positions. The results of these hedging operations are subject to regular audits and testing to verify their effectiveness.

In the case of liquidity risk, risk management has the task of ensuring that funds are available to meet the Group's commitments at all times. Accordingly, the aims of liquidity management are to obtain funding at the lowest possible cost, to make sure that funding sources and maturities are suitably varied, and to have assets available at all times that can readily be exchanged for cash as a central element of a contingency plan for liquidity management across the Banco Sabadell Group.

2 Information on eligible capital

The following table summarizes the main components of eligible Tier I and Tier II capital for capital adequacy purposes for the Banco Sabadell Group in accordance with Rule 8 of the Bank of Spain's Capital Adequacy Circular. Capital deductions are also shown as separate items in the manner required by Rules 9 and 11 of the Circular.

Total eligible own funds for capital adequacy purposes by category, net of deductions and limits

ELIGIBLE OWN FUNDS FOR CAPITAL ADEQUACY PURPOSES	AMOUNT
Tier I capital	**5,444,689**
Share capital	1,385,067
Reserves	3,350,814
Actual and disclosed reserves	2,986,778
Minority interests	30,612
Eligible profit for the year	354,489
Valuation adjustments eligible as Tier I capital	-21,065
Preference shares	1,098,150
Bonds mandatorily convertible to shares	500,000
Deductions from Tier I capital	-889,342
Tier II capital	**1,173,822**
Core Tier II capital	293,622
Comparison (in IRB approach) of valuation adjustments with provisions for expected losses	205,484
Generic provisions related to exposures under the standardized approach	62,811
Valuation adjustments to available-for-sale financial assets	25,327
Standard subordinated financings	880,200
Deductions from Tier II capital	0
Deductions from Tier I and Tier II capital	**-468,370**
Deductions of equity investments of more than 10% in unconsolidated financial companies	-324,342
Deductions of equity investments of more than 20% in insurance and similar entities	-134,213
Other deductions	-9,815
Total eligible own funds for capital adequacy purposes	**6,150,141**

Data are as at 31/12/09 and are expressed in thousands of euros

The Group's **primary or Tier I capital** totalled €5,444,689,000. After taking account of deductions for equity investments in unconsolidated financial undertakings and insurance undertakings, and other deductions related to exposures assessed under the internal ratings-based (IRB) approach, Tier I capital is €5,210,504,000, that is, 84.72% of total eligible capital for capital adequacy purposes. The main components and deductions that make up Tier I capital are:

- The **share capital** of all undertakings forming the Group including any share premiums paid and after deducting own shares as required by BSC 3/2008. The total share capital is €1,385,067,000.

- **Qualifying reserves**, consisting of: *(i)* **actual and disclosed reserves** and other items classified as reserves, amounting to €2,986,778,000; *(ii)* **minority interests** totalling €30,612,000; *(iii)* **the eligible audited profit for the year** which, being positive, has been recognized as to the part that has been proposed for appropriation to reserves, amounting to €354,489.000; and *(iv)* **valuation adjustments eligible as Tier I**

capital relating mainly to capital losses (including foreign exchange differences) recognized during the period in available-for-sale equity instruments, with a total negative value of €21,065,000.

- **Other items treatable as Tier I capital under Spanish law** consisting of preference shares, with or without step-up clauses, and bonds mandatorily convertible to shares. The preference shares amount to a total of €1,098,150,000 or 21.08% of Tier I capital after making all deductions; this is below the 30% limit on the proportion of such elements that can be counted as Primary or Tier I capital under Rule 11 of BSC 3/2008. The mandatorily convertible bonds total €500,000,000, that is, 9.60% of Tier I capital after all deductions have been made.

- And finally, **deductions from Tier I capital** totalling €889,342,000. These consist largely of **intangible assets** recognized in equity, which in this case include the goodwill arising on business combinations and on the consolidation of associated undertakings.

Secondary or Tier II capital amounted to €1,173,822,000. After taking account, as in the case of Tier I capital, of deductions in respect of equity investments in unconsolidated financial and insurance undertakings and other matters related to the treatment of IRB-assessed exposures, total Tier II capital is €939,637,000, or 15.28% of total eligible own funds for capital adequacy purposes. The components of Tier II capital include the following:

- **Core Tier II capital items** amounting to €293,622,000. These consist mainly of **amounts obtained by comparing impairment adjustments and provisions with expected losses on exposures assessed by the IRB approach**, and amount to a total of €205,484,000. Also included in Tier II capital are **generic provisions for exposures assessed by the standardized approach** in accordance with weighted risk limits established by BSC 3/2008 amounting to €62,811,000. Finally, Tier II capital includes **valuation gains on equity instruments and other assets available for sale** totalling €25,327,000. Unlike capital losses, these gains are treated as Tier II capital under BSC 3/2008.

- **Standard subordinated debt** totalling €880,200,000. As with the preference shares, this component is below the limit of 50% of Tier I capital permitted to be treated as secondary capital under Rule 11 of the Capital Adequacy Circular.

- In view of the conditions specified in Rules 9 and 11 of BSC 3/2008, **no deductions from Tier II capital** have been made.

Apart from the deductions from Tier I and Tier II capital mentioned above, which are applied specifically to each category of qualifying capital, Rule 9 of BSC 3/2008 makes provision for **other deductions** which are **allocated to Tier I and Tier II capital equally.** For the Banco Sabadell Group, the most important of these deductions comprise the following:

- **Equity investments of more than 10% in unconsolidated financial undertakings.** These equity investments are described in section 1.1.b) of this document and resulted in a reduction of €324,342,000 which has been divided equally between Tier I and Tier II capital.

- **Equity investments of more than 20% in insurance and similar undertakings.** These investments, also described in section 1.1.b), have been deducted from eligible capital and amount to €134,213,000. Again, the deduction has been distributed equally between the two tiers.

3 Information on regulatory capital requirements

The Banco Sabadell Group's regulatory capital requirements are determined according to principles laid down by BSC 3/2008, the Bank of Spain's circular on the determination and monitoring of minimum capital requirements. The purpose of regulatory capital requirements is to protect the solvency of financial institutions in the event of potential unforeseen losses resulting from exposure to credit and counterparty, market and operational risks incurred by institutions in the course of their business.

In addition to estimating its capital requirements the Group, as required by BSC 3/2008, has set up a Capital Self-Assessment Process (CSAP) the results of which are set out each year in a report for presentation to the supervisory authority. In the report Banco Sabadell assesses the aggregate amount of capital it needs to meet the major risks to which it is exposed and maintain an adequate degree of solvency. The self-assessment process is described in more detail in section b) of this chapter.

a) Total minimum capital requirements

The minimum capital requirement **for credit risk exposures determined under the standardized approach** is €1,016,265,000. It should be noted that for certain portfolios which the Group has supervisory approval to assess by the internal ratings-based approach, specifically corporate and retail exposures, capital requirements for credit risk are calculated using the standardized approach for the small proportion of exposures in these portfolios which are not suitable for assessment by internal rating models.

The minimum capital requirement for **credit risk exposures assessed by the internal ratings-based approach** is €3,279,407,000, of which €213,489,000 is the minimum capital requirement for exposures classified as equity exposures, which the Group assesses by the simple risk weight approach.

In the case of the **trading portfolio**, the minimum capital requirement in respect of **position risk** is €2,397,000 and is determined entirely by the standardized approach.

The minimum capital requirement for **currency risk and gold position risk** amounts to €12,661,000 and is determined entirely by the standardized approach.

For **operational risk** the minimum capital requirement is €299,580,000 and is determined entirely by the standardized approach.

Information concerning the Group's capital requirements for each risk type, as required by BSC 3/2008, Rule 112, is provided in the following table, which shows the calculation method or approach used in each case and, for credit risk, a breakdown by exposure category.

Total minimum capital requirement

RISK TYPE	MINIMUM CAPITAL REQUIREMENT
Credit risk *(Standardized approach)*	**1,016,265**
Central governments and central banks	2,682
Regional governments and local authorities	9,684
Public sector bodies and other public nonprofit organizations	15,055
Multilateral development banks	0
International organizations	0
Institutions	81,508
Corporates	301,967
Retail	165,971
Exposure to individuals or companies secured on residential or commercial real estate	86,751
Past due exposures	15,416
High risk exposures	65,710
Guaranteed bonds	414
Securitization positions	0
Exposure to institutions and corporates with short-term credit ratings	0
Exposure to collective investment schemes	439
Other exposures	270,668
Credit risk *(Internal ratings-based approach)*	**3,279,407**
Central governments and central banks	0
Institutions	0
Corporates	2,693,444
Retail	372,474
Of which: i) Mortgages on residential or commercial real estate	236,215
ii) Qualifying revolving exposures	0
iii) Other	136,259
Equity (*Simple method)*	213,489
Of which: i) Publicly traded instruments	135,325
ii) Non-publicly traded instruments held in well diversified portfolios	78,164
iii) Other equity exposures	0
Securitization positions or exposures	0
Other assets not of a financial nature	0
Risk related to the trading portfolio	**2,397**
Position risk *(Standardized approach*)	2,397
Currency risk and gold position risk (*Standardized approach*)	**12,661**
Operational risk *(Standardized approach*)	**299,580**
Total minimum capital requirement	**4,610,310**

Data are as at 31/12/09 and are expressed in thousands of euros

Additional capital requirements in respect of subsidiaries[1] and currency risk, as required by article 6 of Royal Decree 1332/2005 of 11 November on capital adequacy in financial conglomerates, amount to €26,287,000.

b) Summary of procedure to assess adequacy of internal capital to support current and future activities

The capital self-evaluation process put in hand by the Group comprises the following procedures:

- A qualitative assessment of Banco Sabadell's risk profile having regard to the most significant risks: credit, market, operational, interest rate, exchange rate, liquidity and regulatory risk.

- Analysis of the internal rules and procedures and management and control systems in place for each type of risk, with areas for improvement being identified.

- Quantitative measurement of the risks mentioned above in terms of the internal capital or economic capital required to cover each risk. The Group uses internal methodologies to measure the economic capital for the different types of risk to which it is exposed.

- Planning of capital requirements over a three-year projection period taking account of expected volume and margin increases, the Group's risk profile, expected earnings performance and capital-raising ability, and an assessment of regulatory requirements.

- Stress test exercises to study different global economic recession scenarios and how they would impact on the Group's business.

- Drawing up a potential programme of future improvements based on the conclusions of the Capital Self-Assessment Report (CSAR).

- Deciding on a target for available capital resources over and above the minimum regulatory requirement, and on the composition of those resources.

The CSAR that results from the Capital Self-Assessment Process is sent to the Bank of Spain each year once it has been approved by the Board of Directors.

[1] *Additional requirements for consolidated groups that include financial undertakings that would normally be consolidated but are subject to different regulations.*

4 Information on credit and dilution risk

The metric used throughout this section to measure exposure is generally Exposure at Default or EAD, although for some of the tables other measures have been found more appropriate. Some of the key concepts used in this section are as follows:

- Exposure: This relates to exposure subject to weighting in accordance with BSC 3/2008, that is, exposure in the event of default (EAD). EAD takes account of credit risk mitigation techniques and off-balance sheet items adjusted according to their respective weightings (exposures subject to the standardized approach) or according to internal estimates of conversion factors (for exposures subject to the IRB approach).

- Net exposure: This measures the exposure to credit and dilution risk net of valuation adjustments due to impairment, and does not take account of risk mitigation techniques or adjustments to off-balance sheet items.

- Mitigated exposure: This measures the fully adjusted value of exposure to credit and dilution risk after credit risk mitigation techniques, but does not include adjustments to off-balance sheet items.

4.1 General requirements

4.1.1 Credit and dilution risk exposure

a) Definition of arrears and impaired positions for accounting purposes

As required by the Accounting Circular, the Group rates debt instruments that have been classified as impaired due to credit risk, according to the risk attributable to the customer and country risk:

- Customer risk: Risks in this category comprise the following:

    - Risks due to customer arrears: these include *(i)* debt instruments on which payments have been overdue in respect of principal, interest or any contractually agreed payment, regardless of the holder of the instrument or the security provided, for a period of more than 3 months unless the debt has been written off; and *(ii)* debt instruments that are classified as doubtful because of an accumulation of amounts classified as doubtful due to payment arrears and representing more than 25% of the sum total of the amounts to be collected.

    - Risks for reasons other than customer arrears: This includes debt instruments where there are no circumstances that would justify their being classified as write-offs or as doubtful due to customer arrears, but where there are doubts as to their being repaid in full (principal and interest) on the contractually agreed terms.

- Country risk: Assets impaired due to country risk are debt instruments relating to transactions in countries with long-standing difficulties in servicing their debts and where the possibilities of recovery are considered doubtful, except in the case of debts that cannot be covered against country risk (such as risks attributable to a country, regardless of the currency in which they are denominated, held by subsidiaries based in the country of domicile of the borrower; trade receivables falling due in one year or less, etc.) or debts that must be classified as doubtful or written off for reasons related to customer risk.

For transactions where there are reasons that justify classification of the credit risk as attributable both to the customer and to country risk, the transaction is assigned to the category where the provision requirement is greatest.

Finally, risks written off are debt instruments, whether past due or not, which after being examined individually are considered unlikely to be recovered and should therefore be derecognized from assets.

b) Methods used to determine asset impairment adjustments and provisions for contingent risks and commitments

In general, adjustments to the carrying value of financial assets are recognized in the income statement where there is objective evidence that an impairment loss has occurred. In the case of debt instruments, that is, loans and debt securities, an impairment loss is considered to have occurred when, after initial recognition of the instrument, a single event or a combination of events causes a negative impact on its future cash flows. In the case of equity instruments, an impairment loss is deemed to have occurred when, after initial recognition, a single event or combination of events gives reason to believe that the carrying value of the instrument will not be recovered.

Items valued at amortized cost, portfolios of debt instruments, contingent exposures and contingent commitments, regardless of the borrower and whatever the contractual arrangements or security/collateral provided, are analysed to determine the credit risk to which the Group is exposed and to estimate the impairment provision required. In preparing its consolidated financial statements the Banco Sabadell Group classifies its lending transactions on the basis of credit risk, with customer insolvency risk being analysed separately from any country risk to which transactions may be exposed.

Objective evidence of impairment is determined individually for all debt instruments that are individually significant, and individually or collectively for groups of debt instruments that are not individually significant. When an instrument cannot be included in any group of assets with similar credit risk features, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate the impairment loss. Such instruments are classified into the following categories, on the basis of the insolvency risk attributable to the customer or to the transaction: *(i)* standard risk; *(ii)* sub-standard risk; *(iii)* doubtful due to customer arrears; *(iv)* doubtful for reasons other than customer arrears; and *(v)* write-off. For debt instruments not classified as standard risks, the specific impairment provisions required are estimated having regard to the age of past-due accounts, the collateral or other security provided and the financial situation of the customer and any guarantors. These estimates are made on the basis of default schedules drawn up by the Bank of Spain from its knowledge and experience of the Spanish banking industry. Similar estimates are also made to determine the credit risk on these instruments that is attributable to country risk, that is, the risk associated with customers resident in a specific country that arises from circumstances other than normal commercial risk.

Rescheduling or extending the term of a loan will not stop it from being in arrears; neither will such rescheduling or extension, where the transaction had previously been classified as doubtful, cause it to be reclassified as a standard or substandard risk unless there is reasonable certainty that the customer can pay the loan on schedule as agreed or additional effective security can be provided and, in either case, unless all ordinary interest unpaid on the loan, at least, is paid, leaving aside any penalty interest.

In addition to these arrangements for specific risks, the Group makes provision for latent losses in debt instruments classified as standard risks by providing for impairment loss on a collective basis. Such collective provision is made from historical impairment experience and other circumstances known at the time of the risk assessment. The losses covered are unrealized losses incurred at the balance sheet date, calculated using statistical procedures, but not identified with specific transactions.

Since the Group does not possess sufficient historical and statistical data for this purpose, when making these provisions it relies on parameters set by the Bank of Spain. This method of determining provisions for latent loss due to impairment of debt instruments involves the use of percentages which vary according to how debt instruments classified as standard risks are assessed. The sub-categories into which standard risk instruments are classified are: *(i)* negligible risk; *(ii)* low risk; *(iii)* medium-low risk, *(iv)* medium risk, *(v)* medium-high risk and *(vi)* high risk.

Debt instruments classified as **sub-standard risks** are analysed to determine the required degree of provisioning, which must of necessity be greater than the generic provisioning that would apply if the instruments were classified as standard risks. In addition, net provisions made in the period in which a risk is classified as sub-standard must be greater than the provisions that would be required if the risk had continued to be classified as standard.

Interest recorded at contractual rates ceases to be recognized in the consolidated income statement for all debt instruments that have been individually classified as impaired or for which impairment losses have been collectively calculated as a result of there being accounts more than three months in arrears.

c) Total value of exposure after asset valuation adjustments and impairment provisions, excluding the effect of credit risk mitigation techniques

The following table shows the values (where applicable) of exposures to credit and dilution risk (whether assessed by the standardized or the IRB approach), net of asset impairment adjustments and provisions:

Value of exposure to credit and dilution risk after valuation adjustments and impairment provisions, excluding the effect of credit risk reduction techniques.

EXPOSURE CATEGORY	NET EXPOSURE
Standardized approach	**33,722,294**
Central governments and central banks	4,263,997
Regional governments and local authorities	1,636,622
Public sector bodies and other public nonprofit organizations	2,099,174
Multilateral development banks	0
International organizations	3
Institutions	6,018,250
Corporates	5,879,922
Retail	5,105,178
Exposure to individuals or companies secured on residential or commercial real estate	3,398,447
Past due exposures	156,618
High risk exposures	676,847
Guaranteed bonds	51,721
Securitization exposures	0
Exposure to institutions and corporates with short-term credit ratings	0
Exposure to collective investment schemes	6,020
Other exposures	4,429,495
Internal ratings-based (IRB) approach	**69,867,990**
Central governments and central banks	0
Institutions	0
Corporates	49,914,038
Retail	18,726,742
Equity	1,227,210
Securitization positions or exposures	0
Other assets not of a financial nature	0
Total net exposure to credit and dilution risk	**103,590,284**

Data are as at 31/12/09 and are expressed in thousands of euros.

d) Average value of exposures in the period

The following table shows the average values (where applicable) of exposures to credit and dilution risk (whether assessed by the standardized or the IRB approach) subject to weighting in accordance with BSC 3/2008.

The data refer to average exposures measured for the months of December 2008 and June and December 2009.

Average value of exposure to credit and dilution risk in the period

EXPOSURE CATEGORY	AVERAGE EXPOSURE
Exposures under standardized approach	**28,557,696**
Central governments and central banks	5,624,270
Regional governments and local authorities	671,984
Public sector bodies and other public nonprofit organizations	1,120,980
Multilateral development banks	1,169
International organizations	3
Institutions	4,191,691
Corporates	5,057,298
Retail	3,036,832
Exposure to individuals or companies secured on residential or commercial real estate	2,761,650
Past due exposures	250,777
High risk exposures	350,627
Guaranteed bonds	151,100
Securitization exposures	0
Exposure to institutions and corporates with short-term credit ratings	0
Exposure to collective investment schemes	25,714
Other exposures	5,313,601
Exposures under the Internal ratings-based (IRB) approach	**60,273,596**
Central governments and central banks	0
Institutions	0
Corporates	42,124,543
Retail	16,987,404
Equity	1,098,193
Securitization positions or exposures	63,456
Other assets not of a financial nature	0
Average exposure value due to credit and dilution risk in the period	**88,831,292**

** Average exposures for December 2008, June 2009 and December 2009.*

e) Geographical distribution of exposures

The geographical distribution of exposures is shown in the table below. The decomposed data refer to exposures to credit and dilution risk subject to weighting in accordance with BSC 3/2008, whether assessed by the standardized or the IRB approach, and include a breakdown in percentage terms. Details of exposures that are impaired or past due are also provided. A geographical breakdown for equity exposures was not considered necessary. These exposures are shown separately in the table, but have not been included in the percentage distribution.

Distribution of exposure to credit and dilution risk by geography, showing impaired and past due exposures

GEOGRAPHICAL AREA	AMOUNT DRAWN	EXPOSURE	EXPOSURE* (%)	IMPAIRED AND PAST DUE EXPOSURES **
Spain	70,868,134	78,605,063	90.07%	2,184,858
Other European Union	4,906,604	6,261,701	7.18%	88,942
Latin America	582,653	664,321	0.76%	783
USA and Canada	1,022,585	1,080,309	1.24%	1,989
Other OECD	80,865	157,272	0.18%	2,750
Rest of world	408,338	500,834	0.57%	4,695
Total exposure	**77,869,179**	**87,269,500**	**100.00%**	**2,284,017**
Securitization exposures	0	0	N/A	0
Equity exposures	1,227,210	1,227,210	N/A	0
Total exposure	**79,096,389**	**88,496,710**	N/A	**2,284,017**

** As a proportion of total exposures not including securitization or equity exposures.*

*** Includes exposures impaired due to customer arrears and for other reasons.*

Data are as at 31/12/09 and are expressed in thousands of euros

f) Distribution of exposures by sector or counterparty type

A breakdown of exposures by sector and counterparty type is shown in the table below. The data refer to credit and dilution risk exposure subject to weighting in accordance with BSC 3/2008, whether under the standardized or the IRB approach, showing the percentage distribution of different exposures and details of exposures that are impaired or past due. A sector and counterparty breakdown that excludes contingent risks and commitments and the counterparty risk in financial derivatives has also been provided. Given their special character, equity and securitization exposures have been shown separately.

Distribution of exposures due to credit and dilution risk by sector and counterparty type, showing amounts drawn and impaired and past due exposures

SECTOR / COUNTERPARTY TYPE	AMOUNT DRAWN	EXPOSURE	EXPOSURE (%)	IMPAIRED AND PAST DUE EXPOSURES*
Central governments and central banks	4,550,097	4,692,890	5.30%	1,593
Government excluding central government	1,093,089	1,346,304	1.52%	10,301
Financial institutions	4,120,484	5,419,178	6.12%	427
Other Institutions	238,724	296,189	0.33%	1,292
Retailers and sole proprietors	1,866,905	1,900,008	2.15%	60,944
Mortgage loans	13,268,553	13,289,831	15.02%	349,400
Other retail	4,354,521	5,092,598	5.75%	55,717
Corporates	44,262,176	51,276,023	57.94%	1,728,146
Agriculture, livestock, game and fisheries	406,360	455,046	0.89%	15,616
Retailers and repair shops	4,360,393	5,200,113	5.88%	113,613
Construction	3,231,036	3,772,903	4.26%	164,484
Hotel and catering	2,036,476	2,237,448	2.53%	62,339
Extractive industries	204,388	374,752	0.42%	4,985
Manufacturing	5,588,128	6,725,815	7.60%	200,187
Financial services	398,429	473,066	0.53%	1,101
Energy, gas and water utilities	3,006,798	4,210,351	4.76%	1,553
Real estate developers	7,232,530	7,677,273	8.68%	612,606
Transport, storage and communications	1,787,018	2,106,041	2.38%	23,199
Services and other	16,010,620	18,043,215	20.39%	528,462
Other	4,114,630	3,956,479	4.47%	76,197
Total	**77,869,179**	**87,269,500**	**98.61%**	**2,284,017**
Securitization exposures	0	0	0.00%	0
Equity exposures	1,227,210	1,227,210	1.39%	0
Total	**79,096,389**	**88,496,710**	**100.00%**	**2,284,017**

** Includes exposures impaired due to customer arrears and for other reasons.*

Data are as at 31/12/09 and are expressed in thousands of euros.

The sector and counterparty types that appear in the above table do not correspond to the various categories of exposure (whether subject to the standardized or the IRB approach) shown for regulatory purposes elsewhere in this document. This is because the categories used are based on the legal description or status of counterparties.

g) Distribution of exposures by residual term

The following table shows the exposure values, where applicable, of credit and dilution risk subject to weighting in accordance with BSC 3/2008, according to unexpired terms for each exposure category. Equity exposure, which cannot by its nature have a fixed residual maturity, has been shown as a total value in the "Total exposure" column only, with no breakdown into residual term bands.

Distribution of exposures to credit and dilution risk by residual term to maturity

EXPOSURE CATEGORY	RESIDUAL TERM BAND						TOTAL EXPOSURE
	6 months or less	From 6 months to 1 year	From 1 to 3 years	From 3 to 5 years	From 5 to 10 years	More than 10 years	
Under the standardized approach	**5,262,820**	**2,730,608**	**7,862,982**	**2,506,339**	**3,896,447**	**5,530,762**	**27,789,958**
Central governments and central banks	1,417,601	736,762	1,127,575	551,617	1,075,384	884,356	5,793,295
Regional governments and local authorities	388,146	276,871	16,883	56,158	155,213	17,219	910,490
Public sector bodies and other public nonprofit organizations	420,238	220,311	186,426	143,780	30,661	232,633	1,234,049
Multilateral development banks	0	0	0	0	0	0	0
International organizations	1	0	0	0	0	0	1
Institutions	1,039,564	359,946	765,078	813,199	1,194,573	402,286	4,574,646
Corporates	1,036,818	583,659	729,823	537,154	368,641	1,056,253	4,312,348
Retail	704,325	258,363	906,870	281,139	480,226	432,758	3,063,681
Exposure to individuals or companies secured on residential or commercial real estate	113,585	55,313	81,712	90,371	402,660	2,094,541	2,838,182
Past due exposures	14,927	2,828	103,156	1,864	5,271	23,061	151,107
High risk exposures	48,200	191,123	35,677	13,945	94,300	227,560	610,805
Guaranteed bonds	0	0	0	0	51,721	0	51,721
Securitization exposures	0	0	0	0	0	0	0
Exposure to institutions and corporates with short-term credit ratings	0	0	0	0	0	0	0
Exposure to collective investment schemes	15	3,048	1,876	0	0	545	5,484
Other exposures	79,400	42,384	3,907,906	17,112	37,797	159,550	4,244,149
Under the internal ratings-based (IRB) approach	**8,492,898**	**3,740,999**	**10,581,828**	**5,308,590**	**7,532,131**	**23,823,096**	**60,706,752**
Central governments and central banks	0	0	0	0	0	0	0
Institutions	0	0	0	0	0	0	0
Corporates	7,240,340	3,192,779	9,584,868	4,450,264	5,425,038	11,501,195	41,394,484
Retail	1,252,558	548,220	996,960	858,326	2,107,093	12,321,901	18,085,058
Equity	N/A	N/A	N/A	N/A	N/A	N/A	1,227,210
Securitization positions or exposures	0	0	0	0	0	0	0
Other assets not of a financial nature	0	0	0	0	0	0	0
Total exposure	**13,755,718**	**6,471,607**	**18,444,810**	**7,814,929**	**11,428,578**	**29,353,858**	**88,496,710**

Data are as at 31/12/09 and are expressed in thousands of euros.

h) Changes made in the period to impairment adjustments and provisions for contingent risks and commitments

The procedures for making value adjustments and provisions under different balance sheet headings as shown in the table below are described in sections 4.1.1.a) and 4.1.1.b) above.

The changes made in the period are shown in the following table:

Value adjustments and impairment provisions in the period

BALANCE SHEET LINE ITEM	SPECIFIC	GENERIC	COUNTRY RISK	AMOUNT
Balance at 31 December 2008	**646,892**	**1,170,427**	**6,761**	**1,824,080**
Provisions charged to income statement	1,419,110	32,087	1,873	1,453,070
Releases to income statement	-452,370	-788,727	-3,478	-1,244,575
Foreign exchange differences	400	-1,131	-31	-762
Other movements	-152,372	-1,642	0	-154,014
Balance at 31 December 2009	**1,461,660**	**411,014**	**5,125**	**1,877,799**

Data are as at 31/12/09 and are expressed in thousands of euros.

i) Impairment losses and reversals of losses previously recognized

The following table shows losses due to impairment and reversals of losses previously recognized as asset write-offs and charged directly to the profit and loss account in the reporting period.

Impairment losses and recoveries of losses previously recognized as asset write-offs and charged directly to profit and loss in the period

LOSS/RECOVERY	AMOUNT
Impairment losses	6,362
Recoveries	-11,298
Total	**-4,936**

Data are as at 31/12/09 and are expresssed in thousands of euros.

4.1.2 Exposure to counterparty credit risk

Counterparty credit risk is the possibility that the counterparty in a transaction or trade in derivatives or involving a commitment to repurchase or to lend securities or commodities, or deferred settlement or the financing of collateral, may default on the agreement before final settlement of the cash flows from the transaction or trade.

a) Methodology used to allocate internal capital and set limits on exposures subject to counterparty risk

The Banco Sabadell Group manages counterparty risk in a way which is generally consistent with its management of credit risk according to different counterparty types. The most significant difference is that to determine the value of its exposure to counterparty risk it makes use of an internal model, similar to the regulatory one, which uses the positive value of the sum of the replacement value of the transaction and an additional amount based on an estimate of its potential future value.

The replacement value of the transaction is generally determined from published market prices or, failing these, by means of recognized valuation techniques.

For financial market transactions, the majority of counterparties in transactions involving counterparty risk are financial institutions; these are subjected to the normal risk management and control procedure that is applied to the banking industry and broadly consists of:

- Risk management based on a system of preset limits, which is reviewed at least once every year by the Risk Control Committee. The Committee, after considering recommendations from the Risk Department, sets maximum exposure limits for each counterparty, with sub-limits for each risk-originating unit or department and for different products and maturities.

  When setting maximum exposure limits the Group takes into consideration such factors as the credit rating of each firm calculated according to its internal model, the long-term credit ratings assigned by external rating agencies, Banco Sabadell's own capital and that of other institutions. Finally, a country ceiling is set which specifies maximum levels of risk based on the credit ratings of the countries in which counterparties are based.

- Transaction monitoring in real time by a specialized, independent unit using an advanced system, to ensure that all transactions comply with specified limits. Any transaction that would exceed current limits is required to undergo a special approval procedure.

The method used to determine the value of exposure to counterparty risk for internal capital allocation purposes is the same as that used to determine regulatory capital: the value, if positive, of the sum of the replacement value of the transaction plus an additional amount fixed by regulation as a proxy for the future value. The internal capital assessment and allocation process is consistent with the economic model for credit risk that is applicable for the Group as a whole.

b) Policies to ensure the effectiveness of collateral and to make impairment adjustments to cover against counterparty risk

To mitigate exposure to counterparty risk, the Group has contractual netting rights and agreements in place with the majority of financial counterparties with which it trades in derivative instruments, as well as collateral agreements that ensure that any risk incurred is significantly reduced.

To ensure that the collateral is fully effective, contracts entered into with counterparties make use of ISMA and ISDA agreements and the ISDA Credit Support Annex (ISDA-CSA) where ISDA-developed contract documents are being used. Although these documents are the standard instruments used by the market to provide security, the Group's Risk Department and Legal Department are both involved in the negotiation of contract clauses to ensure that the legal framework necessary for the netting or offsetting of transactions is in place.

In addition, a variety of controls on transactions and exposure levels are carried out by the Risk Department on a regular basis so that assessments are available at all times of the levels of risk undertaken by the Group and the effect of netting and collateral arrangements on these risk levels.

As for valuation adjustments to cover against counterparty risk, the methods and approaches applied are the general Group procedures described in section 4.1.1.b) above.

c) Policies in relation to the risk of adverse impacts due to correlations

Derivative instruments may, depending on the type of instrument, have adverse effects if the exposure to a particular counterparty is correlated with the credit quality of that counterparty so that when there is a decline in credit quality the exposure is increased.

Strict rules are followed by the Group when accepting transactions of this kind and existing limits may be more stringently applied. However, such effects are minimal since there is no material exposure to counterparties showing such correlations.

d) Impact on collateral agreements in the event of a reduction in the credit quality of the Group

If there was a reduction in the credit quality of the Banco Sabadell Group the impact on practically all of the collateral agreements currently in force would be nil, since the value of the Group's collateral is determined solely by the marked-to-market values of its positions. There is one exception to this, which is that collateral agreements set minimum thresholds on the margin or collateral deposited which are dependent on the credit rating of the firm or institution. This is done by adding a clause which would require the Group to maintain a margin deposit of €10,000,000 with the counterparty if Standard & Poor's credit rating for the Group fell to BB+ or lower.

e) Value of exposure to counterparty risk

The gross positive fair value of contracts is €936,793,000. The positive effect of netting arrangements with other institutions is €1,020,733,000, and the existing credit risk exposure after netting is therefore - €83,940,000. Under its collateral and ISMA, agreements the Banco Sabadell Group has deposited collateral to a value of €101,060,000. The resulting overall credit risk exposure is €17,120,000.

f) Exposure value according to the approach used for calculating minimum capital requirements

For all its credit risk exposures the Banco Sabadell Group uses the market price valuation method to calculate its minimum capital requirement in respect of counterparty risk. The total value of these exposures is €2,174,615,000.

g) Notional value of credit derivative cover and distribution of existing credit exposure

The Group currently has no credit derivative cover and this section is therefore not applicable.

h) Notional value of credit derivative transactions

No transactions in credit derivatives have been carried out by the Group and this section is therefore not applicable.

i) Estimate for alpha

This is not applicable since capital requirements are calculated by the market price valuation method.

4.2 Additional requirements

4.2 1. Standardized approach

The Banco Sabadell Group has been given permission to calculate its capital requirements by the advanced internal ratings-based (AIRB) method for a significant proportion of its credit risk exposures. However, there are some categories and individual exposures for which the Group calculates its capital requirements using the standardized approach.

This section sets out information on the main aspects considered by Banco Sabadell in applying the standardized approach, and the exposure levels assessed by this approach for capital adequacy purposes.

a) Designated external credit rating or export credit agencies. Reasons for any changes.

The Banco Sabadell Group uses the ratings assigned by the three External Credit Assessment Institutions (ECAIs) designated as eligible by the Bank of Spain in determining the risk weights to be applied in its calculations of minimum capital requirements.

The Group’s designated ECAIs are Standard & Poor's, Moody’s and Fitch IBCA, international rating agencies whose ratings are being used by it on a ongoing basis. There have been no changes in relation to any of these agencies.

The process of determining risk weights based on the ratings of ECAIs recognized by Banco Sabadell is in accordance with the provisions of Rule 21 of BSC 3/2008. This is done in the following way:

- If a rating from one ECAI only is available, the risk weight will be determined by reference to that rating.

- If two ECAI ratings are available but would give rise to differing risk weights the more conservative rating will be used.

- With exposures for which more than two ratings are available, the rating used is the more conservative of the two that would produce higher ratings.

The Group does not use ratings produced by any export credit agency.

b) Types of exposure for which ECAI or export credit agency ratings are used

The Banco Sabadell Group makes use of the ratings of its three designated ECAIs for those categories of exposure for which borrowers are normally assigned credit ratings by rating agencies. Broadly speaking the categories for which the Group uses ECAI ratings are exposures to:

- Central governments and central banks.
- Regional governments and local authorities.
- Public sector bodies and other public nonprofit organizations.
- Multilateral development banks.
- Institutions.
- Corporates.
- Guaranteed bonds.
- Securitization exposures.
- Exposures to institutions and corporates with short-term credit ratings.
- Exposures to collective investment schemes.

In the case of Corporates the majority of exposures are assessed under the AIRB approach; in a minority of cases (most of them mandatory exceptions to assessment by internal rating models), however, minimum capital requirements are assessed by the standardized approach with ECAI credit ratings being used for borrowers to which ECAI ratings have been assigned.

For securitization exposures, where applicable (i.e. where risk has been substantially transferred), the Group uses the IRB approach based on external ratings. This makes use of ratings awarded by ECAIs to positions subject to the securitization framework set out in Chapter 4, Section 4, of the Capital Adequacy Circular.

c) Process for assigning public issue credit ratings to comparable securities not included in the trading portfolio

Banco Sabadell does not at present assign public issue credit ratings to comparable assets not included in the trading portfolio for exposures assessed under the standardized approach.

d) Exposure value before and after use of any credit risk mitigation techniques, for each level of credit quality

The following table shows, for each exposure category subject to the standardized approach, the value of exposure to credit and dilution risk net of valuation adjustments due to impairment and provisions and the fully adjusted value, where applicable, of credit and dilution risk exposure after credit risk mitigation techniques:

Exposure value before and after use of any credit risk mitigation techniques, by exposure category

EXPOSURE CATEGORY	NET EXPOSURE	MITIGATED EXPOSURE
Central governments and central banks	4,263,997	5,993,223
Regional governments and local authorities	1,636,622	1,636,622
Public sector bodies and other public nonprofit organizations	2,099,174	2,098,864
Multilateral development banks	0	0
International organizations	3	3
Institutions	6,018,250	4,790,701
Corporates	5,879,922	5,851,585
Retail	5,105,178	4,725,678
Exposure to individuals or companies secured on residential or commercial real estate	3,398,447	3,400,900
Past due exposures	156,618	151,103
High risk exposures	676,847	638,912
Guaranteed bonds	51,721	51,721
Securitization exposures	0	0
Exposure to institutions and corporates with short-term credit ratings	0	0
Exposure to collective investment schemes	6,020	6,020
Other exposures	4,429,495	4,376,962
Total value	33,722,294	33,722,294

Data are as at 31/12/09 and are expressed in thousands of euros.

It should be noted that as required by BSC 3/2008, risk mitigation for exposures assessed under the standardized approach results in more favourable risk weights which are determined on the basis of the credit quality of guarantors. This fact explains why mitigated exposure for the corporate and retail categories shows generally lower values than are shown under net exposure.

It also explains the higher level of mitigated exposure relative to net exposure in the "central governments and central banks" category; here it is the counterparty that is relied on most in the risk mitigation process, since it benefits from a lower risk weight.

The following table shows the exposure value for each risk weight, where applicable, for exposures to credit and dilution risk net of impairment adjustments and provisions and the fully adjusted value, where applicable, of exposure after the application of credit risk mitigation techniques, for each exposure category subject to the standardized approach (except for securitization positions, to which the Group has no exposure subject to the standardized approach and which would have different risk weights under BSC 3/2008).

Exposure value before and after use of any credit risk mitigation techniques, by exposure category for each risk weight

EXPOSURE CATEGORY	RISK WEIGHT																TOT
	0%		10%		20%		35%		50%		75%		100%		150%		
	Net Exposure	Mitigated Exposure	Net Exposure	Mitigated Exposure	Net Exposure	Mitigated Exposure	Net Exposure	Mitigated Exposure	Net Exposure	Mitigated Exposure	Net Exposure	Mitigated Exposure	Net Exposure	Mitigated Exposure	Net Exposure	Mitigated Exposure	Net Exposure
Central governments and central banks	4,177,337	5,921,276	0	0	28,767	28,767	0	0	30,796	30,796	0	0	27,097	12,384	0	0	**4,263,997**
Regional governments and local authorities	305,217	305,217	0	0	1,331,405	1,331,405	0	0	0	0	0	0	0	0	0	0	**1,636,622**
Public sector bodies and other public nonprofit organizations	647,861	647,885	0	0	1,451,300	1,450,966	0	0	0	0	0	0	13	13	0	0	**2,099,174**
Multilateral development banks	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
International organizations	0	0	0	0	0	0	0	0	0	0	0	0	3	3	0	0	**3**
Institutions	2,211	67,239	0	0	5,697,692	4,499,811	0	0	91,011	58,980	0	0	227,336	164,671	0	0	**6,018,250**
Corporates	98	359,837	0	0	286,752	367,639	0	0	104,081	462,856	0	0	5,474,928	4,660,939	14,063	314	**5,879,922**
Retail	0	371,417	0	0	0	0	0	0	0	0	5,105,178	4,354,261	0	0	0	0	**5,105,178**
Exposure to individuals or companies secured on residential or commercial real estate	0	24,504	0	0	0	0	2,864,515	2,844,900	385,050	384,659	0	0	148,882	146,837	0	0	**3,398,447**
Exposures at default	0	0	0	0	0	0	0	0	4,298	4,298	0	0	59,739	59,325	92,581	87,480	**156,618**
High risk exposures	0	0	0	0	0	0	0	0	0	0	0	0	215,308	189,831	461,539	449,081	**676,847**
Guaranteed bonds	0	0	51,721	51,721	0	0	0	0	0	0	0	0	0	0	0	0	**51,721**
Exposure to institutions and corporates with short-term credit ratings	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	**0**
Exposure to collective investment schemes	0	0	0	0	0	0	0	0	0	0	0	0	6,020	6,020	0	0	**6,020**
Other exposures	275,406	296,538	0	0	711,647	711,647	0	0	0	0	0	0	3,442,184	3,368,519	258	258	**4,429,495**
Total value	**5,408,130**	**7,993,913**	**51,721**	**51,721**	**9,507,563**	**8,390,235**	**2,864,515**	**2,844,900**	**615,236**	**941,589**	**5,105,178**	**4,354,261**	**9,601,510**	**8,608,542**	**568,441**	**537,133**	**33,722,294**

Data are as at 31/12/09 and are expressed in thousands of euros

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e) Value of exposures deducted directly from capital

Exposures deducted directly from capital are the result of funding transactions for the purchase of shares and other securities eligible to be counted as part of the Group's capital. The value of these transactions totalled €96,297,000.

4.2.2 The internal ratings-based (IRB) approach

The Banco Sabadell Group has a long history of using internal models to assess and monitor credit risk on its more representative portfolios. Over the last few years it has developed and perfected credit rating and credit scoring tools as well as internal estimates of other risk parameters. With a view to the potential use of these tools as envisaged by the New Basle Capital Accord (NACB), they were submitted for validation as part of a supervisory validation programme set up by the Bank of Spain in 2006 with a first group of financial institutions.

The required qualitative information on these internal models together with details of exposure levels and other related quantitative aspects are disclosed in this section.

4.2.2.1 Calculation of credit risk-weighted exposures by the IRB approach

a) Bank of Spain approval for the use or roll-out of the IRB approach

The following table summarizes the position with regard to credit rating models developed by the Banco Sabadell Group so far as their approval by the Bank of Spain for calculation of minimum capital requirements is concerned:

Exposure portfolios for which Bank of Spain approval has been received for the use or roll-out of internal ratings-based (IRB)approaches

REGULATORY EXPOSURE PORTFOLIO	BANCO SABADELL INTERNAL PORTFOLIO	INTERNAL ESTIMATES USED	INTERNAL RATINGS-BASED APPROACH	CURRENT STATUS
Corporates	Portfolios for which rating methods are used to rate exposures ranging from corporate banking to SMEs and real estate developers	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factors (CCF)	Advanced IRB	Approval given on 01/01/2008
Retail	Credit scoring - mortgages	Probability of Default (PD) Loss Given Default (LGD)	Advanced IRB	Approval given on 01/01/2008
Retail	Credit scoring - consumer loans	Probability of Default (PD) Loss Given Default (LGD)	Advanced IRB	Approval given on 01/01/2008
Corporates	Project finance	Probability of Default (PD)	Supervisory Slotting Criteria	Approval given on 31/12/2009
Institutions	Financial institutions	Probability of Default (PD)	Advanced IRB	Roll-out
Retail	Retailers and sole proprietors	Probability of Default (PD) Loss Given Default (LGD) Credit Conversion Factors	Advanced IRB	Roll-out

Data are as at 31/12/09

As will be seen from the table, the Group has supervisory approval for the regulatory use of internal credit ratings that it has developed to rate exposures in the Corporates and Project finance categories, and for the use of credit scorings to rate mortgage and consumer loans in the Retail portfolio.

In addition using rating models to obtain probability of default (PD) or expected default rate (EDR) estimates for different borrower portfolios, the Group makes its own estimates for loss given default (LGD) and credit conversion factors (CCFs), which have also received supervisory approval.

Having obtained supervisory approval for the regulatory use of the PD, LGD and CCF parameters, the Banco Sabadell Group is now using the AIRB approach to calculate its minimum capital requirements.

Portfolios for which Banco Sabadell has supervisory approval for the use of the IRB approach to calculate its capital requirements for capital adequacy purposes make up 76% of the Group's overall exposure. Such approval was granted on 1 January 2008. Moreover, since 31 December 2009 the Group has been authorized to use the Supervisory Slotting Criteria approach to rate the specialized lending portfolio, which comprises another 3% of its overall exposure.

In addition to the models for which approval has been received, the Group has other credit rating models undergoing a process of validation with a view to supervisory approval being obtained for the regulatory use of these tools. The status of these tools is shown as "roll-out" in the above table. The models are used to rate portfolios of financial institutions and retailers and sole proprietors, which correspond to the supervisory categories referred to as "Institutions" and "Retail" respectively.

b) Internal rating systems

i) Structure of internal rating systems - how internal and external ratings are related

The key elements forming the structure of the credit rating system for which the Group received supervisory approval on 1 January 2008 are summarized below. Other risk management tools are, however, in use and are in the process of being validated so that they can be given supervisory approval.

INTERNAL PD ESTIMATES

Before describing the structure of the internal credit rating systems used to obtain PD estimates, it is important to make a clear distinction between rating and scoring models.

Credit rating models are used to estimate default rates (EDRs) for borrowers belonging, in most cases, to different segments of the corporates portfolio. The models so far approved for the calculation of capital requirements are rating models for Corporates, Real estate developers and Project finance and provide estimates of borrower PDs. These are updated periodically in accordance with the Group's policy applicable to each case.

Credit scoring models, on the other hand, are used in the process of assessing and approving mortgage loans (mortgage credit scoring) and consumer loans (consumer credit scoring), mainly in the retail category. They provide PD estimates throughout the life of the loan based on data analysed at the approval stage. For this reason, unlike credit ratings, they are static in character.

The Group subjects all of its models to a continuous process of monitoring and internal validation so that they are kept updated and under constant review.

CREDIT RATING - CORPORATES

Corporate credit rating, originally developed in the year 2000, is an internal model which is notable for the fact that it incorporates factors selected as a result of a purely statistical analysis as well as a number of factors based on the practical experience the Group's risk managers (account managers and risk analysts).

Banco Sabadell uses different credit rating models according to a number of key factors: the size of the borrower (as determined approximately by turnover), the business sector in which it operates (real estate developers, industry or services) and the nature of its relationship with the Group (new customer, customer).

The models are structured according to a modular pattern which, depending on the amount of data available for the customer, may be of the following type:

- Financial module: this focuses on factors derived from the borrower's financial statements; these factors are intended to capture certain aspects of the borrower's economic and financial position (profitability, liquidity, solvency, efficiency);

- Qualitative module: measures factors based on the practical experience of account managers and risk analysts - the system used by the Group in its risk management process. The module relies on factors designed to evaluate the business aspects that feed into the risk management process, such as the strength of a company's management team and its competitive position in the market.

- Credit data/CIRBE module: this analyses factors linked to credit risk data for borrowers on the system, as recorded in the Bank of Spain's central credit register (CIRBE) and on the Group's own systems.

- Adjustment module: takes account of other factors such as the nature and degree severity of default.

These factors and modules combine to generate a final score for each borrower which enables borrowers to be ranked according to their propensity to default. These scores are associated with PD levels by means of a calibration system.

CREDIT SCORING - MORTGAGE AND CONSUMER LOANS

Mortgage and consumer scoring was originally developed in 1994 and underwent a comprehensive review in 2002. It consists of internal models which are used to approve loans to retail customers and provide assessments of the level of risk associated with loans at the time they are granted.

Taking a modular approach, these credit scoring models make use of data on the key variables that determine the viability or otherwise of loans under consideration. The data includes:

- Transaction details: These include factors allowing data such as the term and purpose of the loan to be fed into the models.

- Socio-economic profile: This covers factors related to the borrower's social and demographic background.

- Relationship with the Group: This feeds into the loan appraisal process such factors as the depth of the commercial relationship with the borrower and the Group's experience of the borrower's payment history.

- Economic data: This module provides the loan approval process with details of the borrower's cash position and borrowing capacity.

- Security/collateral: This module is of particular importance in mortgage lending. It provides the scoring models with data on the property or other collateral that will be used to secure the loan.

The final output of the mortgage or consumer loan scoring process is used to rank the credit quality of loans by their scores; these scores are then matched with their associated PDs by a process of calibration.

To supplement these modules, the Group has developed a system of behavioural scoring which is already in operation for internal risk management purposes and means that credit scores assigned to loans at the approval stage can be regularly updated.

As indicated above, for each internal rating system being operated within the Group, the outputs of the algorithms incorporated in them are used to produce an ordering of borrowers (in the case of credit rating) or of loans (in the case of credit scoring) by means of a calibration process which assigns a PD to each borrower or transaction.

The Group is thus able to make comparisons among the outputs of the modules incorporated into each rating system by using a master scale, since this allows the scores assigned to different default rates to be standardized so that comparisons can be made between customers in different portfolios.

INTERNAL LGD ESTIMATES

When a loan or payment is in arrears and action is initiated to recover the amount due, the Group does not necessarily lose the whole of the amount of the debt. What the loss given default or LGD measures is, in fact, the loss as a percentage of the amount owing, taking account of any amounts recovered, the costs incurred in the recovery process, and the time value of money.

To calculate LGD the Group uses the “LGD workout” method which enables the degree of severity of troubled loans to be determined. Once this calculation has been made, the LGD is decomposed into specific pools, usually according to the type of loan and the type of guarantee securing it.

Following the guidelines provided by the NACB framework and given the limitations associated with the unifactorial nature of the model underlying the formula for calculating minimum capital requirements, the Group uses its internal estimates of downturn loss given default (DLGD), that is, estimates of the LGD that would result from a severe cyclical economic downturn, increasing the LGD workout value (the average of historically observed LGDs in the Group's loan default portfolio) and thus taking a conservative approach.

This type of estimate is especially important in relation to exposures secured by mortgages, where the value of the security is reduced by assumptions based on scenarios of sharply falling house prices.

INTERNAL CCF ESTIMATES

In lending to customers with variable exposure levels where default situations have occurred, there is empirical evidence that shows a steadily increasing use of exposure in the period leading up to a default. This can be explained, in part, by the worsening of the borrower's financial position and a consequently increasing need for funds, resulting in a higher utilization of available credit facilities.

For situations of this kind the NACB proposes that banks should make estimates of "credit conversion factors" (CCFs) for loan agreements where a financial institution, because of a contractual commitment to a borrower, is unable to refuse any further finance until a certain limit is reached, even in situations where prudential considerations would argue in favour of calling in all outstanding loans.

With loan agreements of this type the exposure at default (EAD) used to calculate capital requirements is worked out from the amount drawn down or the current exposure associated with the transaction, plus an estimate of the increased utilization of the facility in the 12 months preceding a hypothetical entry into default by the borrower. This estimate is obtained by calculating a CCF.

The Group performs this calculation using statistical techniques designed to reflect the factors that explain the increased use of facilities by defaulting borrowers, based on available data based on past experience. These estimates are carried out separately for the different types of lending where the loan amount is variable (e.g. loan facilities, avals or third party guarantees, factoring, etc.).

ii) Use of internal estimates for purposes other than calculation of capital requirements

A key principle in the use of internal rating systems to estimate PDs for different borrower portfolios as well as LGD and CCF parameters, is that these systems should not be seen exclusively as tools for calculating minimum capital requirements but also as tools for day-to-day use in ongoing risk management processes. Within the Group, some of these other uses are:

- Loan approval: So far as credit rating models are concerned, the process of agreeing loans is based on the Banco Sabadell Group risk management system. Discretion limits within the credit risk approval process are set on the basis of expected loss, a variable which helps to improve the ongoing monitoring and control of risk in the loan portfolio. In the same way, expected loss calculations make use of the internal estimates available to manage the PD and LGD parameters and the CCF (through EAD).

  With regard to credit scorings, the results of the scoring process are of use, along with enquiries on internal and external databases of loan defaults and the opinions of account managers based on their personal experience, in deciding whether to grant or refuse loan applications.

- *Pricing*: One element in the pricing of lending transactions, and an integral part of their cost, is the risk premium. The risk premium incorporates a PD that is estimated on the basis of internal credit ratings and thus reflects the credit quality of each borrower.

- Returns and limits: By analysing returns at individual customer level a risk-adjusted return on capital (RaRoC) is calculated for each customer. The calculation is based on the borrower's credit rating and on estimates of the LGD and EAD parameters. Internal ratings from customers' credit assessments are also used implicitly in fixing credit limits.

- Economic capital: So far as credit risk is concerned, the Group uses its PD, LGD and EAD estimates for the calculation of economic capital, along with its own correlation estimates. This is a key tool in analysing the degree of risk concentration in a portfolio.

- Risk monitoring: The credit ratings of borrowers play a vital part in the setting of alerts as part of the risk monitoring process. The lower a credit rating, the higher the frequency at which the rating will be reviewed.

- Recovery procedure: Estimates of LGD come into play in reverse through the effect of recovery rates delivered by the recovery management process.

- Other risk management processes: In addition to the many uses listed above, credit ratings are an input to the tolerance levels in bill discounting facilities (that is, the permitted overuse of the facility increases with the customer's credit rating) and to decisions on granting authorized overdrafts to holders of current accounts (dependent to a large extent on the customer's credit rating).

- Risk management reporting: Internal estimates also play a part in risk management reporting, as in the reporting of risk volume data, where internal estimates enable portfolio risk profiles to be analysed at different levels of disaggregation.

iii) Management and recognition of credit risk mitigation (CRM)

As part of its normal credit risk assessment and approval procedures, the Group places great emphasis on the provision, management, and legal perfection of effective guarantees to secure its lending.

The processes by which the Group manages and recognizes credit risk mitigation are described in detail in section 4.2.4. below. In line with the rules on permitted techniques for mitigating credit risk described in BSC 3/2008 Chapter 3, the Group's credit risk mitigation (CRM) techniques consist broadly of two types of guarantee:

- CRM techniques based on collateral: This category includes mortgages, pledges of property or securities held in deposit and netting agreements between banks in the context of financial market operations.

- Personal guarantees and credit derivatives: This category comprises CRM instruments based on credit insurance and third party guarantees since the Group does not currently use credit derivatives as a technique for mitigating credit risk.

Banco Sabadell sets a high priority on effective management and monitoring of guarantees from the legal and operational standpoints, with the aim of ensuring that guarantees remain legally valid and enforceable and that a range of procedures and controls are in place to verify that they are properly documented, registered and tracked on the Group's information systems.

Finally, for the calculation of minimum capital requirements for the IRB-rated exposures that are the subject of this section, the Banco Sabadell Group has been granted permission to use its own LGD estimates as a CRM technique. In the LGD estimation process, guarantees are used as a key element in identifying pools of loans that show similarities in their observed loss severities.

iv) Control systems for internal rating systems, including a discussion of rating system independence, accountability and review procedures.

The Banco Sabadell Group has an ongoing control system in place, consisting of three layers:

- Continuous monitoring by the teams responsible for developing credit rating and measuring systems.

- An independent, comprehensive system of internal validation of all aspects having a bearing on internal rating models (databases, methodologies, uses, corporate governance environment etc.).

- Internal audit, which is responsible for supervising the work of the other layers.

MONITORING OF INTERNAL RATING TOOLS

The teams responsible for developing the models that support the Group's credit rating and scoring systems are aware of the importance of internal ratings-based systems and how their effectiveness can vary over time. Consequently, they subject these systems to constant monitoring with a view to obtaining a measure of how reliable they are and how they have changed over time. The results of this monitoring will make it possible to set up mechanisms to ensure that rating-based systems are being effectively applied to their respective portfolios. These controls include predictive power and backtesting analysis of the risk parameters produced as outputs of credit rating systems.

In addition, numerous internal controls are systematically carried out, including the following:

- Every month risk analysts examine a proportion of the loans approved within certain discretion levels to verify that the documentation, the approval criteria and the basis for assigning the credit rating are correct and that the details have been properly entered into the risk management systems.

- Where the borrowing of an uncooperative customer exceeds a certain limit a check is made, *inter alia*, of the customer's details and how the credit rating was arrived at, with a view to drawing appropriate conclusions and improving the credit rating process.

- Rating systems are subjected to controls to see that rating procedures are operating correctly and that the information being stored is correct. Controls may be either ex ante (i.e. internal, automatic controls that take place before or simultaneously with the calculation of the credit rating by the rating system) or ex post (i.e. carried out in batches on a monthly basis and designed to ensure consistency in the calculation of ratings and check that they have been stored properly).

INTERNAL VALIDATION

One objective in validating rating systems is to verify, at least once a year, certain minimum requirements that rating systems must satisfy. These relate to system design and construction, methodology and risk discrimination ability, and the validity of the risk factors that can be derived from them as end results. The conclusions reached in this exercise are reflected in regular validation reports for each internal rating system. These reports carry opinions on the fitness or otherwise of the rating system for its intended purpose.

The Group has taken steps to ensure that the department responsible for internal validation remains fully independent from the departments that develop the internal models and estimate the risk parameters and those who actually use the models.

The principles set out in the Group's Validation Framework are very clear in requiring that approval from the internal validation department be obtained before any change in the methodology of an internal rating or internal risk estimation system can be implemented. This provides an additional safeguard so far as the internal control of internal rating systems is concerned.

Moreover, the results of the validation process are reported to the Chief Financial Officer and the Global Risk Committee, thus facilitating senior management participation in the process of monitoring and controlling the Group's internal models.

INTERNAL AUDIT

The internal rating systems used by the Banco Sabadell Group are the subject of regular reports prepared by Internal Audit in accordance with Bank of Spain guidelines. Minimum requirements as to the content of these reports cover such aspects as integrity in managing internal credit rating systems (how they are used, compliance with relevant regulations, review of control procedures, etc.) and databases (data integrity, documentation, data processing and storage controls, etc.) and the IT environment (applications and processes used, integration with other Group systems, etc.).

Internal Audit has full independence of action in carrying out its mission since it forms part of a Banco Sabadell department that is completely independent from the departments responsible for originating exposures and for developing, monitoring and validating the models used in its internal credit rating systems.

A series of regular reviews is also carried out on aspects related to effective risk management and, consequently, to internal rating systems. An important part of Internal Audit's review function is the performance of (risk control-related) audits of the Group's central services building; branch-level audits (e.g. to verify the accuracy and relevance of data input to internal credit rating systems); IT audits (such as migrations, system security and process outsourcing); and audits of operational risk (risk analysis and management, loan approval and monitoring, administrative handling of transactions, avals, etc.), and other independent reviews (e.g. general IT controls or reviews of specific processes).

c) Internal ratings - the mapping process

The process of mapping internal ratings in terms of PDs involves a matching exercise in which homogeneous pools of exposures are assigned internal PD levels based on the Group's past experience. This section describes the mapping process for those of the Banco Sabadell's internal risk management models that have been given regulatory approval.

CORPORATES

For this exposure category the Group has been given approval for the regulatory use of internally developed ratings for corporate portfolios. The ratings mapping process is based on identifying groups or "pools" of borrowers whose risk characteristics make them reasonably similar to each other while differentiating them sufficiently from other borrower groups. These pools are identified by statistical techniques which assure sufficient degrees of similarity within, and differentiation between, different borrower groups.

Once pools have been identified, correspondences are established between them and their internal PDs through the use of long-term or central trends whose historical depth will depend on the purpose for which the estimates are to be used. For risk management purposes, central trends are calculated on a point-in-time basis, which shows the closest match with the Group's recent experience of customer defaults and is therefore most suitable for use internally. For regulatory purposes the Group, as required by BSC 3/2008, calculates central trends on a through-the-cycle basis and makes its estimates based on the period 1991-2007 as the most recent full economic cycle experienced by the Spanish economy. These estimates can be regarded as representing the long-term observed default rate.

To ensure that borrowers can be reliably distinguished according to their propensity to default, the internal rating mapping process reflects the way the rating models are structured. This means that the calibration process is applied to each of the algorithms designed to grade corporate borrowers based on the borrower's size, economic sector and degree of relatedness to the Group.

RETAIL

Loans classified in the exposure category "mortgages on residential or commercial real estate" are approved on the basis of a mortgage credit scoring system developed by the Group. The reactive nature of the application scoring system means that the mapping of ratings is achieved by matching the ages of loans with their PDs based on the Group's past experience.

In a way similar to that described above for Corporate exposures, a statistical algorithm is applied to each loan age segment with the aim of identifying homogeneous pools to which to assign internal PD levels.

For retail exposures classified in the "Other" category, the Group has been given approval for the use of consumer credit scoring for regulatory purposes. In this kind of scoring the internal rating process follows a very similar pattern to that described above in relation to mortgages.

With the aim of optimizing its use of PD estimates, whether for internal or regulatory purposes, the Group has introduced internal mapping processes for both retail categories.

EQUITY

For exposures classified as equity the Group uses the simple risk weight method for calculating capital requirements. This consists of applying a series of risk weights according to the nature of the equity interest held (quoted or unquoted - subdivided, in the latter case, into well diversified portfolios and other instruments).

The aim of the internal rating mapping process is therefore to establish correspondences between the Group's equity investments subject to minimum capital requirements and the applicable risk weights as required by the Capital Adequacy Circular.

For risk management purposes Banco Sabadell also has a procedure for assigning rating grades based on the Group's own ratings and internal PD mappings.

d) Exposure values by category

The following table shows a breakdown, by exposure category, of credit and dilution exposure subject to weighting in accordance with BSC 3/2008. The table also shows the values, where applicable, of exposures to credit and dilution risk subject to weighting under BSC 3/2008, for which the Group uses its own loss given default (LGD) or CCF estimates:

Value of exposure subject to internal ratings-based (IRB) approach, by category

EXPOSURE CATEGORY	EXPOSURE	EXPOSURE WITH INTERNAL ESTIMATES OF LGD OR CCF
Central governments and central banks	0	0
Institutions	0	0
Corporates	41,394,484	38,828,272
Retail	18,085,058	18,085,058
Equity	1,227,210	N/A
Securitization positions or exposures	0	N/A
Other assets not of a financial nature	0	0
Total value	60,706,752	56,913,330

Data are as at 31/12/09 and are expressed in thousands of euros.

For the "Equity" category and the "Project finance" internal portfolio within the "Corporates" category, minimum capital requirement calculations do not make use of internal estimates of LGD or CCF.

e) Exposure to Central governments and central banks, Institutions, Corporates and Equity by borrower grade

Since the Banco Sabadell Group does not apply grades to the Central governments and central banks, Institutions or Equity categories, the following table shows a breakdown of the Group's exposure to credit and dilution risk subject to weighting in accordance with BSC 3/2008 by borrower grade (including default) for the corporate borrower category only. Project finance has been excluded because internal estimates of LGD and CCF are not used with this portfolio. Exposure values are shown in thousands of euros. The table also shows weighted average LGDs and exposure-weighted average risk weights (both in percentage terms) and the values of undrawn loan commitments and weighted average exposures to undrawn loan commitments (both in thousands of euros).

Credit risk measured by the internal ratings-based (IRB) approach, by borrower rating grade for Corporate borrowers*.

BORROWER RATING GRADE	EXPOSURE (€'000)	EXPOSURE-WEIGHTED AVERAGE LGD (%)	EXPOSURE-WEIGHTED AVERAGE RISK WEIGHT (%)	UNDRAWN LOAN COMMITMENTS (€'000)	WEIGHTED AVERAGE EXPOSURE TO UNDRAWN LOAN COMMITMENTS (€'000)
GRADE 8	1,075,935	47.31%	12.40%	1,267,469	463,250
GRADE 7	3,931,578	48.59%	34.37%	2,725,248	992,675
GRADE 6	4,953,662	47.58%	58.85%	2,995,701	1,039,078
GRADE 5	5,515,639	35.30%	55.38%	1,585,897	648,677
GRADE 4	7,982,768	35.16%	77.16%	2,510,839	804,843
GRADE 3	6,763,164	35.18%	103.26%	1,258,574	466,094
GRADE 2	4,672,872	28.45%	118.34%	422,192	160,957
GRADE 1	623,467	26.57%	125.98%	77,312	39,045
GRADE 0	1,549,129	27.77%	149.38%	109,216	38,955
DEFAULT	1,760,058	37.06%	123.19%	169,933	45,329
Total value	38,828,272	37.31%	80.86%	13,122,381	4,698,903

** The specialized lending portfolio has not been included as LGD and/or CCF internal estimates are not used.*

Data are as at 31/12/09.

The grades shown in the table are numbered in ascending order according to credit quality, with Grade 8 representing the lowest probability of default (or highest credit quality), and Grade 0 representing the highest probability of default (or lowest credit quality). Exposures in default have a separate default grade.

f) Exposures to retail borrowers by borrower grade

The following table shows a breakdown of the Group's exposure to credit and dilution risk subject to weighting in accordance with BSC 3/2008 by borrower grade (including default) for Retail borrowers. Exposure values are shown in thousands of euros. The table also shows weighted average LGDs and exposure-weighted average risk weights (both in percentage terms) and the values of undrawn loan commitments and weighted average exposures to undrawn loan commitments (both in thousands of euros).

Credit risk measured by the internal ratings-based (IRB) approach, by borrower rating grade for Retail borrowers

BORROWER RATING GRADE	EXPOSURE (€'000)	EXPOSURE-WEIGHTED AVERAGE LGD (%)	EXPOSURE-WEIGHTED AVERAGE RISK WEIGHT (%)	UNDRAWN LOAN COMMITMENTS (€'000)	WEIGHTED AVERAGE EXPOSURE TO UNDRAWN LOAN COMMITMENTS (€'000)
Mortgages	13,987,932	10.78%	21.11%	152,083	50,311
GRADE 8	714,251	11.57%	1.99%	13,626	5,666
GRADE 7	1,300,354	8.67%	2.60%	15,137	1,567
GRADE 6	1,285,579	9.88%	6.49%	17,201	3,272
GRADE 5	4,446,301	9.95%	11.31%	39,934	13,600
GRADE 4	3,834,790	10.18%	17.26%	49,851	10,864
GRADE 3	1,474,810	10.68%	32.24%	7,987	3,114
GRADE 2	285,164	16.24%	73.58%	3,432	2,275
GRADE 1	76,945	15.75%	90.06%	1,854	931
GRADE 0	208,947	15.79%	96.11%	1,787	1,016
DEFAULT	360,790	29.04%	194.30%	1,274	458
Other	4,097,126	36.87%	41.57%	1,003,331	463,419
GRADE 8	135,187	40.99%	5.10%	61,738	29,948
GRADE 7	359,925	43.65%	15.87%	139,107	65,873
GRADE 6	531,904	38.78%	24.46%	210,552	107,583
GRADE 5	849,293	35.32%	34.70%	216,027	107,139
GRADE 4	1,001,983	35.54%	46.26%	197,885	87,589
GRADE 3	556,347	34.42%	52.27%	100,302	37,468
GRADE 2	320,194	33.64%	59.98%	42,174	15,648
GRADE 1	50,523	33.29%	73.70%	3,873	1,685
GRADE 0	147,716	29.94%	75.64%	22,835	8,907
DEFAULT	144,054	52.36%	82.65%	8,838	1,581
Total value	18,085,058	16.69%	25.74%	1,155,414	513,730

Data are as at 31/12/09.

The grades shown in the table are numbered in ascending order according to credit quality, with Grade 8 representing the lowest probability of default (or highest credit quality), and Grade 0 representing the highest probability of default (or lowest credit quality) . Exposures in default have a separate default grade. The decomposition of borrowers into "Mortgage" and "Other" matches the "mortgages on residential or commercial real estate" exposure category defined in the Capital Adequacy Circular.

g) Impairment losses in preceding period and deviation of losses from past experience

The following table shows the expected loss (as a percentage of EAD) on the outstanding loan portfolio at 31 December 2008 for the year 2009 and the actual loss (as a percentage of EAD) in the same period. "Actual loss" for this purpose means specific provisions made in the period.

Impairment losses in preceding period and deviation of losses from past experience

EXPOSURE CATEGORY	EXPECTED LOSS*	ACTUAL LOSS
Corporates	1.81%	1.15%
Retail	0.88%	0.31%

** PD estimates are made according to mandatory principles with cyclical adjustment and cover the period from 1991 onwards.*

Data are as at 31/12/09 and are expressed as a percentage of EAD.

h) Factors influencing loss experience in the previous period

A number of factors combined to influence loss experience during the reporting period; however all of them had their origin in the severe cyclical downturn in the domestic and global economies. Some of the more significant factors are as follows:

- Continuing difficult financial environment: Credit conditions in the eurozone remained relatively stringent although there was some improvement during the year thanks to exceptional, far-reaching economic policy measures taken all over the world. Risk premia in eurozone inter-bank markets have yet to fall back to the levels at which they were before the turmoil broke out in August 2007.

- Weakening labour market: Slowing economic activity continued to cause significant weakening of the labour market, with unemployment rates reaching their highest levels since the inception of European Monetary Union. This impacted heavily on household finances which were also suffering the diminishing wealth effect of falling property prices and continuing high levels of indebtedness.

- Lower investment: Gross capital formation remained at a low level throughout 2009. Investment in plant and equipment, after showing significant falls in the first half of the year, saw an upturn in the second half, helped by improving global economic data. Investment in construction, however, remained depressed all through the year, although with some slowing in the pace of decline. The highest loan default rates were therefore occurring mainly in the construction industry and in property-related activities.

4.2.2.2 Exposures to specialized lending by risk weights

The following table shows the value of the Group's exposure (in thousands of euros) to credit and dilution risk subject to weighting in accordance with BSC 3/2008 for the specialized lending portfolio, by risk weights,

Exposures to specialized lending by risk weight

SET RISK WEIGHT	EXPOSURE
50%	112,232
70%	1,288,070
90%	595,543
115%	473,839
250%	93,536
0%	2,992
Total exposure	**2,566,212**

Data are as at 31/12/09 and are expressed in thousands of euros.

4.2.2.3 Equity exposures by risk weights according to the simple risk weight method

The following table shows the value, where applicable, of credit and dilution risk exposure subject to weighting in accordance with BSC 3/2008 for the Equity exposure category, by risk weights according to the simple weighting method for determining capital requirements.

Equity exposures by risk weight according to the simple risk weight method

EXPOSURE TYPE (AND WEIGHTING APPLIED)	EXPOSURE
Non-market traded equity exposures in well diversified portfolios - RW 190%	890,295
Organized market traded equity exposures - RW 290%	336,915
Other equity exposures - RW 370%	0
Total exposure	**1,227,210**

Data are as at 31/12/09 and are expressed in thousands of euros.

4.2.3 Securitization

a) Objectives of securitization activity

The main objectives pursued by the Banco Sabadell Group in relation to securitization are as follows:

- Liquidity management: Securitization is just one element in the Group's policy of diversification of the sources and maturities of its funding. In its securitization issues over the last few years a substantial proportion of the securities issued have continued to be held in the Group's portfolios to be used as collateral in loan agreements forming part of Banco Sabadell's liquidity management arrangements.

- Balance sheet management: Securitization is also used by the Group as a way of actively managing its balance sheet: to the extent that an effective transfer of risk occurs, a saving in capital and provisions can be achieved. Furthermore, to the extent that risk is effectively transferred securitization helps to bring about balance sheet diversification.

- Risk management: Another of Banco Sabadell's objectives in relation to securitization has to do with its potential utility in managing credit risk and structural interest rate risk, provided that an effective transfer of risk actually occurs.

To achieve the above objectives Banco Sabadell uses securitization transactions primarily as a tool for creating assets acceptable by the European Central Bank as collateral for Eurosystem credit operations. The Group retains most of its issues of asset-backed bonds on its balance sheet so as to be able to use them as collateral to secure liquidity in the context of the Eurosystem’s monetary policy operations.

b) Roles played in the securitization process and the extent of the Bank's involvement in each

The main roles played by Banco Sabadell in securitization processes have been as follows:

- Transferor: In recent years the Group has participated in a number of securitization programmes in which, alone or, on occasion, in conjunction with other lenders of good standing, it has transferred portions of its residential mortgage loans, loans to small and midsize enterprises (SMEs), corporate loans and finance leasing receivables to be converted to mortgage- or asset-backed securities.

- Securitization portfolio manager: The Group has acted as the manager of its securitized assets, handling the collection of principal and interest payments and providing servicing for its issues of mortgage- and asset-backed securities.

- Finance provider: In some cases Banco Sabadell may act as a provider of funding for securitization funds related to subordinated loans for the setting up of reserve funds or loans to finance the initial expenses involved in setting up such funds.

- Swap counterparty: The Group has also acted as a counterparty in swap arrangements with securitization funds to mitigate the funds' interest rate risk exposure.

The Banco Sabadell Group has not acted as a sponsor in any of the securitization issues that it has carried out, where its role has mainly been that of a transferor. Nor has it undertaken any synthetic securitization or participated in any structures of the Special Investment Vehicle (SIV) or conduit type, which generally involve commitments on the part of the transferor with respect to the securitized assets.

c) Methods used to calculate risk-weighted securitization exposures

The method used to calculate risk-weighted exposures arising from the Group's securitization activities depends on whether or not the conditions are satisfied for the risk to be considered as having been substantially transferred, as required by Rules 55 and 56 of the Capital Adequacy Circular.

For securitizations where a transfer of risk has effectively taken place, and for securitization exposures held for investment purposes, the Banco Sabadell Group uses external ratings - the ratings-based approach (RBA).

Where a transfer of risk has not effectively taken place capital requirements are calculated on the original exposures that have been securitized, according to the exposure portfolio and the approach (standardized or IRB) to which each portfolio is assigned at source.

d) Aggregate securitization exposure by exposure type and risk weight band

As of 31 December 2009 the Group did not have any securitization exposures that fulfilled the criteria for the risk to be considered as having been substantially transferred within the meaning of Rules 55 and 56 of the Capital Adequacy Circular.

e) Information on the Group's role as an originator

i) Summary of accounting policies in relation to securitization

DERECOGNITION OF SECURITIZED ASSETS - PRINCIPLES

Securitization transactions are treated for accounting purposes as transfers and financial instruments derecognized on the balance sheet.

Financial assets are only derecognized on the balance sheet when the cash flows generated by the assets have ceased or when substantially all of their risks and rewards have been transferred. Similarly, financial liabilities are derecognized only when the obligations generated by the liabilities have expired or are acquired for settlement or resale.

In recent years the Banco Sabadell Group has undertaken a number of securitization programmes, either alone or in partnership with other highly rated domestic and foreign banks.

CRITERIA FOR RECOGNITION OF GAINS AND LOSSES ON ASSETS REMOVED FROM THE BALANCE SHEET

Gains or losses in the carrying value of securitized assets and the amount received on derecognition are recognized in profit and loss.

KEY ASSUMPTIONS FOR VALUING RETAINED INTERESTS IN SECURITIZED ASSETS

Assets and liabilities held in securitization funds set up after 1 January 2004 and for which the risks and rewards were not transferred to third parties have been retained in the consolidated financial statements. The retention of the exposure resulted from the granting of some form of subordinated financing or credit enhancement to the securitization funds.

TREATMENT OF SYNTHETIC SECURITIZATIONS NOT COVERED BY OTHER ACCOUNTING POLICIES

No synthetic securitizations have been carried out to date. This section is therefore not applicable to the Group.

ii) External rating agencies used for securitizations and the type of exposure for which securitization has been used

A table listing the Group's securitization funds, along with the year of issue and the ratings of different ECAIs, where applicable, for each tranche is provided at Annex II.

iii) Past due exposures (outstanding balances) and provisions made, by type of asset securitized

The following table shows the current values, where applicable, of the Group's current securitization (traditional or synthetic) exposures subject to weighting in accordance with BSC 3/2008 that are impaired or past due and the associated provisions made, by type of asset, for all Group-originated securitizations.

Impaired and past due exposures (outstanding balances) and provisions made, by type of asset securitization.

ASSET TYPE	OUTSTANDING BALANCE		IMPAIRED AND PAST DUE EXPOSURES*	NET PROVISIONS
	TRADITIONAL SECURITIZATIONS	SYNTHETIC SECURITIZATIONS		
Residential mortgages	2,966,253	0	15,445	8,169
Commercial mortgages	0	0	0	0
Credit cards	0	0	0	0
Finance leases	1,868,609	0	41,644	27,767
Loans to corporates or SMEs (treated as corporates)	5,477,637	0	159,697	90,264
Consumer loans	0	0	0	0
Claims and receivables (Invoices)	0	0	0	0
Securitization exposures	0	0	0	0
Other	0	0	0	0
Total exposure	10,312,499	0	216,786	126,200

** Include exposures impaired due to customer arrears and for other reasons.*
Data are as at 31/12/09 and are expressed in thousands of euros.

iv) Exposures (outstanding balances) resulting from revolving securitization structures

The following table shows the aggregate outstanding amount, where applicable, of securitization exposures incurred by the Group as an originator and as an investor, for its securitization issues.

Aggregate exposures resulting from revolving securitization structures, from the viewpoint of the originator and the investor

EXPOSURES RESULTING FROM REVOLVING SECURITIZATION STRUCTURES	OUTSTANDING BALANCE
Exposures purchased	0
Exposures retained	256,568
Total value	256,568

Data are as at 31/12/09 and are expressed in thousands of euros.

v) Summary of securitization activity during the period

The following table shows the values, where applicable, of exposures securitized by the Group during the year, and of any recognized gain or loss on the sale.

Summary of securitization activity during the period

ASSET TYPE	SECURITIZED EXPOSURES	RECOGNIZED GAIN/LOSS ON SALE
Residential mortgages	0	0
Commercial mortgages	0	0
Credit cards	0	0
Finance leases	697,723	0
Loans to corporates or SMEs (treated as corporates)	19,456	0
Consumer loans	0	0
Claims and receivables (Invoices)	0	0
Securitization exposures	0	0
Other	0	0
Total value	717,179	0

Data are as at 31/12/09 and are expressed in thousands of euros.

4.2.4 Credit risk mitigation techniques

a) Policies and procedures for, and indication of the extent of the use of, on-balance sheet and off-balance sheet netting

As part of its normal credit risk assessment and approval procedures, the Group places great emphasis on the securing, management and legal perfection of guarantees to secure its on- and off-balance sheet exposures. Subject to the acceptability criteria set out in BSC 3/2008, a substantial proportion of these guarantees are treated as credit risk mitigation (CRM) techniques in the calculation of regulatory capital. Guarantees may be either:

- CRM techniques based on collateral: These make use of security interests in tangible assets, known as collateral, to secure loan and other transactions. This category comprises several subtypes: mortgages, pledged items of property and securities held in deposit; or

- Personal guarantees and credit derivatives: These are mitigation instruments based on credit insurance and personal guarantees held by the Group and written or issued by reputable CRM providers. Banco Sabadell has not made use of credit derivatives as a CRM technique.

Both types of guarantee are used as CRM techniques in the calculation of minimum capital requirements for exposures not treated under the internal ratings-based approach. As described in 4.2.2.1.b) above, for exposures specifically subject to the IRB approach the Group is authorized to use its own estimates of LGD for CRM purposes.

The Banco Sabadell Group also attaches great importance to policies and procedures to provide legal certainty for all guarantees. Accordingly, risk mitigation techniques are framed in contracts that are legally binding on all parties and can be enforced in all relevant jurisdictions, thus ensuring that the security can be realized at any time. The whole contract process is subject to internal review for legal soundness and legal opinions are sought from international experts where contracts are drawn up under the laws of a foreign country.

In addition, the effectiveness of CRM techniques is verified by different types of analysis, including measurements of correlations between CRM techniques and the credit quality of counterparties, to ensure that techniques are both effective and robust. This has led to procedures being designed for different types of guarantee with the aim of evaluating and identifying the tools and resources needed to mitigate the risks incurred in the course of arranging a loan.

Finally, as a control mechanism for any residual risks that could arise as a result of the use of mitigation techniques, various types of analysis are carried out on the way loans are agreed and formally set up. This includes a review of the guarantee/collateral and an appraisal of all matters in dispute or in litigation, where aspects of the guarantee/collateral arrangements will again be assessed.

The combination of these policies and control procedures, and also the separation of functions and areas of responsibility, leave no room for doubt that the guarantees held by the Group satisfy the criteria to be considered valid and hence suitable for credit risk mitigation purposes. The Banco Sabadell Group is, of course, fully aware of the need for proper management and control of CRM techniques and keeps its CRM policies and procedures under constant review with the aim of drawing up action plans to improve those policies should the need arise.

b) Policies and procedures for collateral valuation and management

To provide legal certainty, guarantees involving a charge or security interest in property or assets are drawn up as public instruments and executed before a notary so as to be fully valid and effective as against third parties. A public instrument, in the case of a real property mortgage, will then be registered with the appropriate land registry to make its effectiveness in law and vis-à-vis third parties complete. In fact under Spanish law, unlike in other countries' legal systems, an unsettled mortgage debt is not discharged by the delivery of the mortgaged property (where the value of the asset in which the security interest is held is less than the value of the debt); rather, the mortgagor remains liable to pay the full amount of the loan out of his remaining assets.

Where the security consists of a pledge of cash or securities, the pledged items are normally held in deposit at one of the Group's branches and the pledge cannot be unilaterally cancelled by the borrower, thus ensuring that the guarantee remains effective until the debt has been repaid in full.

For the provision of guarantees (usually in the form of cash) on the interbank market, especially in transactions involving over-the-counter (OTC) derivatives, a collateral agreement known as a ISDA-CSA is normally entered into with the counterparty in accordance with the standard market contract terms and conditions sponsored by ISDA.

The Group has also drawn up management policies to establish proportional limits for lending according to the type of collateral being used as a guarantee. The aim of this is to limit the impact of a possible change in the value of the collateral relative to the risk being secured. Such limits apply mainly to lending transactions secured by pledged transferable securities (such as equities and bonds) or mutual fund shares, and to loan-to-value (LTV) criteria in the case of mortgage loans.

With regard to collateral valuation, in the case of a mortgage the mortgaged assets are valued by an approved firm of valuers at the time the loan is agreed. For this type of security Group policy is to require that insurance be taken out to cover a variety of contingencies, including any event that could affect the asset itself (fire, lightning, explosion, catastrophic damage, etc.) and in certain cases, the credit quality of the borrower (life insurance and payment protection in the event of unemployment). In addition, where a mortgage is used as security for credit facilities to businesses, the value of the mortgaged assets is monitored as part of a process of keeping the borrower's credit rating under periodic review.

For guarantees of a financial nature the assets are subjected to a daily valuation and alerts are set up to warn of any situation where the value of the collateral falls below the amount stated in the contract.

Finally, market transactions covered by netting agreements are subjected to daily valuation and reconciliation and a robust control of risks and exposures is thus maintained at all times.

c) Main types of collateral accepted

In accordance with Rule 39 of BSC 3/2008, the main types of collateral accepted by the Group are:

- Mortgages: This type of collateral refers principally to mortgages on residential, and occasionally commercial, property. To a lesser extent the Group may also accept mortgages on personal property, such as ship mortgages.

- Pledges of cash or securities: The main types of asset accepted as pledges are: deposits in cash (fixed-term deposits and current or savings accounts), debt securities (usually bills of exchange or government securities), equity shares, mutual fund shares, pension plans and, to a lesser extent, other financial assets such as preference shares or promissory notes.

- Netting agreements: In its dealings with other banks, including repo-type and OTC trades, the Group sets up netting arrangements using ISMA and ISDA contracts, including ISDA-CSA annexes.

d) Main types of guarantor/credit derivative counterparty and their creditworthiness

As far as personal guarantees are concerned, the aval is the CRM technique most commonly used by the Group, subject to the guarantor showing adequate proof of his/its creditworthiness.

Guarantor studies show that guarantors are typically companies, personal customers or other financial institutions. The Group also accepts guarantees issued by the Compañía Española de Crédito a la Exportación (CESCE), Spain's export credit guarantee company, and by government agencies.

As for credit derivatives, the Group has not so far made use of these for CRM purposes.

e) Market or credit risk concentrations within the mitigation taken

No concentrations of credit or market risk are present within the counterparties or assets used for CRM purposes. The Group has policies in place to prevent excessive concentrations of risk from building up and these are also applied to counterparties and risk mitigation techniques.

f) Total value of exposure covered, after on- or off-balance sheet netting and volatility adjustments, by guarantee type (for institutions that do not make their own estimates of LGD and CCF only).

This section is not applicable to the Banco Sabadell Group.

g) Total value of exposure, after on-balance sheet and off-balance sheet netting, covered by personal guarantees or credit derivatives

The following table shows, for each exposure category subject to the standardized approach to calculating capital requirements, the amount, where applicable, of exposures covered by personal guarantees (the Group does not use credit derivatives as mitigants).

Total value, for each category of exposure subject to the standardized approach, of exposure after netting (where applicable) of on-balance sheet and off-balance sheet amounts, covered by personal guarantees or credit derivatives

EXPOSURE CATEGORY	EXPOSURE COVERED BY PERSONAL GUARANTEE
Central governments and central banks	14,713
Regional governments and local authorities	0
Public sector bodies and other public nonprofit organizations	310
Multilateral development banks	0
International organizations	0
Institutions	49,255
Corporates	824,255
Retail	380,447
Exposure to individuals or companies secured on residential or commercial real estate	145
Past due exposures	5,225
High risk exposures	32,214
Guaranteed bonds	0
Securitization exposures	0
Exposure to institutions and corporates with short-term credit ratings	0
Exposure to collective investment schemes	0
Other exposures	52,535
Total value of covered exposure	**1,359,099**

Data are as at 31/12/09 and are expressed in thousands of euros.

With exposures subject to the IRB approach, as indicated in earlier sections, risk mitigation is taken into account in arriving at the LGD estimate; these exposures are therefore not relevant to this section.

5 Information on market risk in the trading portfolio

5.1 General requirements

a) Differences between the trading portfolio for the purposes of Circular 3/2008 and the trading portfolio for the purposes of Circular 4/2004.

With regard to market risk in the Group's trading portfolio, there are no differences between the trading portfolio for accounting purposes and for capital adequacy purposes according to the principles set out in the Accounting Circular and the Capital Adequacy Circular.

b) Minimum capital requirements for position risk, settlement and delivery risk and credit and counterparty risk in the trading portfolio

The following table shows the minimum capital requirement, where applicable, for each type of position in the trading portfolio, by type of risk.

Minimum capital requirement in respect of position risk, settlement and delivery risk, and credit and counterparty risk in the trading portfolio

TRADING PORTFOLIO POSITIONS	MINIMUM CAPITAL REQUIREMENT BY RISK TYPE		TOTAL
	POSITION	SETTLEMENT & DELIVERY	
Fixed-income positions	7	0	7
Positions in shares and equity investments	2,390	0	2,390
Commodity positions	0	0	0
Total minimum capital requirement	2,397	0	2,397

Data are as at 31/12/09 and are expressed in thousands of euros.

As the table shows, settlement and delivery risk in the Banco Sabadell trading portfolio is zero and the minimum capital requirement for this type of risk is therefore also zero. No information has been shown for minimum capital requirements in respect of credit and counterparty risk in the trading portfolio since these are already comprised within minimum capital requirements for credit risk subject to the standardized and the IRB approach. Capital requirements for credit risk are disclosed in the table entitled "Total minimum capital requirements" in section 3.a) above.

5.2 Internal models

The Banco Sabadell Group does not at present use internal models to calculate minimum capital requirements for market risk in the trading portfolio. For internal management purposes, however, it does make use of the VaR methodology; this allows the risks of different types of financial market transaction to be analysed as a single class.

VaR provides an estimate of the anticipated potential maximum loss on a position that would result from an adverse movement in any of the identified market risk-generating factors. The Group estimates VaR at a 99% confidence level over a 1-day time horizon.

The reliability of the VaR methodology is validated by backtesting techniques which are used to verify that VaR estimates are within the specified confidence level.

Risk control techniques of this kind are supplemented by special simulation exercises and extreme market scenarios ("stress testing"), the purpose of which is to analyse different macroeconomic scenarios and their possible impact on the trading portfolio.

6 Information on operational risk

a) Minimum capital requirements for operational risk - calculation methods

The Banco Sabadell Group calculates regulatory capital requirements for operational risk by the standardized approach, having been given permission to use this approach by the Bank of Spain on the basis that the Group's internal measurement methodology is compliant with regulatory requirements.

b) Advanced measurement approaches and internal and external factors considered in the Bank's measurement approach

The Group has its own methodology for an advanced measurement approach (AMA). This is now being used to manage operation risk.

The methodology is currently undergoing a validation process with a view to obtaining supervisory approval so that it can be used to assess operational risk minimum capital requirements.

The Banco Sabadell Group's internal methodology is based on estimates of an operational risk loss function. This provides a measure of expected and unexpected losses and is obtained by statistical techniques which convolute frequency and severity distributions to arrive at the loss function.

The Group's internal model for operational risk is based on the following elements:

- Internal loss database: A repository of information on all loss events due to operational risk recorded since 2002. This is updated by operational risk coordinators and managers from time to time, as new events occur.

- External databases: Another input into the loss function calculation, apart from the loss experience of Group companies, is data held by consortia of banks both nationally (Spain's Consorcio Español de Riesgo Operacional, CERO) and worldwide (Operational Risk Exchange, ORX), which provide standardized, comparable data on operational risk events.

- Self-assessment and scenario analysis: Also considered within the loss measurement process are the results of qualitative assessments of operational risk exposure carried out periodically by operational risk coordinators and managers. These assessments also involve an examination of a series of "what if" scenarios whose purpose is to enable operational risk experts to carry out an assessment of risks which also takes account of the internal control environment within the Group.

From these elements a distribution of operational losses is calculated for each cell on a matrix of risk types and business lines.

The different elements that make up the operational risk management framework are reviewed periodically by the internal audit and internal validation teams. The findings of these reviews are reported to the Operational Risk Committee, which is responsible for deciding on strategy and policies for managing operational risk within the Group and includes members of Senior Management.

7. Information on equity investments and equity instruments not included in the trading portfolio

a) Portfolios held for sale and portfolios held for strategic purposes

Equity investments and equity instruments not included in the trading portfolio are registered by the Group in one of two accounting categories: available-for-sale financial assets, which are assets held with a view to sale or as strategic investments that do not fulfil the "significant influence" criterion; and equity investments in unconsolidated companies, which are equity investments that do fulfil the "significant influence" criterion.

The following table shows the exposure value, where applicable, of each portfolio for both equity investments and equity instruments:

Exposures in portfolios held for sale and portfolios held for strategic purposes

EXPOSURE TYPE	EXPOSURE BY TYPE OF PORTFOLIO			TOTAL
	LONG-TERM INVESTMENT PORTFOLIO	AVAILABLE-FOR-SALE FINANCIAL ASSETS	OTHER FINANCIAL ASSETS THROUGH PROFIT OR LOSS	
Equity investments and other strategic investments	710,440	175,910	0	886,350
Equity instruments	0	920,768	0	920,768
Total exposure	710,440	1,096,678	0	1,807,118

Data are as at 31/12/09 and are expressed in thousands of euros.

b) Accounting policies and valuation methods for equity instruments

AVAILABLE-FOR-SALE FINANCIAL ASSETS

This category includes debt securities and equity instruments that are not designated as held-to-maturity investments or financial assets at fair value through profit or loss, loans and receivables, or financial assets/liabilities held for trading or of entities that are not subsidiaries or associates of, or jointly controlled by, the Group.

Available-for-sale financial assets are measured at their fair value. Changes in value are temporarily recorded, net of tax, under valuation adjustments in consolidated equity, unless they are due to foreign exchange differences arising on monetary financial assets. Amounts recorded as valuation adjustments continue to be included in consolidated equity until the asset from which they have originated is derecognized on the balance sheet, at which time they are credited to or charged off against profit and loss.

EQUITY INVESTMENTS IN UNCONSOLIDATED COMPANIES

Associated undertakings are entities over which the Group is able to exercise a significant influence which is generally, but not exclusively, manifested through a direct or indirect interest that gives the Group 20% or more of the voting rights. In the consolidated accounts associates are accounted for by the equity method, that is, according to the fraction of the equity represented by the Group's shareholding, after taking account of any dividends received from the associate and other eliminations.

c) Carrying value and fair value of equity investments and equity instruments not included in the trading portfolio

Equity instruments included in the portfolio of **available-for-sale financial assets** are recorded at their fair value which in this case is the same as the carrying value of the instruments and totalled €1,096,678,000 at 31 December 2009. Strategic investments accounted for €175,910,000 of this total.

Equity instruments classified as **Equity investments in unconsolidated companies** are recorded according to the fraction of the shareholders' equity represented by the Group's holding, after taking account of any dividends received from the associate and other eliminations; for this reason, the carrying value may be at variance with the fair value, which at 31 December 2009 totalled €710,440,000. The range of variation between the carrying values and the fair values of associated undertakings is disclosed in g) below.

d) Type, nature and value of exposures related to equity investments and equity instruments quoted and unquoted on a securities market

The following table shows the values, where applicable, of exposures to equity investments and equity instruments not included in the trading portfolio, broken down by nature and type.

Type, nature and amounts of exposures in respect of equity investments and publicly and non-publicly traded equity instruments, showing positions included within well diversified portfolios and other non-publicly traded instruments

TYPE	AMOUNT BY TYPE OF EXPOSURE		TOTAL
	EQUITY INVESTMENTS & OTHER STRATEGIC INVESTMENTS	EQUITY INSTRUMENTS	
Publicly traded instruments	175,910	161,005	336,915
Non-publicly traded instruments	710,440	759,763	1,470,203
Of i) Instruments held in well-diversified portfolios	710,440	759,763	1,470,203
ii) Other non-publicly traded instruments	0	0	0
Total exposure	**886,350**	**920,768**	**1,807,118**

Data are as at 31/12/09 and are expressed in thousands of euros.

e) Realized gains or losses during the period arising from sales or settlements of equity investments or equity instruments not included in the trading portfolio

Gains or losses recognized during the period as a result of the sale or settlement of equity instruments classified as **available-for-sale financial assets** totalled €26,672,000 (recorded under "income from trading" in the profit and loss statement for the year).

Gains or losses recognized during the period as a result of the sale or liquidation of equity instruments classified as **equity investments in unconsolidated companies** amounted to €19,324,000.

The **overall gain on the sale or liquidation** of equity positions during the period was €45,996,000.

f) Gains or losses recognized in equity, showing amounts of gains or losses included in eligible capital

The following table shows the values, where applicable, of gains or losses recorded in equity and the amounts of gains or losses included in eligible capital, for Equity investments in unconsolidated companies and for Available-for-sale financial assets, including strategic investments without any significant influence.

Gains / losses recognized in equity, showing amounts included in eligible capital

TYPE OF EXPOSURE	TOTAL	INCLUDED IN ELIGIBLE CAPITAL	
		TIER I	TIER II
Equity investments in unconsolidated companies	0	0	0
Available-for-sale financial assets*	1,624	0	731
Total	**1,624**	**0**	**731**

** Includes other strategic investments.*

Data are as at 31/12/09 and are expressed in thousands of euros.

The amounts included in Tier I capital comprise valuation adjustments in available-for-sale equity instruments.

g) Unrealized gains or losses not recognized on the balance sheet

Unrealized gains or losses not recognized on the balance sheet are estimated by comparing the carrying values of Group equity investments with their market values. For the great majority of equity investments the unrealized gain was within a range of 18% and 50%.

8. Information on interest rate risk arising from positions not included in the trading portfolio

The Banco Sabadell Group considers interest rate risk to be a normal part of customer-based commercial and corporate banking operations and manages it, together with liquidity risk, within a structural balance sheet management framework. A primary aim of this approach is to maintain stability of net interest income and an appropriate degree of liquidity and capital strength.

a) Nature of interest rate risk, key assumptions and frequency of measurement

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

The management of interest rate risk requires an assessment system based on a number of methodologies:

- One is to measure the **sensitivity of net interest income** to changes in interest rates over a one-year horizon. This is done by means of static (repricing gap) or dynamic (net interest income simulation) tests based, in the latter case, on different assumptions about balance sheet growth and changes in the slope of the yield curve.

- Another technique used is to measure the **sensitivity of equity** (economic value) to changes in interest rates by duration gap analysis. This measures the effect of interest rate movements over a longer time horizon.

Balance sheet sensitivity to changes in rates of interest has been analysed on the basis of transactions outstanding at 31 December 2009 (excluding trading portfolio positions) of all Group banking entities. The currency has been taken as the euro, this being the only currency in which significant interest rate-sensitive exposures are held.[2]

In its net interest income and economic value sensitivity simulations, the Group uses a variety of scenarios for shifts in the yield curve to capture yield curve risk and basis risk. In both methodologies behavioural assumptions are used. This provides a view of the behaviour of balance sheet items that is more realistic and hence more effective for management purposes than would be provided by an approach based solely on contract terms. Behaviour assumptions are based on the Group's past experience (from 1999 to 2009), and allow for the incorporation of option risk. Some key assumptions that are made concern the behaviour patterns of withdrawals and the maturing or calling in of current account and other liabilities for which there is no contractually fixed maturity date. Although the balances of these accounts may be demanded by customers for immediate payment they can, for the most part, normally be assumed to remain stable over time. Based on these historical series, demand deposits have been classified as follows:

- **Non-interest bearing current and savings accounts.** These are not sensitive to changes in interest rates.

- **Managed interest-bearing current and savings accounts**, where the interest earned by the account depends on a management decision within the Group. For demand deposits of this type the model produces three estimates: *(i)* the unstable portion of demand deposits - an estimate of the amount considered to be unstable for reasons other than changes in interest rates; *(ii)* sensibility to changes in interest rates - a functional relation that explains the transfer of changes in short-term interest rates on the interbank market to the interest paid on deposits; and *(iii)* the estimated duration of the stable portion of demand deposits.

- **Current and savings accounts referenced to the interbank rate.** Here, adjustments to the interest payable on the account is linked to rates of interest on the interbank market.

[2] Under BSC 3/2008, a currency is considered to be significant if the average assets or liabilities held in that currency have exceeded 5% of an entity's assets or liabilities for the six immediately preceding months.

For internal purposes, the Group makes monthly estimates of its exposure to interest rate risk and these are reported to the Asset and Liability Committee.

b) Increases or decreases in income, economic value or any other relevant measure used for interest rate shocks according to the management's method for measuring interest rate risk

The following table shows the sensitivity of economic value and of 12-month net interest income[3] to a 100 basis point rise in interest rates with respect to the baseline interest rate scenario. In the current economic climate, a falling interest rate scenario has not been considered.

Sensitivity of management variables to interest rate shocks

CURRENCY	SENSITIVITY OF ECONOMIC VALUE		SENSITIVITY OF NET INTEREST INCOME*	
	Rate increase	Rate reduction	Rate increase	Rate reduction
EURO	-3.05%	N/A	-1.55%	N/A

** Interest margin excluding fees and commissions.*

Data are as at 31/12/09.

[3]*Net interest income: the interest margin excluding fees and commissions.*

Annex I – Consolidated undertakings

Undertakings consolidated by the full consolidation method

Banco Sabadell Group credit institutions consolidated
by the full consolidation method at 31 December 2009

Name of undertaking	Holding* (%)	Name of undertaking	Holding* (%)
AURICA XXI, S.C.R., S.A.	100.00	IM FTGENCAT SABADELL 2, F.T.A.	100.00
AXEL GROUP, S.L.	100.00	IM FTGENCAT SABADELL 3, F.T.A.	100.00
BALLERTON CORPORATION SERVIÇOS, S.A.	100.00	IM FTGENCAT SABADELL 4, F.T.A.	100.00
BANC SABADELL D'ANDORRA, S.A.	50.97	IM FTPYME SABADELL 3, F.T.A.	100.00
BANCO ATLANTICO MONACO, S.A.M	100.00	IM FTPYME SABADELL 7, F.T.A.	100.00
BANCO DE SABADELL, S.A.	100.00	IM SABADELL EMPRESAS 1, F.T.A.	100.00
BANCO URQUIJO SABADELL BANCA PRIVADA,S.A	100.00	IM SABADELL EMPRESAS 3, F.T.A.	100.00
BANSABADELL CORREDURIA DE SEGUROS, S.A.	100.00	IM SABADELL EMPRESAS 5, F.T.A.	100.00
BANSABADELL FACTURA, S.L.	100.00	IM SABADELL RMBS 2, F.T.A.	100.00
BANSABADELL FINANCIACION E.F.C., S.A.	100.00	IM SABADELL RMBS 3, F.T.A.	100.00
BANSABADELL FINCOM, E.F.C., S.A.	100.00	INMOBILIARIA ASTURIANA, S.A.	99.63
BANSABADELL HOLDING, S.L., S.U.	100.00	INTERSTATE PROPERTY HOLDINGS, LLC	100.00
BANSABADELL INFORMATION SYSTEMS, S.A.	81.00	PROMOCIONES Y FINANCIACIONES HERRERO,	100.00
BANSABADELL INV. DESENVOLUPAMENT,S.A.,	100.00	SABADELL ASIA TRADE SERVICES LTD.	100.00
BANSABADELL INVERSION, S.A.	100.00	SABADELL CORPORATE FINANCE, S.L.	100.00
BANSABADELL PROFESSIONAL, S.A.	100.00	SABADELL D'ANDORRA BORSA, S.A.	50.97
BANSABADELL RENTING, S.L. SDAD	100.00	SABADELL INTERNATIONAL EQUITY LTD.	100.00
BANSABADELL SECURITIES SERVICES, S.L.	100.00	SABADELL INTERNATIONAL FINANCE, B.V.	100.00
BCO. ATL. BAHAMAS BANK AND TRUST LTD.	100.00	SABADELL SECURITIES USA INC.	100.00
BS SELECT FUND OF HEDGE FUNDS SICAV	60.16	SANTEX PLUSER, S.L.	100.00
CIA. COG. DEL CARIBE, S.L.	99.99	SABADELL BRASIL TRADE SERVICES - AS. CO. LTDA	100.00
EUROPA INVEST, S.A.	100.00	SBD. D'ANDORRA INVERSION, SDAD. GESTORA,	50.96
EUROPEA PALL MALL, S.A.	100.00	SERVICIO DE ADMIN. DE INVERSIONES, S.A.	100.00
EXPLOTACIONES ENERGETICAS SINIA XXI, S.L.	100.00	SERVICIOS REUNIDOS, S.A.	100.00
GC FTGENCAT SABADELL 1, F.T.A.	100.00	SINIA RENOVABLES S.C.R., R.S., S.A.	100.00
GC FTPYME SABADELL 4, F.T.A.	100.00	SOLVIA DEVELOPMENT, S.L.	100.00
GC FTPYME SABADELL 5, F.T.A.	100.00	SOLVIA ESTATE, S.L.	100.00
GC FTPYME SABADELL 6, F.T.A.	100.00	SOLVIA GESTIO IMMOBILIARIA, S.L.	100.00
GC SABADELL 1, F.T.H.	100.00	SOLVIA HOUSING, S.L.	100.00
GC SABADELL EMPRESAS 2, F.T.A.	100.00	SOLVIA HOTELS, S.L.	100.00
GC SABADELL EMPRESAS 4, F.T.A.	100.00	SOLVIA PROPERTIES, S.L.	100.00
HERRERO INTERNACIONAL, S.A.R.L.	100.00	TRANSATLANTIC BANK INC.	100.00
HOBALEAR, S.A., SOCIEDAD UNIPERSONAL	100.00	TRANSATLANTIC HOLDING CORP.	100.00
IBERSECURITIES HOLDING, S.A.	100.00	URQUIJO GESTION S.G.I.I.C., S.A.	100.00
IBERSECURITIES, SOC. DE VALORES, S.A.	100.00		

** Indirect and indirect holdings*

Undertakings consolidated by the proportional consolidation method

Banco Sabadell Group credit institutions consolidated
by the proportional consolidation method at 31 December 2009

Name of undertaking	Holding* (%)	Name of undertaking	Holding* (%)
EMTE RENOVABLES, S.L.	62.11	FTPYME TDA SABADELL 2, F.T.A.	40.08
FINANCIERA IBEROAMERICANA,S.A.	50.00	PLAXIC ESTELAR, S.L.	45.01

** Indirect and indirect holdings*

Undertakings accounted for by the equity method

Banco Sabadell Group credit institutions accounted for by the equity method at 31 December 2009			
Name of undertaking	**Holding* (%)**	**Name of undertaking**	**Holding* (%)**
ADELANTA CORPORACION, S.A.	24.00	F.S. COLABORACION Y ASISTENCIA	35.00
ASSEGURANCES SEGUR VIDA, S.A.	50.97	GARNOVA, S.L.	25.00
AVIACION REGIONAL CANTABRA, A.I.E.	26.42	GAVIEL, S.A.	50.00
AVIONES ALFAMBRA CRJ-900, A.I.E.	25.00	GENERAL DE BIOCARBURANTES, S.A.	25.00
AVIONES CABRIEL CRJ-900, A.I.E.	25.00	GRAFOS, S.A. ARTE SOBRE PAPEL	45.00
AVIONES GORGOS CRJ-900, A.I.E.	25.00	INTERMAS NETS, S.A.	20.00
AVIONES SELLA CRJ-900, A.I.E.	25.00	JEREZ SOLAR, S.L.	62.11
BANCO DEL BAJIO	20.00	J. FELIU DE LA PENYA, S.L.	20.00
BANSABADELL PENSIONES, E.G.F.P., S.A.	50.00	PARC EOLIC VECIANA-CABARO, S.L.	40.00
BANSABADELL VIDA, S.A.	50.00	PARQUE EOLICO LA PEÑUCA, S.L.	40.00
BIODIESEL ARAGON, S.L.	40.86	PARQUE EOLICO MAGAZ, S.L.	49.00
BNS. SEG. GRAL., S.A. DE SEG. Y REASEG.	50.00	SBD CREIXENT, S.A.	23.01
CENTRO FINANCIERO BHD, S.A.	20.00	SOC. DE CARTERA DEL VALLES, SICAV, S.A.	42.64
CIA. COG. DEL CARIBE DOMINICANA, S.A.	100.00	SOC. DE INVERSIONES Y PARTICIPACIONES COMSA-EMTE, S.L.	20.00
CIA. ELECTRICIDAD COGENERACION UVERO, SA	72.92		
DEXIA SABADELL, S.A.	40.00	TOLOSA 161, S.L.	23.00
ESTABL. INDUSTRIALES Y SERVICIOS, S.L.	26.75		

** Indirect and indirect holdings*

Annex II – ECAIs used for securitizations

External rating agencies used in securitizations (I of II)

YEAR	SECURITIZATION	SERIES	Fitch IBCA	Moody's	S&P
2002	FTPYME TDA SABADELL 1, F.T.A.	Series 1CA (a)	AAA	---	---
		Series 1SA	AA	---	---
		Series 2SA	A	---	---
		Series B	BB	---	---
2003	GC FTGENCAT II, F.T.A.	Series AG (b)	AAA	Aaa	---
		Series AS	AA+	Aa1	---
		Series BG (b)	AA	Aa2	---
		Series BS	AAA	A1	---
		Series C	BBB	Baa1	---
2003	FTPYME TDA SABADELL 2, F.T.A.	Series 1CA (a)	AAA	---	AAA
		Series 1SA	AAA	---	AAA
		Series 2SA	BBB	---	A
		Series 3SA	BB	---	BBB
2004	GC SABADELL 1, F.T.H.	Series A1	---	Aaa	AAA
		Series A2	---	Aaa	AAA
		Series B	---	A2	A
		Series C	---	Baa2	BBB
2004	IM FTPYME SABADELL 3, F.T.A.	Series 1SA	---	Aaa	AAA
		Series 1CA (a)	---	Aaa	AAA
		Series 2	---	A2	A
		Series 3SA	---	B3	BBB-
2005	GC FTPYME SABADELL 4, F.T.A.	Series AS	AAA	Aaa	---
		Series AG (a)	AAA	Aaa	---
		Series B	BBB	Ba1	---
		Series C	CCC	Caa3	---
2005	GC FTGENCAT SABADELL 1, F.T.A.	Series AS	AAA	---	---
		Series AG (b)	AAA	---	---
		Series B	A	---	---
		Series C	BBB	---	---
2006	IM FTGENCAT SABADELL 2, F.T.A.	Series AS	AA+	---	---
		Series AG (b)	AA+	---	---
		Series B	BBB	---	---
		Series C	BB	---	---
2006	GC FTPYME SABADELL 5, F.T.A.	Series A1	AAA	Aaa	---
		Series A2	AA	Aaa	---
		Series A3 (G) (a)	AAA	Aaa	---
		Series B	BB	Baa2	---
		Series C	CCC	Caa3	---

Data are as at 31/12/09.

External rating agencies used in securitizations (II of II)

YEAR	SECURITIZATION	SERIES	Fitch IBCA	Moody's	S&P
2007	GC FTPYME SABADELL 6, F.T.A.	Series A1	---	Aaa	AAA
		Series A2	---	Aaa	AAA
		Series A3(G) (a)	---	Aaa	AAA
		Series B	---	B1	A
		Series C	---	Caa3	BBB-
2007	IM SABADELL EMPRESAS 1, F.T.A.	Series A1	---	Aaa	AAA
		Series A2	---	A1	AAA
		Series B	---	Ba3	A
		Series C	---	Caa3	BBB
2007	IM FTGENCAT SABADELL 3, F.T.A.	Series A1	---	---	AAA
		Series A2	---	---	AAA
		Series B	---	---	A
		Series C	---	---	BBB
2008	GC SABADELL EMPRESAS 2, F.T.A.	A1	---	---	AAA
		A2	---	---	AAA
		B	---	---	A
		C	---	---	BBB-
2008	IM SABADELL RMBS 2, F.T.A.	A	---	---	AAA
		B	---	---	A
		C	---	---	BBB
2008	IM FTPYME SABADELL 7, F.T.A.	A1	---	---	AAA
		A2 (G)	---	---	AAA
		B	---	---	A
		C	---	---	BB-
2008	IM FTGENCAT SABADELL 4, F.T.A.	A1	---	---	AAA
		A2 (G)	---	---	AAA
		B	---	---	A
		C	---	---	B
2008	IM SABADELL RMBS 3, F.T.A.	A	---	Aaa	---
		B	---	A1	---
		C	---	Baa3	---
2008	IM SABADELL EMPRESAS 3, F.T.A.	A	---	Aaa	---
		B	---	A3	---
		C	---	Ba2	---
2009	GC SABADELL EMPRESAS 4, F.T.A.	A	---	Aaa	---
		B	---	A3	---
		C	---	Ba2	---
2009	IM SABADELL EMPRESAS 5, F.T.A.	A1	---	---	AAA
		A2	---	---	AAA
		B	---	---	B+

Data are as at 31/12/09