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**Key financial highlights  
for the Banco Sabadell  
group in 2013**



Thousand euro

<b>Key financial data</b>	<b>2013</b>	<b>2012</b>	<b>% 13/12</b>
Shareholders' equity	10,226,534	9,148,074	11.8
Total assets	163,441,470	161,547,085	1.2
Gross loans and advances to customers, excluding reverse repos	124,614,933	119,638,113	4.2
Loans and advances to customers – gross	125,302,943	121,528,997	3.1
On-balance sheet funds	123,753,008	110,996,102	11.5
Customer deposits on balance sheet	94,497,187	80,179,388	17.9
Mutual funds	11,018,570	8,584,848	28.3
Pension funds and insurance sold	12,423,646	11,022,021	12.7
Funds under management	149,122,858	131,654,630	13.3

Thousand euro

<b>Income statement</b>	<b>2013</b>	<b>2012</b>	<b>% 13/12</b>
Net interest income	1,814,694	1,867,988	(2.9)
Gross income	3,976,794	2,958,446	34.4
Profit before impairment and other provisions	2,025,286	1,289,896	57.0
Profit attributable to the group	247,832	81,891	202.6

<b>Resources</b>	<b>2013</b>	<b>2012</b>
Number of branches	2,418	1,898
Number of employees	18,077	15,596

%

<b>Ratios</b>	<b>2013</b>	<b>2012</b>
<b>Profitability and efficiency</b>		
ROA (net profit / average total assets)	0.16	0.07
ROE (profit attributable to group / average shareholders' equity)	2.68	1.01
ROTE (profit attributable to group / average shareholders' equity less goodwill)	2.96	1.12
Cost:income ratio (general expenses / gross income <sup>1</sup> )	48.68	51.10
Cost:income ratio excluding non-recurring expenses (recurring general expenses / gross income <sup>1</sup> )	47.23	50.34
<b>BIS ratio</b>		
Core capital	12.0	10.5
Tier I	12.0	10.5
BIS Ratio	12.8	11.4
<b>Risk management</b>		
Non-performing loans (€'000 <sup>2</sup> )	16,021,491	10,286,332
Loan loss ratio <sup>2</sup>	13.63	9.33
Loan loss ratio excluding losses due to reclassification <sup>2</sup>	11.13	
Loan loss and real estate impairment provisions (€'000)	18,341,298	17,589,940
Loan loss and real estate coverage ratio <sup>3</sup>	13.61	13.88

1 The ratio for 2013 includes a -€437.3 million adjustment to gross income for non-recurrent capital gains on the disposal of the held-to-maturity portfolio in the second half of the year.

2 These totals and ratios do not include assets covered by the asset protection scheme (APS).

3 This shows impairment provision coverage for the loan and real estate portfolios combined.

<b>Share data</b>	<b>2013</b>	<b>2012</b>
Number of shares	4,011,481,581	2,959,555,017
Number of shareholders	262,589	236,774
Share price (€)	1.896	1.975
Attributable earnings per share (€)	0.06	0.03
Attributable earnings per share adjusted for effect of mandatory convertible bonds (€)	0.06	0.03

## Chairman's letter



Dear shareholder,

At the end of 2013, our 132nd year of trading, Banco Sabadell could show a set of results that reflected a recovery in margins and a return to profitable growth, a strengthened balance sheet supported by one of the best capital ratios in the Spanish financial industry, and proven financial solidity. 2013 was also the last year of our 'CREA' Plan, launched in 2011 with business transformation and productivity as its main themes. Strong growth in business volumes and customer numbers were key developments during a complex 3-year period which saw substantial growth in market shares in line with the group's increase in scale, in a challenging economic and financial environment.

The gradual return of the financial markets to normality and the easing of capital market fragmentation in the eurozone from mid-2012 onwards continued all through 2013, punctuated by limited, short-term bouts of market instability such as those caused by the Cyprus bail-out or political tensions in Italy and Portugal. The eurozone began to free itself from the sovereign debt crisis as the headwinds facing the region abated and became less systemic. Ireland and Spain recently announced the cessation of their international assistance programmes, while agreements on a European banking union provided further support for market normalization.

This improvement in the financial markets was reflected in better funding conditions for the countries on the European periphery as country risk premiums dropped and inflows of foreign capital to the periphery recovered; it was also good for economic stability.

The global economy grew at a moderate rate in 2013, with growth in the developed countries gathering pace as the year progressed. The eurozone economy showed signs of reaching a turning point in the second half of the year: Spain, in particular, achieved positive growth in the third quarter for the first time in more than two years, while its labour market appeared to be stabilizing. Activity was also supported by the country's strong export performance as financing conditions became more benign and the European Commission allowed some relaxation of fiscal discipline. Moreover, structural reforms and rapid progress in correcting the imbalances that had built up during the previous boom helped to bring about an improvement in how Spain was seen in other countries and prepared the ground for faster, more balanced economic growth.

The restructuring of the banking system in Spain resulted in a consolidation of the industry and made banks more solvent. Banco Sabadell extended its geographical reach and increased its share of the Spanish market, having during the past year completed the acquisition of Banco Mare Nostrum's branches and business in Catalonia and Aragon, and the business of Banco Gallego and Lloyds España; these acquisitions have strengthened our position in some of Spain's most promising regions. Banco Sabadell ended the year with total assets of €163,441.5 million and a core capital ratio of 12%. In 2013 Banco Sabadell increased its capital base by more than €1,500 million. In September it carried out a €1,383 million capital-raising in two separate share offerings. The first of these, a €650 million accelerated bookbuild offering, was aimed at institutional investors. The second was a €733 million rights issue for existing shareholders.

In October 2013 a capital management exercise was carried out in which the holders of Banco Gallego preferred and subordinated debt securities were invited to exchange their securities for subordinated notes mandatorily convertible to Banco Sabadell shares. The exercise resulted in a further capital increase of €122 million.

These transactions enabled Banco Sabadell to strengthen its capital position and to place itself alongside Europe's best-capitalized banks, meet the stricter capital requirements being imposed on the banking industry and bring its capital structure into line with the increased size of its consolidated balance sheet following the acquisitions of the last few years.

The Bank's funding policy was focused on attracting deposits and other customer accounts and thus reducing its reliance on the wholesale market; this ensured that in 2013 it was once again able to generate a substantial funding gap — €10,123 million — and significantly increase its liquidity position.

Actively managed interest spreads and the contributions of the newly-acquired businesses brought our net interest income to a year-end total of €1,814.7 million. This was a 2.9% fall compared with 2012 — a result, mainly, of the negative effects of a falling yield curve in the first half of the year. An improved performance in the second half, however, confirmed the shift to an upward trend.

Higher net profits from the fixed-income portfolio, coupled with a firm grip on costs that reduced like-for-like personnel and general expenses by 13.2% and 11.4% respectively, helped our profit before provisions to rise by 59.9% on the figure for 2012 to reach a total of €2,062.3 million.

Banco Sabadell posted a net profit for 2013 of €247.8 million, three times the figure for 2012. This confirms our ability to maintain solid progress and to generate consistently positive results after impairment charges and other provisions amounting to €1,763.6 million. Provision coverage of credit and real estate exposures, at 13.6%, was above the average for the industry as a whole.

A high rate of new customer acquisition with customer enrolments averaging 8,900 a week, rising market shares, and good progress in restoring health to the new businesses added to the group; these were the dominant themes of an extremely busy year which saw customers increasing to a total of 6.5 million while top-quality service being maintained at all times.

Gross loans and advances to customers (excluding repos) increased strongly in 2013, rising by more than 4.2% on the previous year to a total of €124,614.9 million. Specific provision coverage for assets classified as doubtful due to loan arrears was 50.1%, and here too there were signs of a change: non-performing loans dropped by €64 million in the fourth quarter and there was a slowing in the pace of balance sheet asset writedowns.

The year 2013 saw the successful completion of the integration of Banco Mare Nostrum's Catalonia and Aragon branch network and business, making Banco Sabadell the fourth largest bank in Catalonia with 12% of bank branches in the region. The merger and systems integration of the business acquired from Lloyds España and Banco Gallego are due to be completed in the first quarter of 2014. The integration of Lloyds will strengthen Banco Sabadell's franchise among Spain's non-resident community, while the addition of Banco Gallego will bring the group's share of bank branches in the Galicia region up to 7%. In the US, Banco Sabadell continued to grow



its capacity to serve customers in the State of Florida and Latin America, having completed the acquisition and integration of Lloyds' private banking business in Miami and, in December, entered into an agreement to acquire JGB Bank. The JGB agreement is expected to complete in the course of 2014.

This Annual Report contains detailed information on how our business performed in 2013 and the acquisitions we made in the course of the year. The data it provides clearly show how our margins have improved in the current economic climate and the group's success in getting profits back onto a rising path after the huge efforts it has made to rebuild its financial strength. The report testifies to a fortified, well-structured balance sheet, a strong capital underpinning and a high level of provisioning against balance sheet exposures.

Our achievements in 2013 are manifold, so the group has marked out a new position for itself on the Spanish financial services map, despite the complex environment in which it has been operating as a result of the economic situation in our country. That this has been possible is thanks to the professionalism and hard work of all the people who make up the Banco Sabadell group and the expertise they have shown in weathering the crisis of the last few years.

Banco Sabadell enters 2014 with a new business plan focused on improving profitability. The plan's basic aims are to consolidate our domestic business by extracting value from our customer base and leveraging our newly-acquired scale to gain margin, restructure our balance sheet, and transform our production system to win further increases in productivity, but without any loss in quality of service, key to maintaining our competitive edge. Our challenge now is to continue the task of making our business more efficient, more profitable and more evenly distributed throughout Spain, while preparing the ground for the next stage of our international expansion.

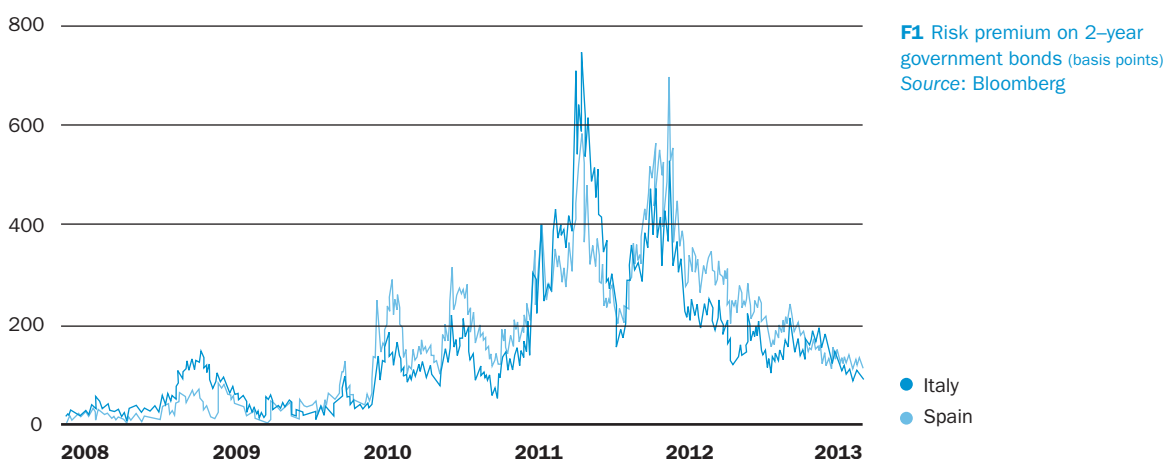
**Josep Oliu Creus**  
Chairman

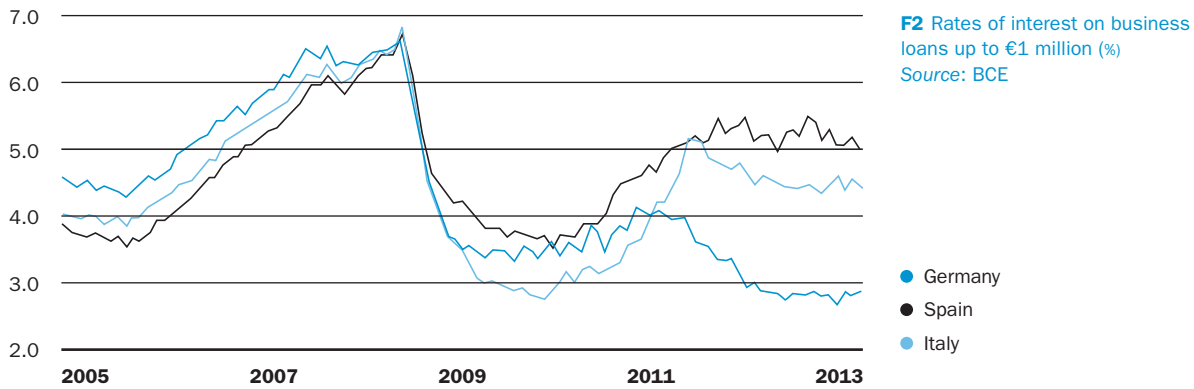
# **Financial and share performance information**



In 2013 the Spanish economy reached a turning point and the first signs were seen of stabilization in the labour market. The financial industry continued to make progress in restructuring and Spain confirmed that it would exit from the international assistance programme in January 2014.

The return of the financial markets to normality and the gradual easing of capital market fragmentation in the eurozone continued throughout 2013 despite certain occurrences (e.g. the Cyprus bail-out and political tensions in Italy and Portugal) that triggered bouts of market instability (see Figure 1).



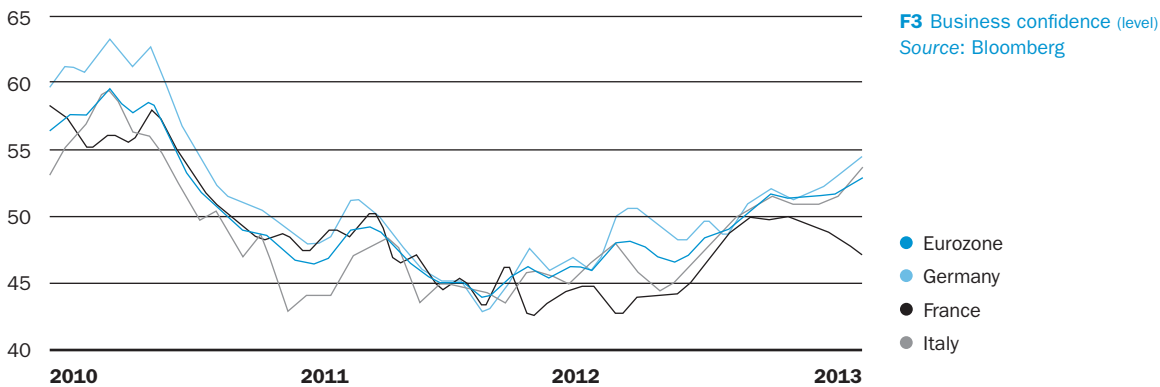


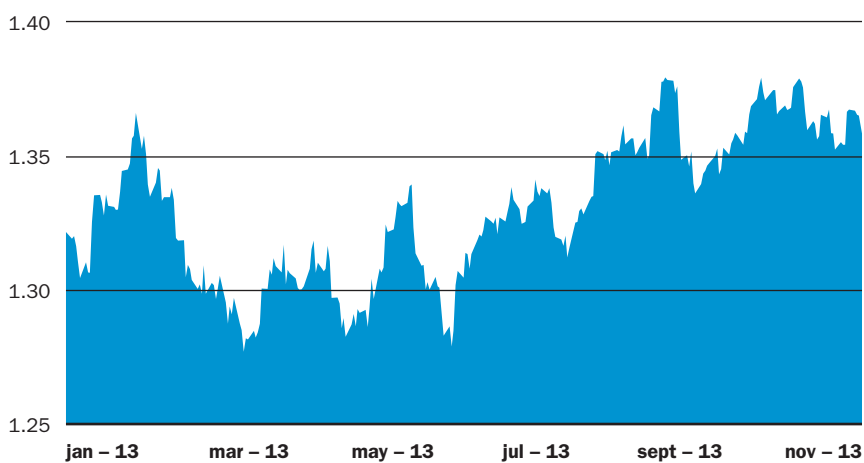
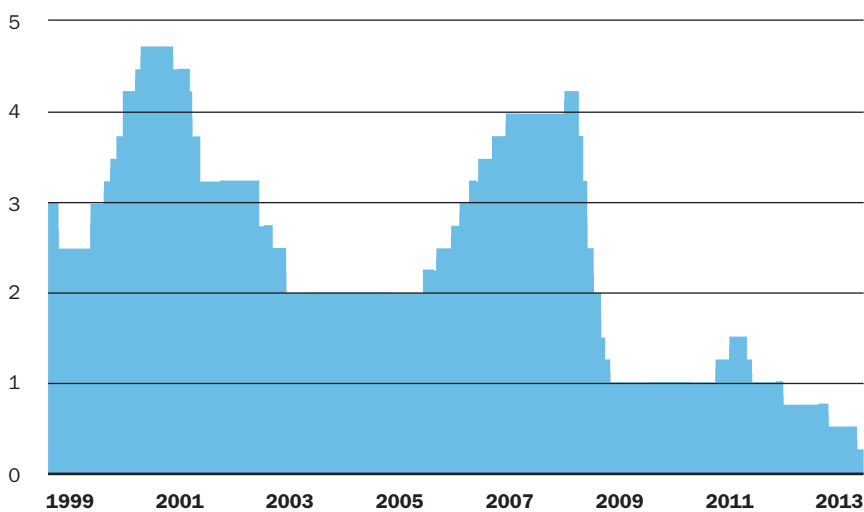
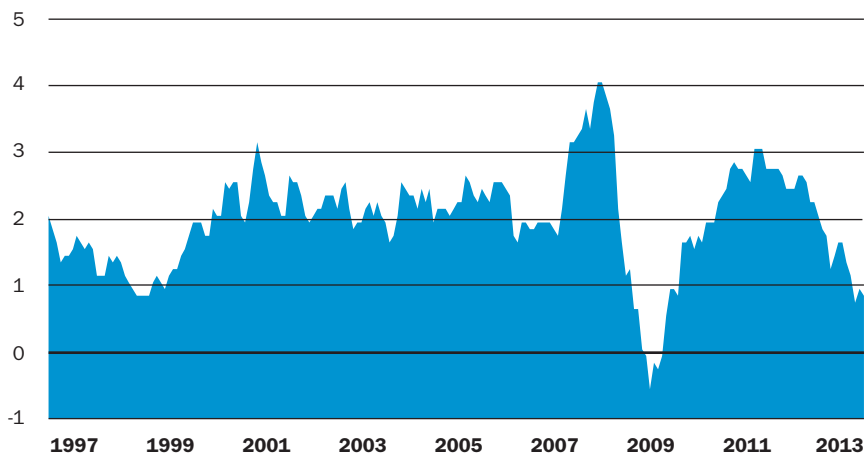
Spain confirmed that the European aid programme for its financial sector would end in January 2014 and Ireland became the first bail-out country to exit from a comprehensive aid package, without additional support.

Despite these developments, bank credit markets remained weak and fragmented, with different countries showing wide variations in interest rates on loans to small and medium-sized businesses (see Figure 2).

Europe took a step further towards integration with new advances being made in the establishment of a European banking union. In particular, the European Central Bank (ECB) was given the role of acting as single banking supervisor for the eurozone from late 2014 onwards.

The global economy showed modest growth in 2013, with the economies of the developed world gathering pace as the year progressed (see Figure 3). In the second half of the year the eurozone reached a turning point which was felt both in the core countries and on the periphery. In the third quarter the Spanish economy achieved positive growth, for the first time in more than two years.





In emerging markets, growth was below the average for the past decade as current growth models became obsolete and major structural challenges emerged. China's new government introduced a reform plan to change the growth model and to make it more sustainable in the long term.

Inflation fell in all the main developed economies with the exception of Japan. This was especially true in the eurozone, with inflation in some peripheral countries close to zero or even negative by the end of the year (see Figure 4).

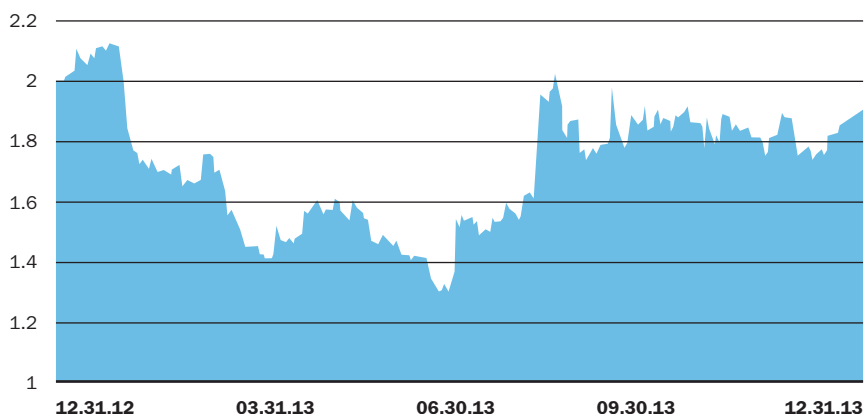
The monetary policy pursued by the main central banks in 2013 continued to be accommodative, although some divergences appeared. In the US, for example, the Federal Reserve moved towards a change in the direction of its monetary policy by announcing that it would shortly be reducing its asset purchases. The European Central Bank reduced its benchmark interest rate to an unprecedented 0.25% and committed itself to keeping benchmark rates low for a long period of time (see Figure 5).

In the long-term debt markets, US and German bond yields ended 2013 higher than they had been at the beginning of the year. On the European periphery, Spanish and Italian public debt improved gradually throughout the year. In the currency markets the euro strengthened against the dollar, while the yen weakened against all the major international currencies. Equity markets again ended the year with gains in the US, the eurozone and Japan (see Figure 6).

## Share performance

**Banco Sabadell completed a successful capital-raising, increasing its share capital by €1,383 million in two separate share offerings. This enabled it to strengthen its capital base and allowed the position as one of Europe's most solidly capitalized banks.**

In 2013 Banco Sabadell's share price was dragged down by the weak economic environment and fears over the state of Spain's financial system, especially in the first half of the year. Despite the challenging conditions facing the sector, however, the Bank's capital-raising exercise in September was very well received by the market. In the latter part of the year the continuing improvement in sentiment with regard to Spain, Banco Sabadell's successful capital-raising and the announcement of new rules on deferred tax assets provided support to a share performance that was above that of its domestic market peers.



**F7** Banco Sabadell  
share price movements

With the share price standing at €1.896 at the close of the year Banco Sabadell's market capitalization at 31 December was €7,605.8 million, making it Spain's fourth largest privately-owned banking group by market value.

Dividend payments to shareholders in 2013 comprised an interim dividend of €0.01 per share for the year 2012 and a complementary remuneration to the dividend of to €0.02 per share, paid in the form of shares from the Bank's holding of treasury shares. In addition, the Bank will ask the Annual General Meeting to approve the payment of a dividend for the year 2013 of €0.01 per share plus an additional dividend of €0.02 per share, payable in shares of an equivalent value from the Bank's holding of treasury shares.

	Million	Million euro	Euro	Million euro	Euro
	<b>Number of shares</b>	<b>Net attributable profit</b>	<b>Attributable earnings per share</b>	<b>Shareholder's equity</b>	<b>Book value per share</b>
2011	1,391	232	0.17	6,276	4.51
2011 <sup>(1)</sup>	1,584	232	0.15	6,276	3.96
2012	2,960	82	0.03	9,120	3.08
2012 <sup>(2)</sup>	3,184	82	0.03	9,120	2.86
2013	4,011	248	0.06	10,227	2.55
2013 <sup>(3)</sup>	4,299	248	0.06	10,227	2.38

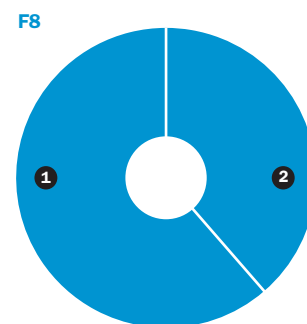
**T1** Earnings per share and book value per share 2011–2013

(1) Includes the dilution effect of 192.56 million additional shares resulting from issues of convertible bonds.

(2) Includes the dilution effect of 224.28 million additional shares resulting from issues of convertible bonds.

(3) Includes the dilution effect of 287.13 million additional shares resulting from issues of convertible bonds.

Capital-raising issues carried out during the year 2013 included a successful €1,383 million capital increase in September. There were also issues of new capital to accommodate redemptions and voluntary conversions of Mandatory Convertible Subordinated Notes. Following the capital-raising operations described in the section on capital management and in the annual accounts, the number of Banco Sabadell ordinary shares at the end of 2013 reached a total of 4,011 million. Share ownership was distributed as follows (see Figure 8):



**F8**  
**Distribution of shareholders  
31.12.2013**

1 Private shareholders	61.5%
2 Institutional investors	38.5%

## Financial report

In 2013 Banco Sabadell completed the last year of its 3-year “CREA” plan, launched in 2011 with the aim of bringing about a transformation in business and productivity. Large increases in business volumes and customer numbers were major achievements in a very complex and busy 3-year period during which the group was able to substantially increase market shares as a result of expansion through acquisitions and intensive efforts to boost its sales and marketing capabilities.

During the economic downturn that lasted from 2007 to 2013, we made a huge leap forward that is key to understanding what we achieved in 2013 and our prospects in coming years.

In the last five years Banco Sabadell has achieved a huge leap in scale and scored some milestone successes.

In a highly complex and challenging operating environment, strong business growth and a major effort to win new customers have produced sizeable increases in our market shares.

All this without any loss in perceived quality of service levels to customers.



Million euro

Plan Optima Plan Crea

T2

	2007	2010	2013	2013/07
Assets	76,776	97,099	163,441	x2.1
Loans <sup>1</sup>	63,165	73,058	124,615	x2.0
Deposits <sup>2</sup>	34,717	49,374	94,497	x2.7
Branches	1,225	1,428	2,247 <sup>3</sup>	x1.8
Employees	10,234	10,777	16,900 <sup>4</sup>	x1.6
Core capital	6.0%	8.2%	12.0%	x2.0
LTD Ratio <sup>5</sup>	197%	135%	107%	x0.5

1 Gross loans and advances excluding repos.

2 On-balance sheet customer funds.

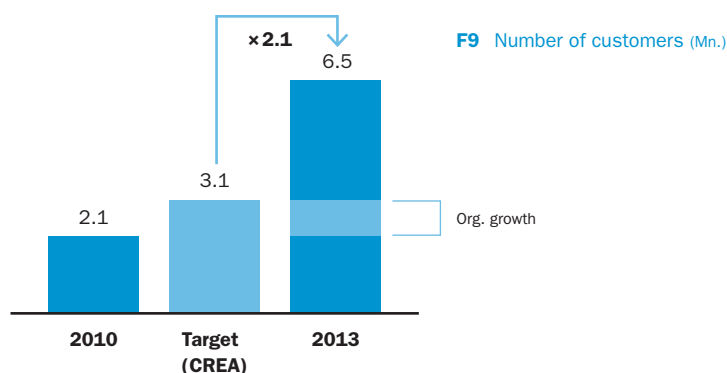
3 Estimate for 2014.

4 Estimate for 2015.

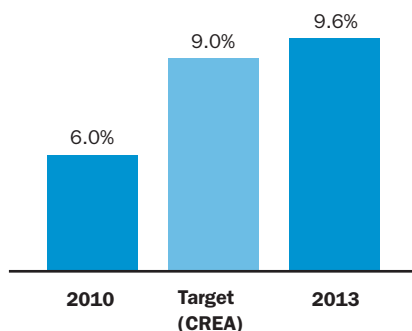
5 LTD Ratio (loans as a proportion of deposits) excluding provisions and credit intermediation.

Some outstanding milestones were also reached, such as the growth in our customer base from 2.1 to 6.5 million. Banco Sabadell is one of Spain's leading franchises and one of the most widely recognized, according to top-of-mind recall measures.

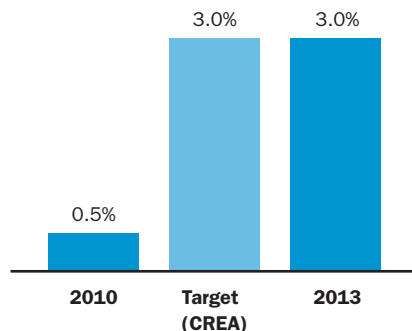
All these efficiently conducted integration processes were brought to completion without any decline in perceived quality-of-service levels, quality of service being one of the competitive factors most relied on by the Bank in its relationships with customers.



Catalonia



Madrid



**F10 Top-of-mind recognition**  
Source: Brand monitoring by Time Consultants.

## Triple

Banco Sabadell has now launched its new three-year business plan, known as “Plan Triple”. The overall aim of the plan is for the Bank to leverage its improved capital position and market share to lead a recovery in lending in the short, medium and long term.

The focus of the new business plan is on increasing profitability as reflected in a target ROTE (return on equity less goodwill) of 12% for 2016. Within this general aim, the plan’s main action areas are a strengthened domestic business, a transformation of the balance sheet and a revamped production system.

Having taken a huge leap in scale, Banco Sabadell’s focus is now on consolidating its domestic business and increasing the profitability of its newly acquired businesses. To do this it has set out two strategies for different regions according to its market position in each one. In the Catalonia and Southeast (Valencia and Murcia) regions the Bank has now reached a suitable scale and its business focus will therefore be on profitability, cross-selling and closing the performance gap in the newly acquired businesses.

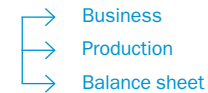
In the rest of the country the focus is on “filling our branches with customers” and increasing market share. Banco Sabadell also intends to continue improving customer relationships so as to become the customer’s banker of choice and to grow its market shares in mutual funds and insurance.

The second key action area for Banco Sabadell has to do with balance sheet transformation: bringing down loan losses and selling off real estate assets. To reduce real estate losses the Bank has put in hand management programmes combining timely action (to reduce new loan defaults) with recovery (faster debt recoveries). To reduce its holdings of real estate assets the Bank will continue to leverage the expertise of its asset management division and the leadership of its property sales business, Solvia, while benefiting from an improving real estate market.

The third key action area under the Triple plan is to transform its production system so as to increase productivity, but without any loss in the quality of service for which the Bank has always been renowned. For example, a new instant banking system has been created which will initially be rolled out in key growth areas such as the Madrid region. Alongside these three action areas the new business plan sets additional objectives focused on preparing the ground for future expansion into foreign markets and on talent and human resources management.

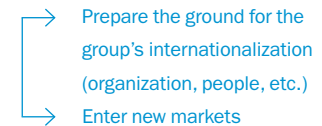
The principal targets of the Triple plan, with it’s focused on increasing profitability, reducing troubled assets and driving up efficiency, are as follows:

### Transformation



### Returns (ROTE)

#### Internacionalization



### Profitability

#### Consolidate domestic business

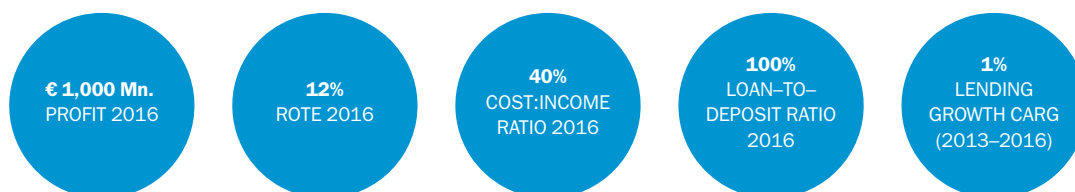
- Improve per-customer returns
- Increase customer numbers
- Leverage international franchise to grow SME business
- Enhance value proposition in private banking

#### Normalize balance sheet

- Change management style and manage down loan defaults
- Reduce real estate exposure

#### Develop new drivers of productivity increases

- Instant Banking
- Transformation of production



## Core capital ratio rises to 12.0% following €1,505 million in capital increases over the year.

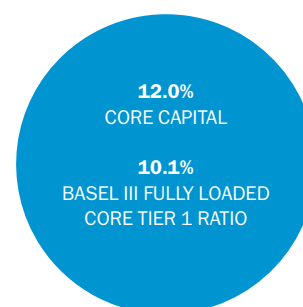
In 2013 Banco Sabadell continued to pursue the active capital management policy that it has been following for the last few years, with major implications for future growth. In the last three years the Bank has increased its capital by issuing securities that qualify as core capital. As a result its capital base has risen by more than €5,000 million and capital ratios have reached highly satisfactory levels, as 2013 year-end data confirm. Key actions taken in the course of 2013 to increase the Bank's solvency included the following:

- Exchanging mandatory convertible subordinated bonds, issues I/2009 and I/2010, for new convertible bond issues I/2013 and II/2013 with a value of €779.3 million (January 2013).
- A €1,383 million increase in equity capital approved by the Board of Directors on 9 September. The increase was carried out in two separate share offerings.

The first offering, directed at institutional investors, amounted to €650 million and was carried out by the accelerated bookbuild procedure. A total of 396.3 million new shares were allotted for a price of €1.64 per share. The second offering, totalling €732.7 million, was a rights issue addressed to the Bank's existing shareholders. In the second offering 666 million newly issued shares were offered at a nominal value of €0.125 each plus an issue premium of €0.975 on each new share, that is, a total issue price of €1.10 per share. Five preferential subscription rights were required in order to subscribe for a single new share.

The capital increase had the dual purpose of strengthening Banco Sabadell's balance sheet to enable it to benefit from business opportunities in the context of a Spanish economy that was starting to recover, and boosting its capital strength to meet stricter regulatory capital requirements on the banking industry and bring its capital structure into line with a consolidated balance sheet that had grown as a result of the acquisitions made in the previous few years.

- An exchange of Banco Gallego preferred securities and subordinated debt for subordinated notes mandatorily convertible to Banco Sabadell shares, in October 2013. The exchange offer was accepted in respect of 93.7% of the securities and generated a capital inflow of €121.7 million.



A healthy €10,123 million funding gap and substantial increases in customer funds, with mutual funds and demand deposits growing at an accelerating pace.

Following the takeover of assets from BMN–Penedès, Lloyds España and Banco Gallego, Banco Sabadell’s customer base now stands at 6.5 million.

Year-on-year comparisons of balance sheet figures were affected by the incorporation of accounts and balances relating to the Catalonia and Aragon branch banking business acquired from Banco Mare Nostrum (“BMN–Penedès” from 1 June 2013 onwards; Lloyds Bank International and Lloyds Investment España (“SabadellSolbank”) from 30 June onwards; and Banco Gallego, from 31 October onwards. At the end of 2013, the total assets of Banco Sabadell and its group amounted to €163,441.5 million, having increased by €1,894.4 million from where they stood at the end of 2012, an increase of 1.2% that was attributable in large measure to new business resulting from the above acquisitions. Of particular significance among the items on the consolidated balance sheet were gross loans and advances to customers (excluding assets acquired under repurchase agreements), which increased to a total of €124,614.9 million at the end of 2013, a rise of 4.2%.

Mortgage loans, the single largest component of gross lending, amounted to approximately 57% of total loans and advances at 31 December 2013 (see Figure 11).

Reclassifications of loan refinancings and the additions to the consolidated group were factors that caused the ratio of non-performing loans (NPLs) to total qualifying loans and advances to rise to 13.63% (11.13% with reclassifications excluded); this did not include former Banco CAM assets benefiting from the asset protection scheme. At the last quarter of 2013 a €64 million fall in NPLs and the fourth consecutive quarterly slowdown in additions to the inventory of troubled assets suggested that a turning point had been reached. 2013 sales of real estate assets were better than expected, increasing by 40% over the previous year to €3,120 million and exceeding forecasts by 20%. In all, 18,501 residential properties were sold during the year, 16% more than projected.

# Loan loss provisions were further increased to cover credit exposures in the loan portfolio and there were signs of a turning point in NPLs.

Million euro

	2013	2012	% 13/12
<b>Total assets</b>	<b>163,441</b>	<b>161,547</b>	<b>1.2%</b>
Gross loans and advances			
to customers ex repos	124,615	119,638	4.2%
Fixed-income investments	21,743	23,536	(7.6%)

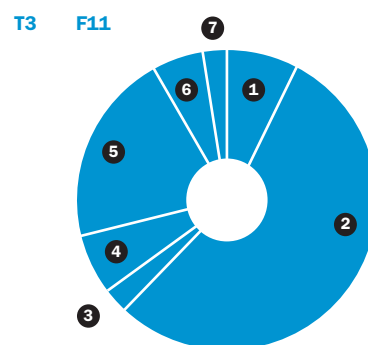
Provisions as a proportion of total loan and real estate exposure increased in 2013 and reached a year-end figure of 13.61%, one of the highest ratios in the Spanish banking industry.

In 2013 Banco Sabadell's fixed-income portfolio declined by 7.6% compared with the previous year to reach a year-end total of €21,743 million (including €15,600 million in Spanish government debt). The Bank's total liabilities at the close of 2013 were €153,036 million, showing a slight increase of 0.5% for the year but with a considerable change in composition.

Million euro

	2013	2012	% 13/12
<b>Total liabilities</b>	<b>153,036</b>	<b>152,286</b>	<b>0.5%</b>
<b>On-balance sheet customer funds</b>	<b>94,497</b>	<b>80,179</b>	<b>17.9%</b>
Other on-balance sheet fixed-term funds <sup>1</sup>	57,635	53,095	8.6%
Demand deposits	36,862	27,085	36.1%
<b>Capital markets</b>	<b>21,167</b>	<b>25,326</b>	<b>(16.4%)</b>
ECB	8,800	23,650	(62.8%)
<b>Off-balance sheet funds</b>	<b>25,370</b>	<b>20,659</b>	<b>22.8%</b>
Mutual funds	11,019	8,585	28.4%
Pension funds	4,356	3,709	17.4%
Insurance sold	8,067	7,313	10.3%

<sup>1</sup> This heading includes time deposits and other liabilities sold by the branch network: preferred securities, mandatory convertible bonds, straight bonds, commercial paper and others. It does not include repos.



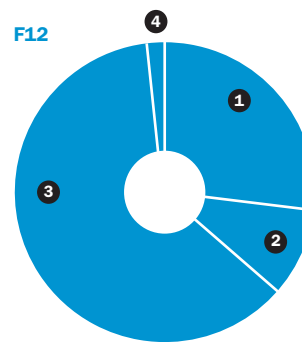
#### Loans and advances to customers 31.12.2013

1 Receivable on demand and other accounts	8%
2 Mortgage loans and credit	57%
3 Other secured loans and credit	2%
4 Trade credit	5%
5 Other loans	22%
6 Other credit lines	4%
7 Finance leases	2%

**T4**

On-balance sheet customer funds showed a sizeable 17.9% increase; an especially strong performance by demand deposits was driven by an upturn in payment transactions by customers and by a growing tendency to choose the Bank as principal banker, leading to a deepening of customer relationships.

The growth in customer numbers and business volumes shown in the table below was reflected in significant increases in market shares, including a 23.98% share in export finance.



Basis points

**Individual customers**

Direct salary payments	+ 99
Credit to households	+ 118
Transaction activity	+ 145

**Business customers**

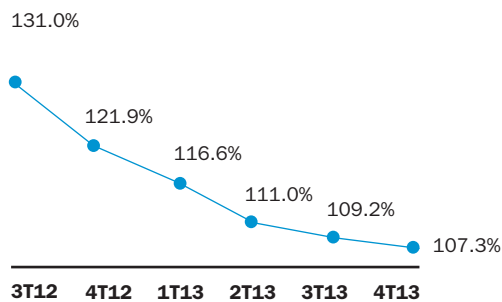
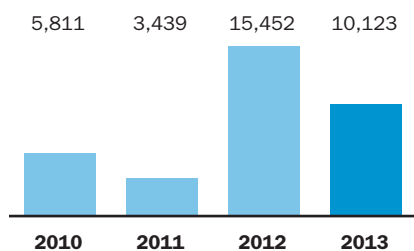
POS payments	+ 276
Trade credit	+ 201
Subsidized credit	+ 826

**Customer deposits\* 31.12.2013**

1 Current accounts	27%
2 Savings accounts	11%
3 Term deposits	61%
4 Repurchase agreements	1%

\* Without adjustments due to accruals and hedging derivatives.

Over the last few years, as the growth in on-balance sheet customer funds outpaced increases in lending, a positive funding gap was generated, while the loan-to-deposit (LTD) ratio declined. This can be seen in the charts below:



**F13** Funding surplus (€Mn.)

**F14** LTD Ratio (adjusted)

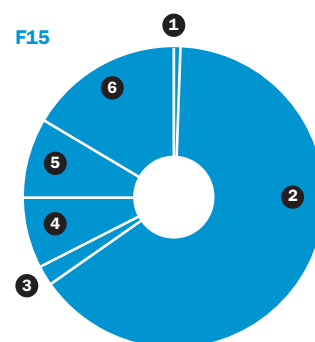
## The group's funding policy continued to focus on attracting deposits and other customer funds through the branch network and reducing dependence on the wholesale market.

Since the onset of the financial crisis in 2007 Banco Sabadell's funding policy has focused on attracting deposits and other customer funds through its branches, reducing the total amount of funds raised on the wholesale markets and increasing the Bank's liquidity position.

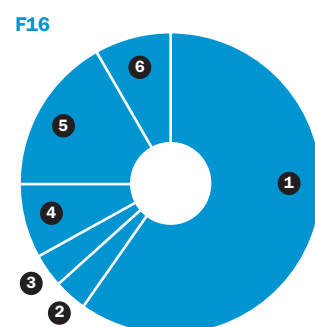
The primary source of the group's funding is its customer deposit base (mainly current accounts and time deposits taken through the branch network). This is supplemented by funds raised on the interbank and capital markets where the Bank has a number of short- and long-term funding programmes in place, giving it a suitable diversity of funding sources and products, maturities and investors.

The Bank's funding arrangements are well-balanced, with 19.7% sourced from the wholesale market. In 2013 mortgage covered bonds accounted for the largest share of this funding (62%). The timetable of maturing debt is appropriate, with a total of €4,397 million of debt securities maturing in 2014. The Bank's borrowings from the ECB were substantially reduced from €23,650 million in 2012 to €8,800 million at the end of 2013 thanks to efficient liquidity management.

As far as its wholesale market funding activities are concerned Banco Sabadell, like the rest of the banking sector, saw its ratings being downgraded by the major rating agencies in response to lower sovereign credit ratings for Spain. In 2013 the three agencies that rated Banco Sabadell's credit quality were Standard & Poor's, Moody's and DBRS. All the agencies have highlighted the improvement in Banco Sabadell's solvency position since the capital increases carried out in September.



Category	Percentage
1 Preference shares	0.1%
2 Deposits	69.3%
3 Retail investment products	1.2%
4 Repos	4.7%
5 ICO finance	5.0%
6 Wholesale market	19.7%



Category	Percentage
1 Mortgage covered bonds	62.0%
2 Senior debt	3.5%
3 Preference share & subordinated debt	3.6%
4 Euro and Institutional CP	6.6%
5 Asset-backed securities	16.4%
6 Guaranteed debt	7.9%

Banco Sabadell's net profit, at €247.8 million, is a threefold increase on 2012.

The year-end figure for net interest income showed a rising trend, reflecting a fall in the cost of deposits and active management of interest spreads that helped to improve the net interest margin.

Personnel and administration expenses, on a like-for-like basis, were successfully held down and this, combined with branch network restructuring, resulted in a significantly improved cost:income ratio.

Comparable results for the group for the years 2013, Banco Sabadell's 132nd year of trading, and 2012 are as follows:

Million euro

T5

	2013	2012	% 13/12
<b>Net interest income</b>	<b>1,814.7</b>	<b>1,868.0</b>	<b>(2.9%)</b>
Equity-accounted companies and dividends	18.4	(1.9)	—
Free and commission income	759.7	628.7	20.8%
Income from trading and exchange differences	1,547.1	606.1	155.2%
Other operating income	(163.1)	(142.5)	14.4%
<b>Gross income</b>	<b>3,976.8</b>	<b>2,958.4</b>	<b>34.4%</b>
Personnel expenses	(1,098.2)	(996.5)	10.2%
Administration expenses	(587.9)	(515.1)	14.1%
Depreciation and amortization	(228.4)	(156.9)	45.6%
<b>Profit/(loss) before impairment and other provisions</b>	<b>2,062.3</b>	<b>1,289.9</b>	<b>59.9%</b>
Loan loss and other impairment provisions	(1,763.6)	(2,540.6)	(30.6%)
Profit on disposal of current assets	43.9	15.4	184.9%
Negative goodwill	0.6	933.3	—
<b>Profit before tax</b>	<b>343.2</b>	<b>(302.0)</b>	<b>—</b>
Tax and other charges	(95.4)	383.9	—
<b>Profit/(loss) attributable to the group</b>	<b>247.8</b>	<b>81.9</b>	<b>202.6%</b>



- Net interest income amounted to €1,814.7 million in 2013, 2.9% less than in 2012. The contribution from Banco CAM from June 2012 onwards and the acquisitions of new businesses in 2013 (BMN-Penedès, Sabadell Solbank and Banco Gallego), combined with judicious management of interest spreads, improved net profit from the fixed-income portfolio and other factors broadly offset the effects of the downward shift in the yield curve and narrowing interest spreads in the first half of the year. In the second half of the year interest spreads began to improve, mainly due to the lower cost of deposits and the diminishing effect of the yield curve on loan repricing.
- A strong sales performance by branches and the new businesses added to the group drove a steady increase in net fee and commission income which grew by 20.8% compared with the previous year.
- Net income from trading remained at a high level, totalling €1,479.2 million. Net foreign exchange gains, at €67.9 million, showed an increase of 13.3% on the year before.
- Contributions to the bank deposit guarantee fund in 2013, a component of other operating income, totalled €135.4 million.

These factors resulted in a gross income of €3,976.8 million, an increase of 34.4% on the figure for 2012.

- Operating expenses (personnel and general administrative) amounted to €1,686.1 million. Recurring operating expenses in 2013, on a like-for-like basis, were 12.5% lower than in the previous year. The main costs excluded from this are exceptional acquisition-related restructuring costs.

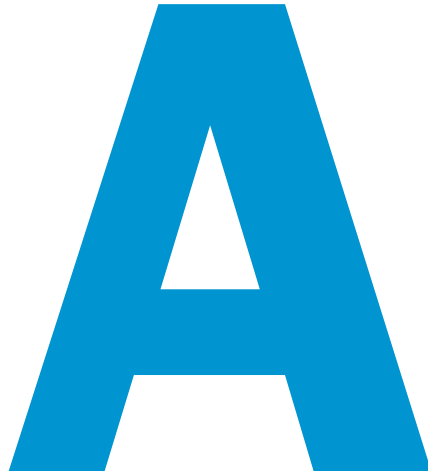
The 34.4% increase in gross income in 2013, coupled with policies to hold down costs, produced a significantly improved cost:income ratio of 48.68% in 2013 (down from 51.10% in 2012), excluding a one-off capital gain on the sale of the held-to-maturity portfolio.

All this enabled Banco Sabadell to end the year with a net profit before provisions of €2,062.3 million, an increase of 59.9% on the figure for 2012.

- Provisions for loan losses and other impairments (primarily in real estate and financial assets) amounted to €1,763.6 million after a review had been conducted of classifications of refinanced loans related to new acquisitions.
- Profits on asset disposals amounted to €43.9 million in 2013. This included a net gain of €25.6 million in December from the disposal of Banco Sabadell's stake in the Dominican Republic banking group, Centro Financiero BHD.
- The “negative goodwill” item of the 2013 income statement includes a €30.3 million gain associated primarily with the acquisition of Banco Gallego. The accounts for 2012 included a €933.3 million negative goodwill on the consolidation of Banco CAM.

After deducting corporate income tax and the profit attributable to non-controlling interests, the net profit attributable to the group at 2013 year-end was €247.8 million, that is, 202.6% higher than the figure for 2012.

## Acquisitions in 2013



Banco Sabadell's acquisitions in 2013 are a further step in consolidating its position as a major player on the national banking scene and a leader in solvency and quality of service.

Business integrations		Total (Million euro)
2008	BBVA Miami	80
2009	BNY Mellon	83
2010	Banco Guipuzcoano	97
2011	Lydian	100
2012	CAM	162
2013	Caixa Penedès Banco Gallego Lloyds Bank	163

#### Acquisition of assets from BMN–Penedès

The recent purchase of the BMN–Penedès business will enable the Bank to expand its retail banking operations in its home territory of Catalonia, where it is now the fourth largest bank with a 12% share of bank branches.



On 18 December 2012 Banco Sabadell and Banco Mare Nostrum, S.A. (BMN) reached an agreement for the transfer to Banco Sabadell of assets and liabilities forming the branch banking business of BMN in the regions of Catalonia and Aragon (“BMN-Penedès”). On 31 May 2013 the deal completed and Banco Sabadell took control of the business on 1 June.

Under the agreement Banco Sabadell acquired assets and liabilities totalling €9,779 million and €9,625 million respectively, including €9,433 million in loans and advances and some €9,200 million in deposits. The €154

million difference between the net assets and the liabilities was the purchase consideration payable to BMN. The transaction spurred a reorganization of the Banco Sabadell’s branch network in Catalonia, leading to the creation of a new Catalonia Regional Division to which the Banco Sabadell and BMN-Penedès branches were transferred. The former BMN branches in Aragon were assigned to the Bank’s existing Northern Regional division. These arrangements combine the advantages of centralized management at regional level with local specialization to meet the needs of both regions.

## Acquisition of Lloyds Banking Group España

This acquisition provides us with an opportunity to strengthen our franchise in the non-resident community in Spain and, at the same time, secure an internationally renowned partner as a shareholder.



On 29 April 2013 the Bank concluded an agreement with Lloyds TSB Bank Plc to acquire the entire share capital of its Spanish subsidiaries Lloyds Bank International, S.A.U. (“LBI”) and Lloyds Investment España, S.G.I.I.C., S.A.U. (“Lloyds Investment”). On 30 June Banco Sabadell took control of the two companies involved in the transaction. After the acquisition the name of LBI was changed to Sabadell Solbank, S.A.U. The names of subsidiary companies in the LBI group were also changed. Under the terms of the deal, Banco Sabadell acquired assets and liabilities totalling €1,705 million. The acquired business consisted almost entirely of mortgage loans (97% of all gross loans and advances, amounting to €1,598 million) and deposits of individual non-resident account holders.

The purchase consideration for 100% of the shares in the two Spanish companies was the delivery of 53,749,680

shares in Banco Sabadell from the Bank’s holding of treasury shares, the fair value of which at the time of taking control amounted to €68.5 million (€84 million on the date on which the purchase agreement was signed by Banco de Sabadell and Lloyds Bank), and the payment to Banco Sabadell of a cash sum of €1.5 million by way of a price adjustment.

This shareholding has resulted in Lloyds TSB becoming a stable shareholder: not only has it undertaken not to transfer the shares received until 30 April 2015, but a long-term strategic alliance in the commercial, corporate and private banking areas has been agreed between the Bank and Lloyds TSB. The transaction did not affect Banco Sabadell’s capital ratios since the holding acquired by Lloyds Bank absorbs the capital consumed due to the requirements of the assets acquired.

The takeover of Banco Gallego has enabled us strengthen our position among SMEs customers and personal banking clients in Galicia with 7% of the region's bank branches operating under the SabadellGallego banner.



On 17 April 2013 Banco Sabadell made a bid for Banco Gallego, S.A. in a competitive auction to sell off the business. It then went into negotiations with Spain's Fund for Orderly Bank Restructuring (FROB) on the possible terms of a purchase deal. On 19 April 2013 Banco Sabadell's bid for Banco Gallego was accepted and a contract was concluded for the purchase of 100% of the shares in Banco Gallego, S.A. for a consideration of one euro. The purchase was subject to the condition that completion would take place once the FROB had paid in

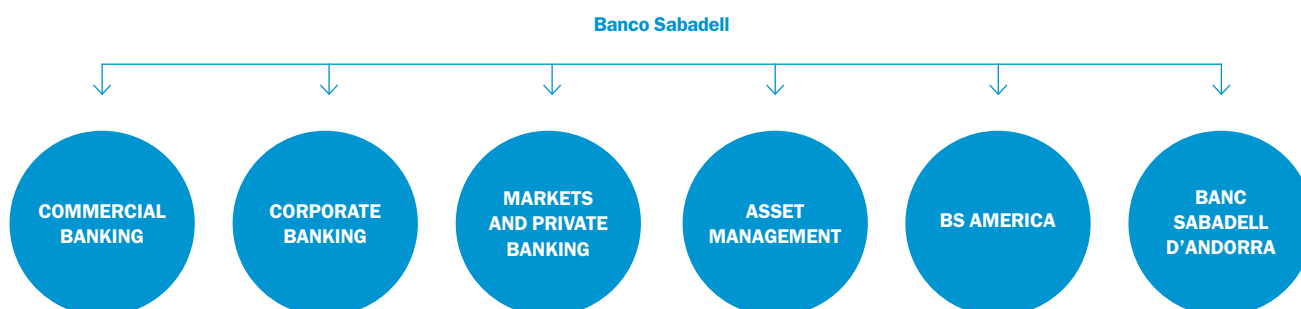
€245 million of new capital to Banco Gallego and once action had been taken to buy back Banco Gallego preference shares as part of the arrangements for the resolution of that undertaking. On 30 June the Bank took control of the business.

The intention is that Banco Gallego, S.A. and Sabadell-Solbank will be merged into Banco Sabadell and that both businesses will be integrated into the Bank during the first quarter of 2014.

## Group Businesses

**B**

The group is organized into the following business units:



### Commercial Banking

The largest of the group's business lines, Commercial Banking focuses on providing financial products and services to large and medium-sized businesses, SMEs, retailers and sole proprietors, individuals, occupational groupings, and bancassurance. Commercial Banking operates under the flagship SabadellAtlántico brand in most parts of Spain and also under a number of regional brand names (See Channels for a detailed list of branches).

### Corporate Banking and Global Businesses

Offers a range of products and services to large corporates and financial institutions in Spain and abroad. Its activities embrace corporate banking, structured finance, corporate finance, development capital, international trade and consumer finance.

### Markets and Private Banking

The division offers savings and investment management services. These range from research into alternative investment products to securities market trading, and include active wealth management and custody services. The unit comprises SabadellUrquijo Private Banking, the group's private banking arm; Investment, Products and Research; Treasury and Capital Markets; and Securities trading and custody services.

### Asset Management

In 2012 the division adopted a fresh approach and a revamped structure to manage real estate and non-performing assets. Solvia, the company tasked with managing the group's real estate assets, boasts a wealth of expertise in every aspect of the property development cycle. In 2013 a dedicated unit was set up for the resolution of mortgage loans to individual borrowers by taking early action in

cases of default. Solvia also has a retail sales unit and sales teams specializing in putting together portfolios of assets to be offered to institutional buyers or disposing of assets with special or unusual features.

[Banco Sabadell also operates in foreign countries through a number of businesses:](#)

#### BS America

This operation comprises a number of business units, affiliates and representative offices which together provide financial services in the corporate banking, private banking and commercial banking fields. It has the capability and experience to provide a full range of banking services, ranging from highly complex and sophisticated products for large corporate clients, including structured and project finance, through to products for the individual customer. This business is conducted through Banco de Sabadell Miami Branch, Sabadell United Bank, and Sabadell Securities.

#### BancSabadell d'Andorra

A bank operating within the Principality of Andorra in which Banco Sabadell holds a 50.97% stake. Its target customers are medium- and high-income individuals and larger companies operating in the Principality.

[Details of pre-tax profit and other key performance data for each of these group businesses for 2013 are set out below:](#)

	Sabadell				Real Estate
	Commercial	Corporate	Urquijo	Investment	Asset
	Banking	Banking	Private Banking	Management	Management
<b>Net interest income</b>	<b>1,321,702</b>	<b>175,749</b>	<b>10,145</b>	<b>652</b>	<b>67,835</b>
Fees and commissions (net)	590,438	33,789	36,609	41,460	(2,763)
Other income	(48,835)	5,233	3,253	3,285	(6,970)
<b>Gross income</b>	<b>1,863,305</b>	<b>214,771</b>	<b>50,007</b>	<b>45,397</b>	<b>58,102</b>
Operating expenses	(1,255,472)	(27,170)	(38,319)	(20,046)	(191,664)
of which: personnel expenses	(659,824)	(7,031)	(24,961)	(12,551)	(52,985)
Net provisions	0	0	0	0	(301)
Impairment losses	(353,013)	(108,479)	(2,566)	0	(362,216)
Other income/expense	0	0	0	(13)	(520,861)
<b>Operating profit/(loss)</b>	<b>254,820</b>	<b>79,122</b>	<b>9,122</b>	<b>25,338</b>	<b>(1,016,940)</b>
<b>Profit before tax</b>	<b>254,820</b>	<b>79,122</b>	<b>9,122</b>	<b>25,338</b>	<b>(1,016,940)</b>
<b>Ratios (%)</b>					
ROE (Profit/average shareholders' equity)	5.6%	7.7%	20.7%	80.5%	(44.7%)
Cost: income ratio (general administration expenses/gross income)	67.4%	12.7%	76.6%	44.2%	329.9%
<b>Other information</b>					
Employees	12,180	96	269	147	807
Branches in Spain	2,356	2	12	—	—

## Commercial Banking in 2013

### Customer segments

#### Business banking

Significantly, 67% of the unit's business is accounted for by large corporates. The "Cuenta Expansión Empresas" business account was launched to complete the Bank's competitive product offering designed to win new customers. The group's aim of increasing lending and helping businesses gain access to credit was realized through its "Plan Crecimiento" (Plan for Growth) scheme. In the area of foreign

trade the Bank shown its firm commitment to supporting Spanish companies in their business ventures in foreign markets by launching its "Exports for Growth" programme.

#### Individual customers

Record figures for customer growth were achieved for the third year in succession.

Milestones: introduction of the group's Personal Banking business model at SabadellCAM branches; increased market share in mortgage lending; growth of consumer loan approvals in 2013.

**Banco Sabadell, a market leader  
in quality of service to customers**  
(according to Stiga's EQUOS-RCB Bank  
Branch Quality Survey for 2013).



## Milestone achievements by other group brands:

### SabadellHerrero

- Business focus on increasing market shares in both customer numbers and deposits.
- Leadership in ICO credit lines reaffirmed with market shares of 39.3% in Asturias and 22.2% in León.
- Loan defaults contained.

### SabadellGallego

- New brand launched in November 2013.
- Incorporation of Banco Gallego branches into group and change of brand name to SabadellGallego.

### SabadellGuipuzcoano

- Successful drive to attract new customers, especially businesses.
- Loan defaults contained.

### SabadellCAM

- Integration of processes and people (transfer of group culture and values, training, tutoring and support) one of the year's major challenges.
- A key aspect in customers' quality of service perceptions: measures to equip and prepare branches to operate as part of Banco Sabadell network.
- Increased brand awareness and media presence; increase in acquisition of new customers and long-term customer relationships.

# Bancassurance, a major contributor to group performance.

## Bancassurance

At 31 December 2013 the total volume of funds under management in insurance policies and pension funds was €12,430.8 million. Life and non-life issued premiums totalled €319.2 million.

In 2013 Bancassurance, the group's insurance and pensions business, generated an overall net profit of €82.6 million and €64.6 million in commissions.

During the year Bancassurance worked hard to restructure its business. As a result the insurance and pensions business is now structured in the following way:

- Sabadell Vida, Sabadell Pensiones and Sabadell Seguros Generales, operating since 2008 as a joint venture in partnership with the Zurich insurance group.
- Mediterráneo Seguros Diversos operating as a joint venture with CASER since 2011.
- Mediterráneo Vida, Sabadell Mediación Operador Bancario de Seguros Vinculado and Banco Gallego Vida y Pensiones, wholly-owned subsidiaries of Banco Sabadell.

## Channels

Banco Sabadell is an industry leader in harnessing technology to offer its customers innovative services that can be accessed via any channel: BS Online, electronic banking, mobile banking, telephone, email, chat, videoassistance, Twitter, Facebook, GooglePlus and ATM.

Our ambition is to make our branches into a multi-channel network so that employees and customers can interact in different ways; at the same time, we are making banking easier and simpler so that service is what really makes the difference.

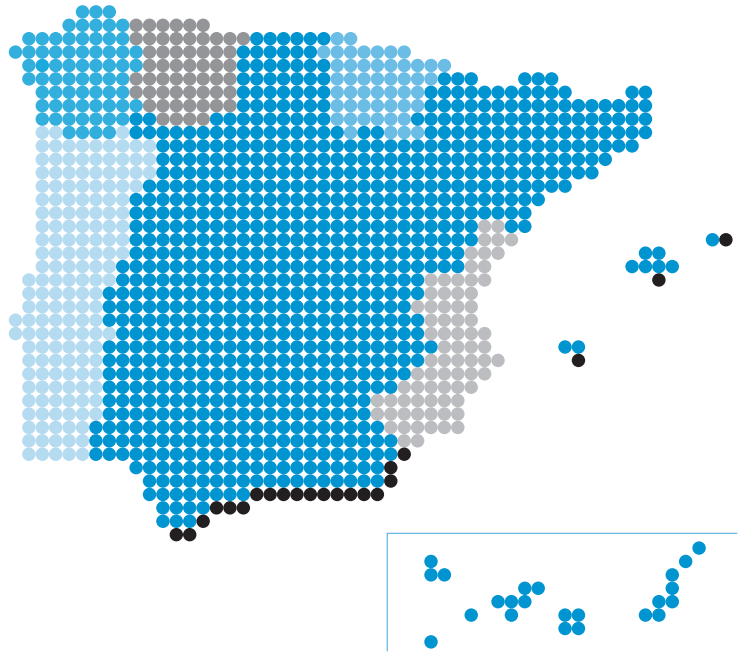
## Branch network

At the end of the year Banco Sabadell was operating a total of 2,418 branches, including its 2,370 branches in Spain. The distribution of these branches by region and brand name was as follows:

**Spanish branches  
at 31 December 2013**

● SabadellGallego	117
● SabadellHerrero	178
● SabadellGuipuzcoano	128
● SabadellCAM	508
● SabadellAtlántico	1,230
● SabadellSolbank	101
● SabadellUrquijo	12

Banco Gallego (outside Galicia)  
has 66 branches; SabadellSolbank  
(Lloyd's) has 28 and ActivoBank 2.



**International network  
at 31 December 2013**



● <b>Subsidiaries and associates</b>	● <b>Branches</b>	● <b>Representative Offices</b>	
Andorra	France	Algeria	Poland
USA	Morocco	Brazil	Singapore
Portugal	United Kingdom	China	Turkey
	USA	Dominican Republic	Venezuela
		India	United Arab Emirates
		Mexico	USA

## Professional/occupational groupings, agent partners and associate banking

Two important initiatives during the last four months of the year were the setting up of an Enterprise Department and the launch of the BStartup programme. This, it is hoped, will position Banco Sabadell as the bank that caters for individual entrepreneurs and new business ventures. There was also a rise in the number of partnership agreements with professional associations other occupational groupings, an area in which Banco Sabadell is an industry leader.

## Remote-access channels

### BS Online

At the end of the year BS Online was the online banking service most highly rated for availability of web services for individual customers of Spanish banks according to metrics produced by Eurobits, a specialist online bank benchmarking organization. BS Online Empresa, the Bank's online banking service for businesses, ended the year in second place for business web-based services.

## ATM network

### Transactions

**91.2 million**

- 61% credit/debit card
- 39% savings booklet updates

### ATMs

**3,222 ATMs**

**358 booklet updaters**

**1,168 ATM replacements or capacity upgrades**

### Service improvements

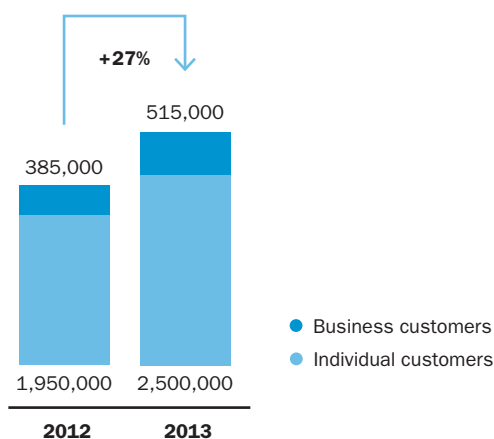
**Better machine and cash monitoring**

**Improved navigation for frequent transactions**

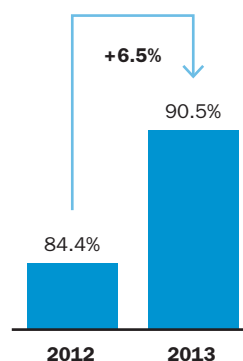
(cash withdrawal, booklet update and account balance)

**New features and operational consolidation**

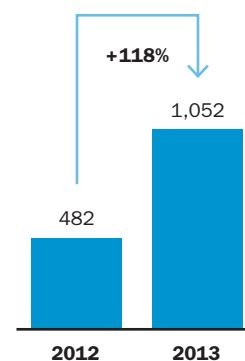
(e.g. no-card statement requests or Instant Money by mobile phone)



**F1** BS Online sign-ups



**F2** Internet use ratio  
(Online transactions as % of total)



**F3** Transaction volume  
(in thousands)

### BS Móvil

BS Móvil, Banco Sabadell's smartphone banking application, held its position as one of the top eight most downloaded apps on the Spanish market (see Figure F4).

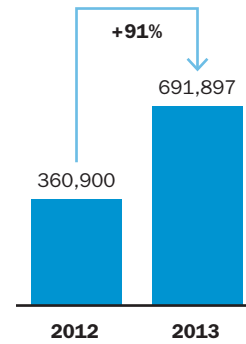
### Branch Direct

In 2013 Branch Direct, the “virtual office” part of the group's remote banking services, continued its transformation to take on a more commercial role. Its focus on winning new customers and selling consumer finance products led to more than 13,000 new customer sign-ups and more than 6,100 loans being arranged.

During the year Branch Direct received and handled more than 2,601,000 enquiries, 61% more than in the previous year. The telephone banking service achieved a service availability ratio of 96.27% (calls answered as a proportion of calls received). Users rated the service at 4.39 on a scale from 1 to 5, based on the more than 308,649 questionnaires sent.

### Social networking sites

In 2013 Banco Sabadell continued to grow and develop its presence on social networking sites. The investment in social networking and technological innovation has been a key success area for Banco Sabadell. The group also continued to invest in customer service, sound management and quality of service, being nominated for best service on twitter in the Tweet Awards.



F4 BS Móvil active users, 2012–2013

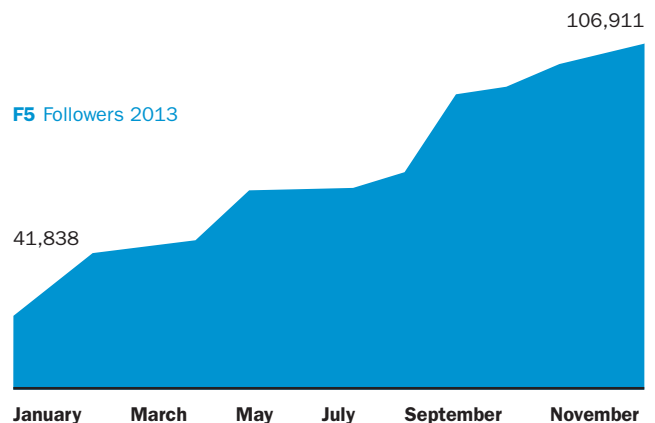
### New contact net accounts

**On Twitter**  
[@SabadellBank](#)  
[@Bstartup](#)  
[@bspress](#)

**On Facebook**  
[SabadellBank](#)

## Banco Sabadell became the first Spanish bank to be the subject of a case study on Facebook.

The “Som Sabadell” flashmob, went viral with over 31 million viewings, making it one of the top 20 most viewed ads anywhere in the world. In 2013 Banco Sabadell further developed its ability to produce its own content by publishing 360 articles on its blog and making 70 videos. Having its own TV channel, bancsabadelITV, means being able to transmit live events such as video tutorials and lectures. All these activities have earned Banco Sabadell more than 100,000 followers on social networking sites (see Figure F5).



F5 Followers 2013

## Corporate Banking and Global Businesses in 2013

The year 2013 was a year of transformation for Corporate Banking marked by a change in strategic focus and a change of organizational culture to enhance our ability to deliver excellence to customers operating in a global market.

## Structured Finance

In the international sphere we strengthened our position in the US, where we embarked on a key project to take part in loan syndication deals in Mexico. Our new business as an operator on Spain's alternative fixed-income market ("MARF") made a good start.

# Banco Sabadell, once again, a Spanish market leader in Structured Finance.

## Corporate Finance

The year saw the successful completion of four transactions in the aeronautical engineering, civil/harbour engineering, underground parking lot and real estate sectors.

## Development capital

Acting through two subsidiaries, Aurica XXI, SCR de Régimen Simplificado, S.A. and Sinia Renovables, SCR de Régimen Simplificado, S.A. the Bank supports the growth of non-financial companies by providing short-term capital and active assistance. This support was continued in 2013.

## Development capital

The Bank's international trade business had another very busy year, thanks in part to the growth in exports. Banco Sabadell has always been a pioneer in seeking a presence in foreign markets such as China, where it has two offices (in Shanghai and Beijing), India, Singapore, Turkey, the United Arab Emirates and Algeria. Its foreign branches and offices continue to offer significant added value to the international operations of Spanish businesses. Its Casablanca branch, the first to be opened in Morocco by a Spanish bank, met all the targets set for it and continued to make solid progress.

## Consumer Finance – SabadellFincom

The prolonged contraction in consumer demand did nothing to prevent SabadellFincom from continuing to grow in both revenue and market share compared with the previous year. Additionally it was able to reduce customer default levels to 4.99% and build up provisions to 105% of doubtful loans.

The Bank won awards from the  
British specialist corporate finance magazine  
*Acquisition International*  
(being named "M&A Advisory Firm of the Year - Spain"  
and "Corporate Finance Firm of the Year - Spain").

## Markets and Private Banking in 2013

### SabadellUrquijo Private Banking

SabadellUrquijo Private Banking is the division of Banco Sabadell specialized in serving the group's private banking clients. Much work was done in 2013 to raise public awareness of SabadellUrquijo Private Banking as a leading player in serving high-income clients. Business increased by 4.7% over the year to reach a total of €23,963 million and a total of more than 28,700 private banking clients.

### Investment, Products and Research

The division continued to focus on financial market analysis and research to identify the right asset allocation strategies as a guide to investment policy and product planning. This last activity proved to be particularly important and beneficial in 2013 now that we are seeing an upturn in expectations for economic growth on the European periphery that had been anticipated and factored into our investment recommendations.

Assets under management in Spanish-domiciled mutual funds of financial assets amounted to €6,255.5 million, up 40.8% on the previous year's total for Spanish-domiciled funds.

### Treasury and Capital Markets

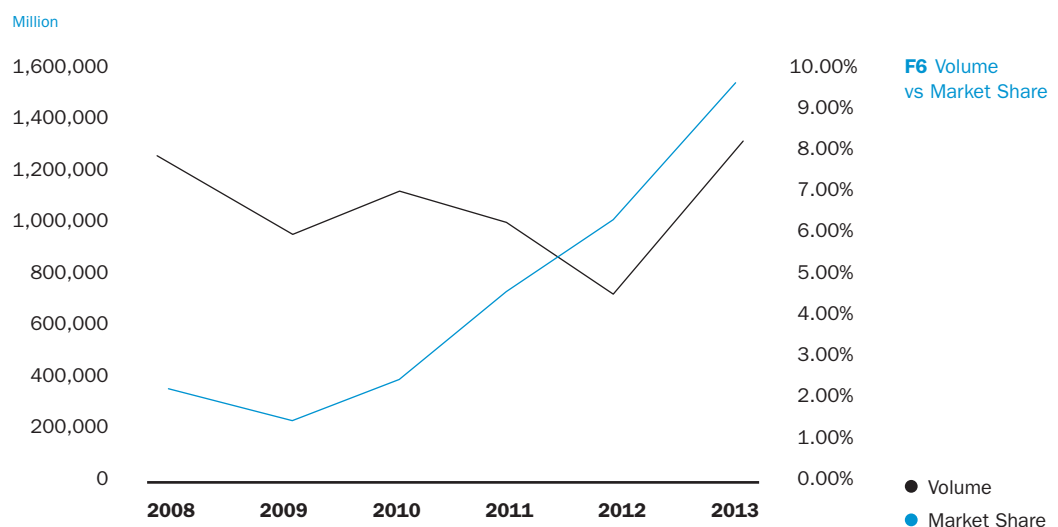
In 2013 despite the continued weakness of the economy and a financial environment characterized by interest rates falling to all-time lows, the division was able to meet its targets thanks to persistent sales efforts and an increase in business activity by customers in foreign markets leading to a corresponding increase in income from FX products. Banco Sabadell was the first bank to be approved as a registered member and investment advisor by MARF, Spain's new alternative bond market, to be able to offer businesses a complete service in all areas of finance. In 2013 the Bank was the first Spanish bank to join EurexOTC Clear for interest rate swaps (IRS's), thus anticipating the coming into force of new regulations on trading IRS's through clearing houses.

### Securities trading and custodian services

2013 was a year of recovery in volumes and asset values and this provided a substantial boost to the group's securities business, which saw growth in both volumes and margins compared with the previous year (see Figure F6).

In 2013 Banco Sabadell mutual funds earned outstanding accolades. Sabadell Inversión was the only Spanish-domiciled fund manager to be awarded a high qualitative grading by Standard & Poor's Capital IQ Fund Research.

Banco Sabadell confirmed its position as a market leader by trading volume, taking second position among Spanish market members with a share of more than 9.5%.



# Commercial sales of real estate more than met their targets in 2013 and continued to outpace the market.

The year 2013 saw sales of real estate assets increase by 40% on the previous year to a total of €3,120 million on higher-than-expected sales of 18,501 units.

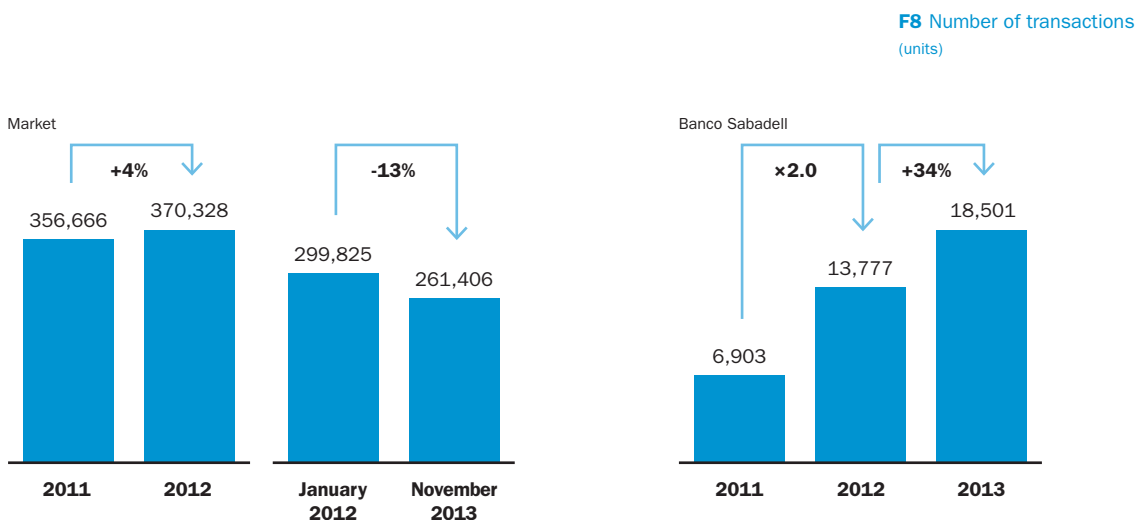
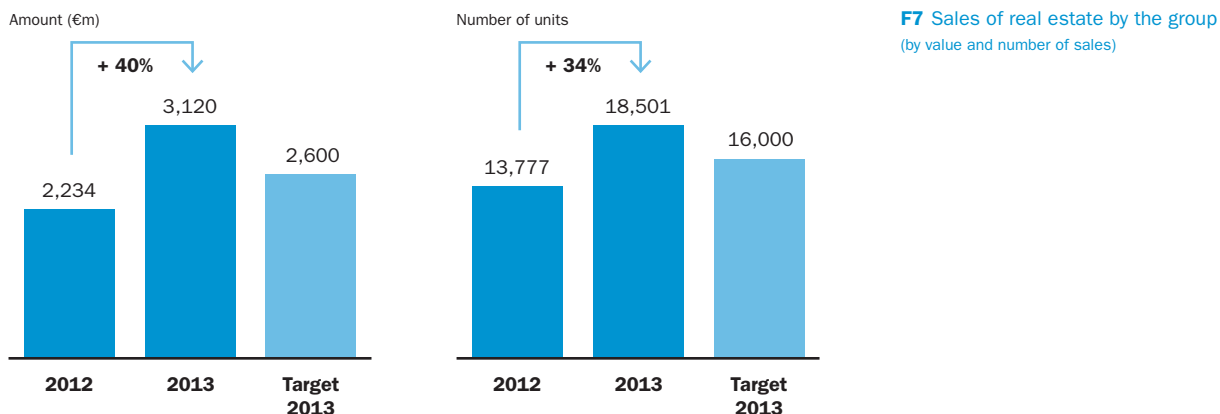
Key developments on the marketing front in 2013 included the launch of a special international channel designed to sell properties to residents of foreign countries; and an “open platform” arrangement under which, for optimum marketing efficiency, properties could be offered to the market by more than one agent.

Solvia Inmobiliaria is currently Spain’s second largest bank-operated real estate web site and ninth largest real estate web portal. It is also the country’s second most

widely recognized brand in the residential property and construction sectors, with a 40% brand awareness rate among potential property purchasers.

In addition, a number of measures were taken to add value to the properties being offered for sale and this made it possible to raise prices for the first time since 2007.

The year 2013 saw an upturn in investment in the wholesale real estate market. Banco Sabadell completed a number of sales of property portfolios. These sales included one portfolio of some 1,000 residential properties and portfolios of assets previously written off, building plots and office building developments.





## **Sabadell America in 2013**

Banco Sabadell's business in the US amounts to more than USD 8,000 million with total assets of USD 6,200 million, making it Florida's seventh largest local bank by total assets.

### **Banco Sabadell Miami Branch**

At the close of the year Banco Sabadell's operating branch in Miami had more than USD 5,500 million in customer deposits and funds under management. Client portfolio management was up 45%. In 2013 the Miami branch continued to provide finance for projects in the energy and tourism sectors, mainly in the US and Mexico.

In November it acquired the assets and liabilities of Lloyds TSB Bank's branch in Miami. The takeover accounted for a large part of the growth in Banco Sabadell's US business during the year.

### **Sabadell United Bank**

During the year Sabadell United Bank made further progress in implementing its operating and sales efficiency drive, with a particular emphasis on promoting its mortgage plan to customers and developing alternative sales and customer service channels. As 2013 drew to a close, it was managing assets of some USD 3,866 million with deposits close to USD 3,200 million and loans and advances

approaching USD 2,900 million. It was serving more than 45,000 customers. Sabadell United Bank reported a net profit for 2013 of USD 45 million.

In December it signed an agreement to purchase Miami-based JGB Bank whose total assets amount to some USD 500 million. It is expected that the transaction will complete and that JGB Bank will be merged with Sabadell United Bank and integrated on its systems in the course of 2014.

### **Sabadell Securities**

Sabadell Securities USA Inc., an SEC-registered investment consultancy, operates as a stockbroker and advisor to securities market investors. The business is both a complement to and a strengthening factor in the BS America strategy.

### **Other businesses**

#### **BancSabadell d'Andorra**

BancSabadell d'Andorra is the Andorran bank that has done best since the onset of the financial crisis in 2008, having shown sustained bottom line growth with a profit in 2013 of €6,900, a ROE of 11.5% and a healthy 10.4% growth in funding. It has also been able to maintain lending at previous levels.

**In 2013 Sabadell United Bank  
won another 5-star rating  
from Bauer Financial, the highest  
grade awarded by the independent  
US bank rating organization.**

**Excellence**

**E**

# The integration of branches acquired from BMN–Penedès was successfully accomplished, as operating and IT systems were merged and the change of brand was completed.

2013 was the last year of the “CREA” 3-year plan, designed to bring about a transformation of the group’s operating and business processes. The plan has given the Bank the tools and resources it needs to increase productivity and accommodate the anticipated growth in customer numbers while maintaining the high-quality service that is the group’s hallmark. This has meant giving greater visibility to income generation and striving even harder to manage down costs and bad debts.

## Operational and organization change

To enable branches to focus their efforts on purely business-related tasks, action was taken during the year to reduce the administrative workload at branches by concentrating administrative tasks at dedicated central units. A system of sales incentives was also developed to promote a more sales-oriented approach.

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### Administrative workload at branches reduced as work transferred to Regional Administrative Centres (RACs)

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- 96% of service-related transactions
- 91% of product-related transactions

## Technology

First, the integration of assets acquired from BMN–Penedès in 2013 and the increase in customers and business resulting from the takeover of Banco CAM in December 2012 made it necessary to upgrade Banco Sabadell’s IT systems to obtain a very considerable increase in processing capacity. Increased capacity was required not only in the banking IT system to accommodate a twofold increase in activity, but in the IT systems running the BS Online and BS Mòvil online banking services, which saw increased usage of 44% and 75% respectively. There was also room for some technological innovation during the year, including such state-of-the-art projects as an e-banking app for Google Glass that is without equal in Spain.

## Human Resources

### Employee training

The Bank continued its policy of providing training for all group employees, achieving high levels of participation. This included a highly successful programme to train new employees entering the organization as a result of recent acquisitions. These employees were supported by tutors assigned to newly integrated branches. In-service training was extended across the entire branch network, with more than 6,207 employees taking part. This included the “Laude” programme, an arrangement with the University of Barcelona to award university qualifications to employees successfully completing in-house training courses.

### Human resources development

At senior management level fresh progress was made in the group’s approach to executive training, including 360-degree assessments in a continuation of the Executive Leadership Programme with 254 senior managers taking part, and a Senior Management Audit and Assessment exercise to draw up management structures for the new Catalonia and Northwest regional divisions. Other key training actions included online and attendance-based training for 400 managers from the group’s Central Services divisions. Our Business Development Programme helped branch employees meet the challenges of adapting



to the new approach to customer relationship management and business development; a third Corporate Management Programme (CMP) provided recently appointed middle-management employees with the new management and leadership skills expected of a Banco Sabadell executive.

### Executive remuneration

During the year, as permitted by the regulations on remuneration enacted by the European authorities and the legislation implementing these in Spain, and with the authority of a resolution of the General Meeting, the group approved the use of options on Banco Sabadell shares as a form of payment of variable compensation accruing in the year 2012, to which directors and employees subject to regulatory oversight have voluntarily agreed.

### Banco CAM Assistance Plan

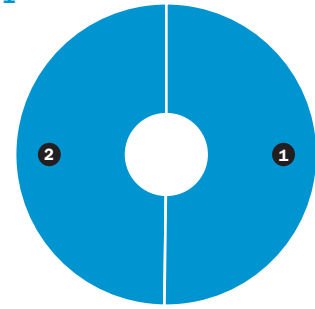
The assistance plan linked to the redundancy procedure applicable to employees of the former Banco CAM comprised two simultaneous initiatives: first, a plan to revitalize business in the Levant Regions and, second, an outplacement scheme that has enabled 33% of ex-employees enrolled in the scheme to find other jobs.

### Quality Management

For Banco Sabadell, quality is not just a strategic option; rather, it is a whole approach to doing business, whether in delivering value to stakeholders or in the execution of each and every process forming a part of that business.

The Bank measures itself by a number of standards and benchmarks to be sure that its way of doing business is the right one, and it sets itself new targets based on continual self-criticism. This effort is reflected in a number of certificates and awards.

F1



#### Composition of group employees

1 Men	50.20%
2 Women	49.80%

#### Total employees

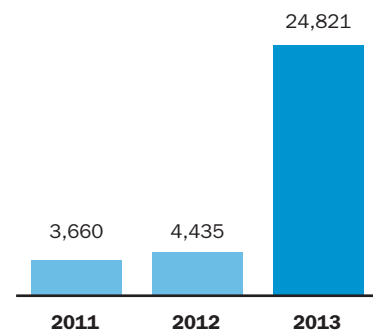
18,077 (15,596 in 2012)

#### Average age

42.4 years

#### Average length of service

16.5 years

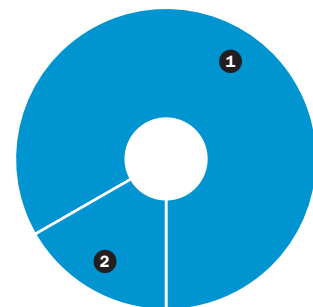


#### F4 Claims and complaints examined

\* Data for branches acquired from BMN-Penedès were included from June 2013 onwards.

\* Data for claims and complaints do not include Banco Gallego and SabadellSolbank.

F2



#### Distribution of claims and complaints

1 Claims	83.3%
2 Complaints	16.7%

### Quality in customer service

Banco Sabadell is a Spanish market leader in quality of service and customer satisfaction ratings from both business and individual customers. Professionalism, care and attention to detail, and insistence on best practice are the group's defining values.

To make this possible, the Bank carries out regular studies that enable it to identify areas for improvement as they develop, both throughout the whole organization and at each individual branch. These include branch quality audits and customer satisfaction surveys (see Figure 5).

### Customer and user protection

Any customer or user of group services can contact the Customer Service Department (CSD) if they have a complaint or a claim that cannot be settled with the branch in the normal way.

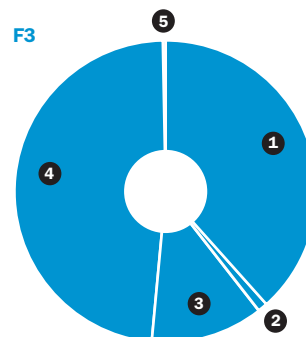
The CSD is independent from the business and operational side of the group and is governed by the group's own rules and procedures on customer and user protection (see Figures 2, 3 and 4.)

### Qualis Awards for Excellence

Of particular interest are the prizes awarded to the best bank branches, as examples of successful teamwork. This year's winners were the branches at la Jonquera, Illescas, Alhaurín el Grande, and Segorbe and the Elche-Parque Empresarial and Palma de Mallorca business branches. The Qualis Gold Prize, which is given in recognition of a person's past career, was awarded to Luciano Méndez Sánchez, head of Caribbean Business.

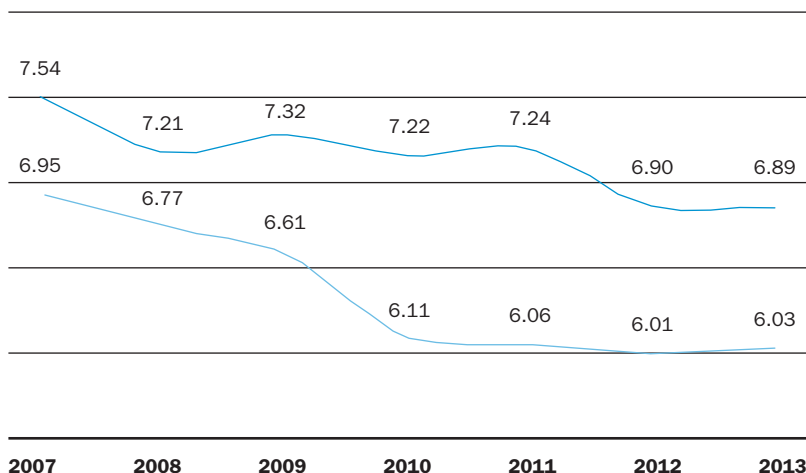
### Employee participation for improvement and innovation

During the year 2013 a total of 4,129 employees posted messages on BS Idea, the group's Web 2.0-based collaborative platform, contributing 2,656 ideas.



**How claims and complaints were resolved by the CSD**

1 In customer's favour	35.33%
2 Partly favourable to customer	0.97%
3 Settlement reached with customer	11.08%
4 In Banco Sabadell's favour	44.38%
5 Claim dropped by customer	0.28%



**F5 Quality rating evolution (index)**

- Sabadell
- Sector

# Risk management

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# Consultancy Oliver Wyman was commissioned by Banco Sabadell to conduct a stress test to measure the resilience of its balance sheet in the period June to December 2016.

In anticipation of tests of balance-sheet resilience under different stress scenarios which the European Central Bank is to carry out on European banks in 2014 in coordination with the European Banking Authority, Banco Sabadell engaged consultancy Oliver Wyman to conduct its own internal stress test. The test measured the resilience of Banco Sabadell's balance sheet in the period June 2013 to December 2016 under two specified macroeconomic scenarios: one central and one pessimistic. The result was that, over the test period, Banco Sabadell was found to have a loss absorption capacity and a capital surplus (to cover losses in the loan book and the foreclosed asset portfolio) of 24,800 million and 5,800 million, respectively, under the central scenario and 25,300 and 2,400 million under the pessimistic scenario.

The chief categories of risk inherent in the business of Banco Sabadell and its group are credit risk, market risk and operational risk.

The accurate and efficient management and control of risk is critical to realizing the aim of maximizing shareholder value while ensuring an appropriate degree of financial strength. The management and control of risk comprises a broad framework of principles, policies, procedures and advanced evaluation methodologies, integrated within an efficient decision-making structure. These are fully and clearly set out in the Annual Accounts, the Report of the Directors, the Report on Corporate Governance and the Basel Pillar 3 Disclosures, all of which can be found on the group's web site.

Banco Sabadell complies with guidelines drawn up under the Basel Capital Accord, a fundamental principle of which is that a bank's capital requirements should be more closely related to risks actually incurred, based on internal risk measurement models which have been independently validated. The Bank has supervisory approval for the use of its own internal models in estimating its regulatory capital requirements (see Figure F3 & F4).

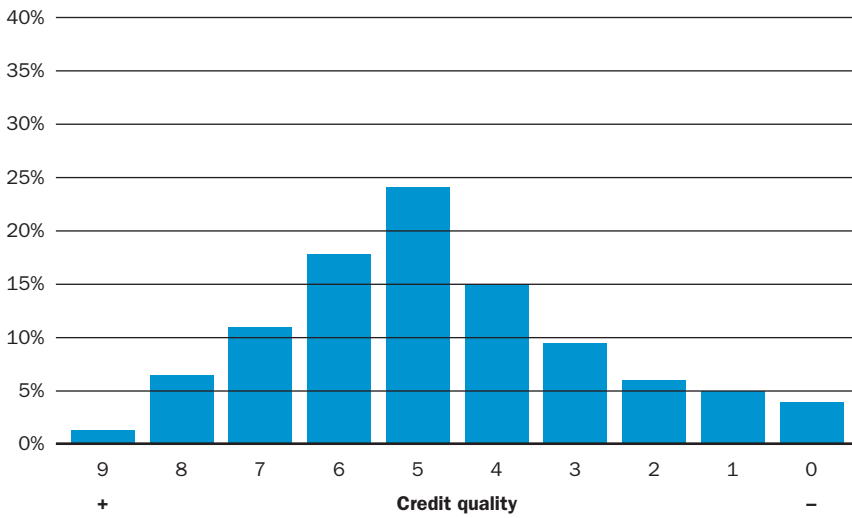
## **Credit risk**

Credit 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.

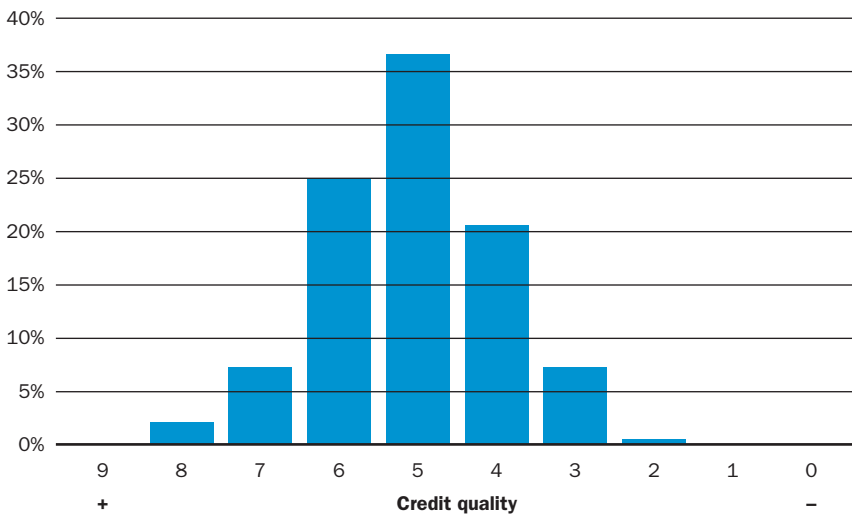
To maximize the business opportunities provided by each customer and to guarantee an appropriate degree of security, responsibility for monitoring risks is shared between the relationship manager and the risk analyst, who are thus able to obtain a comprehensive view of each customer's individual circumstances.

The Board of Directors delegates powers and discretions to the Risk Control Committee, which then sub-delegates authority at each level. The addition of controls on these authority thresholds to loan approval management systems ensures that the powers delegated at each level are appropriate to the expected loss estimates for all loan applications by business customers.

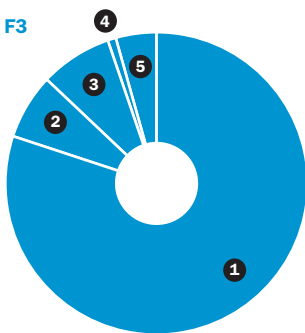
The establishment of effective processes for managing existing risk exposures also benefits the process of managing past due accounts, since the early identification of probable default cases ensures that measures can be taken proactively. With an early warning system, the quality of a risk can be monitored in an integrated way and risks transferred to recovery specialists who are best equipped to determine the most suitable type of recovery procedure in each case (see Figure F1 & F2).



F1 Business loan portfolio.  
Credit rating profile

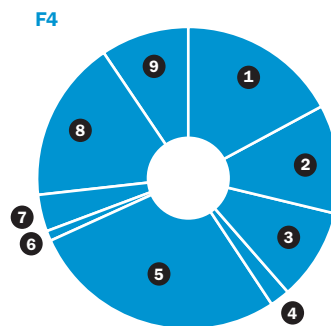


F2 Individual customer loan portfolio.  
Credit rating profile



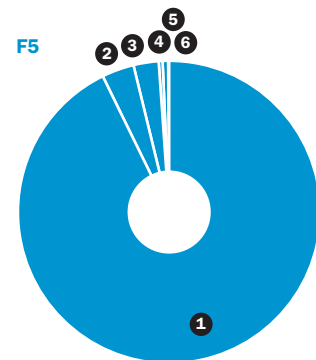
F3 Allocation of economic capital  
(by type of risk)

1 Credit risk	80%
2 Structural risk	7%
3 Operational risk	8%
4 Market risk	1%
5 Other risks	4%



F4 Overall risk profile by customer  
category (distribution of credit  
risk exposures)

1 Large corporates	17.14%
2 Midsize businesses	11.63%
3 Small businesses	9.80%
4 Retailers and sole proprietors	2.12%
5 Mortgages	27.52%
6 Consumer loans	1.08%
7 Banks	3.93%
8 Sovereigns	17.32%
9 Other	9.45%



F5 Credit risk  
(distribution by geography)

1 Spain	92.76%
2 Other European Union	3.44%
3 Usa & Canada	2.69%
4 Rest of world	0.41%
5 Latin America	0.59%
6 Other OECD	0.11%



## Country risk

This is the risk of incurring loss from exposures to sovereign borrowers or to persons domiciled in a particular country, for reasons connected with national sovereignty or the economic situation of the country. Country limits are approved by the Risk Control Committee and are constantly monitored to ensure that any deterioration in the political, economic or social situation in a country can be detected in good time (see Figure F5).

## Credit risk in market trading

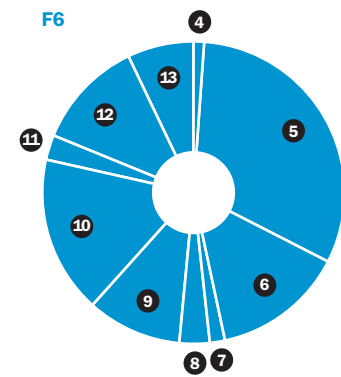
This is the risk associated with trading in financial instruments in market transactions with financial counterparties and in the fixed-income portfolio. Banco Sabadell has a system in place for assessing and managing these risks which allows compliance with approved limits to be monitored and controlled on a daily basis. In addition, to mitigate exposure to counterparty risk Banco Sabadell maintains netting agreements negotiated with the majority of its counterparties. The collateral provisions of these agreements ensure that exposure to such counterparties is significantly reduced (see Figure F6 & F7).

## Market risk

### Discretionary market risk

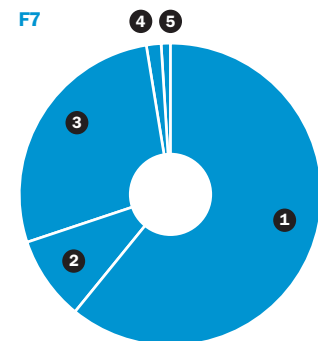
Discretionary market risk arises from the possibility of loss in the value of financial asset positions due to variations in any of the factors affecting market risk (stock prices, interest rates, exchange rates or credit spreads).

Discretionary market risk is measured, in most cases, by the VaR (Value at Risk) method, which allows the risks on different types of financial market transaction to be analysed as a single class. VaR limits are approved by the Risk Control Committee and are assigned on a top-down basis, with the overall limit being divided into sub-limits for different business units and risk factors down to individual portfolio level. In addition to VaR limits other types of limit are applied, such as sensitivity, nominal value and stop-loss limits; these, along with VaR, ensure that a complete assessment of market risk exposure can be obtained. Market risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits assigned to each unit are sent to the relevant control functions. The following graph (F8) shows the movement of the 1-day VaR for trading operations by the group's treasury market operations in the year 2013 at a 99% confidence level.



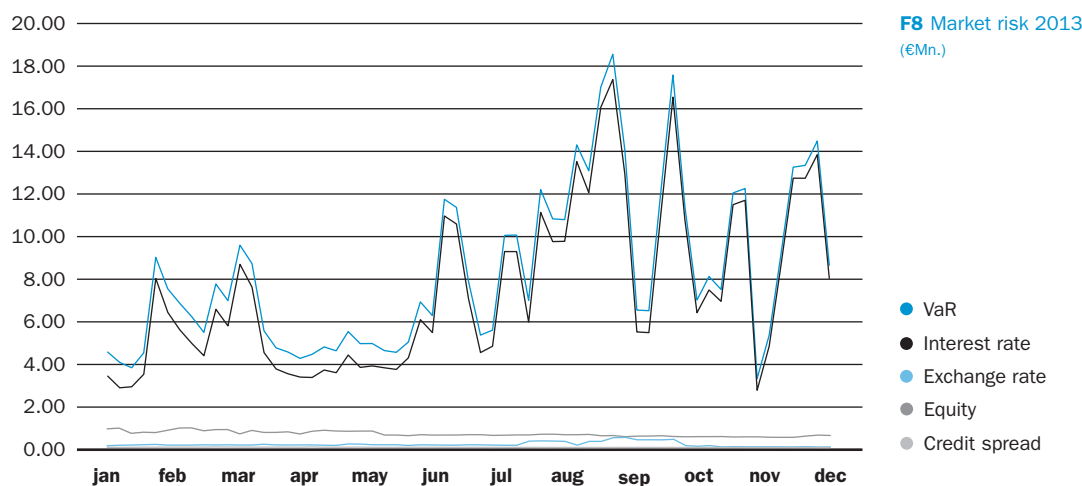
**Counterparty risk  
(distribution by credit rating)**

1	AAA / Aaa	0.00%
2	AA+ / Aa1	0.00%
3	AA / Aa2	0.00%
4	AA- / Aa3	1.12%
5	A+ / A1	31.40%
6	A / A2	14.12%
7	A- / A3	1.62%
8	BBB+ / Baa1	3.24%
9	BBB / Baa2	10.14%
10	BBB- / Baa3	16.86%
11	BB+ / Ba1	2.66%
12	BB / Ba2	11.74%
13	Other	7.09%



**Counterparty risk  
(distribution by geography)**

1	E.M.U.	60.88%
2	Rest of Europe	9.00%
3	Other USA & Canada	27.55%
4	US Investment banks	1.57%
5	Rest of world	1.00%



## Structural interest rate and liquidity risk

### Interest rate risk

Interest rate risk is caused by changes, as reflected in the position or the 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 results. The sensitivity of net interest income and shareholders' equity to a 100 basis point change in interest rates for the years 2012 and 2013 is illustrated in the following diagram (F9).

### Liquidity risk

This can be defined as the possibility of the Bank's being unable to meet payment commitments, even if only temporarily, due to 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. Banco Sabadell keeps a close watch on day-to-day changes in its liquid asset position and holds a diversified portfolio of such assets. It assesses the quality of its portfolio of liquid assets by studying the sensitivity of these assets to different scenarios. In addition, liquidity gap analysis is used to manage foreseeable mismatches between cash inflows and outflows over a medium-term horizon.

The Bank carries out regular liquidity stress testing exercises to enable it to assess inflows and outflows of funds and the impact of these flows on its cash position under different scenarios. It has a contingency plan to respond to unexpected scenarios that could cause an immediate funding requirement.

## Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from unforeseen external events. Banco Sabadell pays particular attention to operational risk and has implemented a management, measurement and oversight framework that fulfils the conditions necessary to opt for the use of an advanced model for calculating regulatory capital charges for operational risk.

Senior managers and the Board of Directors play a direct, hands-on role in managing operational risk by approving the management framework and its implementation as proposed by an Operational Risk Committee made up of senior managers from different functional areas of the company; they also ensure that regular audits are carried out on the management strategy being applied, the reliability of the information being reported, and the internal validation tests required by the operational risk model. The group has a specialized central unit to manage operational risk, whose main functions are to coordinate, supervise and drive forward the identification, assessment and management of risks by process managers in line with Banco Sabadell's process-based approach.

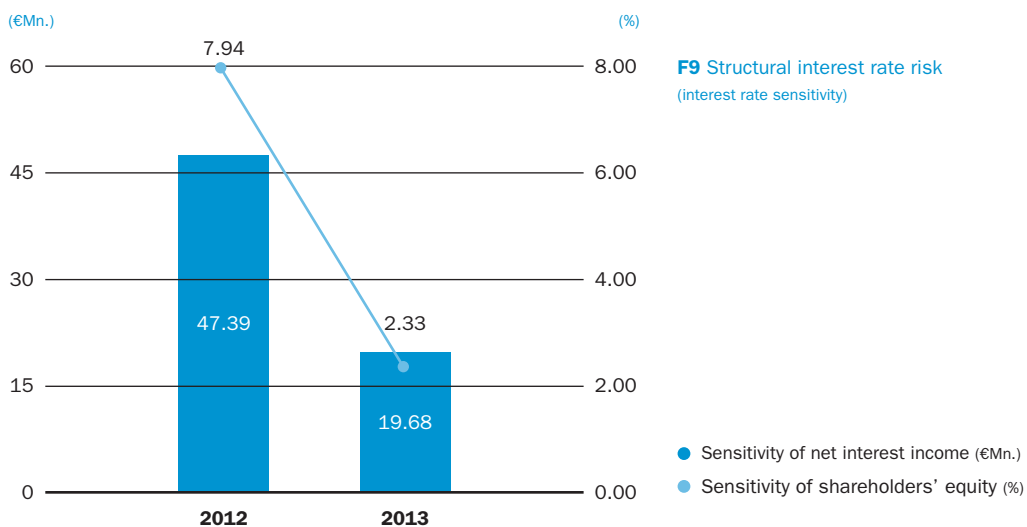
The database contains historical records of actual losses resulting from operational risk going back to 2002. It is constantly being updated as information is received on losses and also on recoveries, whether resulting from the Bank's own efforts or from insurance provision.

## Compliance risk

Compliance risk is the risk of incurring legal or administrative sanctions, significant financial loss or reputational damage as a result of an infringement of laws, regulations, internal procedures and banking industry codes of conduct.

The Banco Sabadell group has installed a more robust and effective control infrastructure in all areas where a compliance risk may be present, such as prevention of money laundering and the financing of terrorism, market abuse, internal codes of conduct and investor protection (MiFID). Key actions implemented in 2013 included the following:

- Constantly updated anti-money laundering, Know-your-Customer and customer acceptance systems and procedures.
- Expanded and more rigorous measures to bring greater transparency to all dealings with customers, particularly in the marketing of products and the terms of contracts.
- Improving investor protection by implementing new procedures to evaluate the timeliness and suitability of investments.
- Establishing stronger mechanisms for detecting possible market abuse.
- Strengthening the system for overseeing compliance with the group's Internal Code of Conduct for trading on the securities market.
- Driving and verifying implementation of the Foreign Account Tax Compliance Act (FATCA).



**Board of Directors  
and Senior Management**

**M M**

## Board of Directors

### Chairman

Josep Oliu Creus

### Deputy Chairmen

José Manuel Lara Bosch

José Javier Echenique Landiribar

### Managing Director

Jaime Guardiola Romojaro

### Directors

Héctor María Colonques Moreno

Sol Daurella Comadrán

Joaquín Folch-Rusiñol Corachán

M. Teresa García-Milà Lloveras

Joan Llonch Andreu

José Manuel Martínez Martínez

José Ramón Martínez Sufrategui

José Permanyer Cunillera

António Vítor Martins Monteiro

### Director-General Manager

José Luis Negro Rodríguez

### Secretary to the Board

Miquel Roca i Junyent

### Deputy Secretary to the Board

María José García Beato

## Executive Committee

### Chairman

Josep Oliu Creus

### Deputy Chairman

José Javier Echenique Landiribar

### Managing Director

Jaime Guardiola Romojaro

### Director-General Manager

José Luis Negro Rodríguez

### Non-executive Director

José Permanyer Cunillera

### Secretary-General and Deputy

### Secretary of the Board

María José García Beato

## Management Committee

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Josep Oliu Creus

### Managing Director

Jaime Guardiola Romojaro

### Director-General Manager

José Luis Negro Rodríguez

### Secretary-General

María José García Beato

### General Manager

Tomás Varela Muiña

### General Manager

Miguel Montes Güell

### Deputy General Manager

Carlos Ventura Santamans

### Deputy General Manager

Fernando Pérez-Hickman

## Operating Divisions

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Carlos Ventura Santamans

*Deputy General Manager*

Eduardo Currás de Don Pablos

*Assistant General Manager*

Manuel Tresánchez Montaner

*Assistant General Manager*

Silvia Ávila Rivero

*Assistant General Manager*

### Markets and Private Banking

Ramón de la Riva Reina

*Deputy General Manager*

Cirus Andreu Cabot

*Assistant General Manager*

Alfonso Ayuso Calle

*Assistant General Manager*

### BS America

Fernando Pérez-Hickman

*Deputy General Manager*

### Corporate Banking

### and Global Businesses

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*Assistant General Manager*

### Asset Management

Miguel Montes Güell

*General Manager*

### Catalonia Region

Luis Buil Vall

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### Central Region

Blanca Montero Corominas

*Assistant General Manager*

### Southern Region

Juan Krauel Alonso

*Assistant General Manager*

## Northwest Region

Pablo Junceda Moreno

*Assistant General Manager*

## Northern Region

Pedro E. Sánchez Sologaitua

*Assistant General Manager*

## Eastern Region

Jaime Matas Vallverdú

*Assistant General Manager*

## Central Service Divisions

### Finance

Tomás Varela Muiña

*General Manager*

### Organization and Corporate

### Development

Miguel Montes Güell

*General Manager*

### Operations and Technology

Federico Rodríguez Castillo

*Assistant General Manager*

### Human Resources

Javier Vela Hernández

*Assistant General Manager*

### Risk Management

Rafael José García Nauffal

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### Equity investments

Ignacio Camí Casellas

*Assistant General Manager*

### Communication and Institutional

### Relations

Ramon Rovira Pol

*Assistant General Manager*

### Corporate Operations

Joan M. Grumé Sierra

*Assistant General Manager*

### Internal Audit

Nuria Lázaro Rubio

*Assistant General Manager*

### Legal Department

Gonzalo Baretino Coloma

*Assistant General Manager*

# Corporate Social Responsibility

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Banco Sabadell seeks to respond to society's aspirations and concerns by accepting its responsibility as a driver of the economy and carrying on its business in an ethical and responsible way.

In 2013 the Bank approved a Corporate Social Responsibility Master Plan reaffirming the values and ethical principles that govern its actions, at a time when there was a need to show commitment to maintaining the trust and reliance placed on it by stakeholders.

The Plan comprises five main action areas:

- 1 Responsible banking:** Strengthening the ethical dimension to all our activities in a transparent way. Minimizing the impacts of our operations and contributing to the development of the community.
- 2 A healthy organization:** Encouraging a sense of pride and of belonging on the part of employees.
- 3 Environmental sustainability:** Minimizing the environmental impacts of our facilities and our business.
- 4 A culture of social responsibility:** Raising the profile of professional ethics through accurate and transparent reporting.
- 5 Shared value:** Building alliances with our stakeholders.

## Responsible banking

### Commitment to business ethics

For Banco Sabadell it is of vital importance to ensure the strictest compliance with legal requirements and with the policies, internal procedures and codes of conduct that guarantee ethical and responsible conduct at all levels of the organization.

For this reason the Bank has since 2003 had codes of conduct and stakeholder policies that apply throughout the organization and extend to all group activities.

### Transparency and financial education

Banco Sabadell seeks to protect the interests of its customers and has control mechanisms in place to supervise the products and services it offers:

- Personalized information to ensure that customers take informed decisions.
- Tests of suitability and appropriateness for complex financial products.
- Responsible advertising: we have been subscribers to Autocontrol (an advertising self-regulatory organization) since 2010.
- Support for the National Plan for Financial Education.
- Creating our own initiatives on financial education: paraquesirveeldinero.com, an online personal finance tool, and the audiovisual campaign "How long are we going to live?"

## Impact on society

The Bank strives to create wealth in the Spanish economy within a framework of sustainable growth: 18,077 people directly employed; more than €1,135 million in staff pay and social welfare contributions; and €1,267 million in procured goods and services.

### Promoting economic development

- More than €5,000 million in new medium- and long-term finance for sole proprietors and companies.
- Spain's second largest distributor of ICO-sponsored financing, with a 20.5% market share.
- The launch of BStartup and BStartup 10, designed to help entrepreneurs create their business plans.
- Continued development of the "Export For Growth" programme to promote internationalization of small and medium-sized business.

### Minimizing the impacts on people affected by restructuring

Banco Sabadell has organized an assistance programme to mitigate the impact of redundancies following the takeover of Banco CAM:

- An outplacement programme continuing until March 2014 for 1,250 employees made redundant: 316 former bank employees are enrolled in the scheme, which includes advice to employees and their spouses on finding employment. 33% of employees enrolled in the scheme have already found work.
- A revitalization plan to restore former levels of employment in the affected region: 629 jobs were created in the Levant Regions with the help of financial subsidies for newly-created jobs, the provision of finance on favourable terms and other measures.

### Preventing social exclusion

- Special assistance for customers at risk from social exclusion.
- The Bank offers solutions other than repossession for mortgage defaulters: extensions of repayment terms, grace periods and interest rate reviews. There are no forced repossessions.
- Banco Sabadell has signed up to the Spanish government-sponsored Code of Good Banking Practice and Agreement for the Creation of a Social Fund for Housing.
- Contributing 260 residential units to the Social Fund for Housing and providing 186 residential units free of charge for the use of charitable organizations helping people in difficulty.

## Fighting corruption

- Banco Sabadell has subscribed to the 10 Principles of the United Nations Global Compact and is committed to applying the principles in fighting corruption in all its forms.
- The Bank has established due diligence rules and procedures to keep a watch on the accounts it manages and to detect all activities related to money laundering or the financing of terrorism.

## Responsible finance

- The Equator Principles: in 2014 assessments of environmental and social risks will be extended to corporate loans in addition to the assessments already being applied to the financing of large projects.
- New global energy model: investing in and providing finance for renewable energy sources.
- Socially responsible investment: more than €70,000 donated to NGOs from the proceeds of three socially responsible investment products marketed by the Bank. These products exclude investments in controversial areas of business and give preference to companies included in the FTSE4GOOD stock market index.
- Our BanSabadell 25 FP and BanSabadell Pensiones EGFP SA pension funds are signatories to the Principles for Responsible Investment (PRI).

## Social commitment

- €4.33 million invested in community support and cultural initiatives.
- The Bank contributes to community development and provides sponsorship for talent through the Banco Herrero Foundation Prize for Research in the Social Sciences, the Banco Sabadell Prize for Biomedical Research, the UPFempren Prize for entrepreneurial initiative by students, the ESADE Alumni and Banco Sabadell Prize for Best Business Start-up, and other programmes.

## A healthy organization

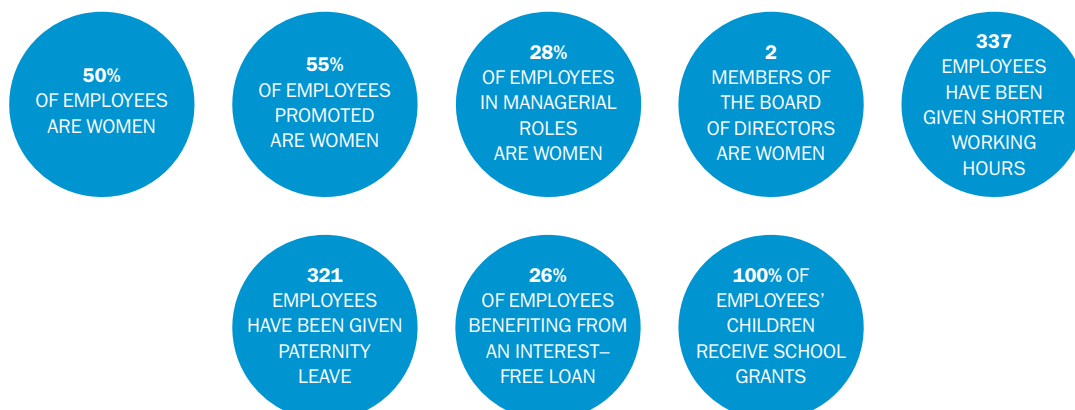
### Equality, work-life balance and social integration

Banco Sabadell guarantees equality of opportunity in all areas of employee relations: recruitment, training, promotion, working conditions, etc.

- The Equality Plan and the Equality Plan Monitoring Committee set up by Bank and employee representatives.
- Integration and disability: 170 disabled employees. Procurement of services and supplies from special employment centres for the disabled.
- Work-life balance: an agreement between the Bank and union representatives on flexible working hours, shorter working days, leave of absence (to care for a sick relative, etc.), special leave of absence and paternity leave.
- In 2013 the Bank carried out its latest workplace atmosphere survey based on a sample of 780 employees of whom 66% thought that “all things considered, I’d say this is a great place to work”.

### Community support and volunteer work

- In 2013, 37 volunteers from Banco Sabadell took part in a Financial Education Programme in schools all over Catalonia. This pioneering initiative aims to help school children learn to handle money and understand the basics of financial management. The programme will be run for a second time in 2014 with the help of 111 current employees and 15 retired employees of the Bank who will be holding workshops for children in fourth year of secondary school.
- Supporting and publicizing the work of charitable organizations in which employees can get involved such as UNICEF, Food Bank and TV3’s fundraising telethon La Marató.





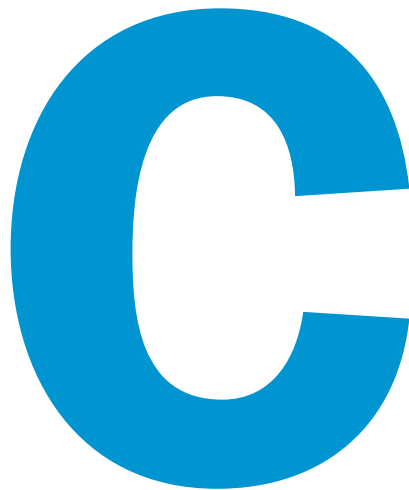
## Environmental sustainability

- Action against climate change: the Bank is a signatory to the Carbon Disclosure Project (CDP) and has been making its CO<sub>2</sub> emissions public since 2009. Since then it has succeeded in reducing its overall emissions by 77% by purchasing almost 100% of its electricity from green suppliers.
- Sustainable building: Banco Sabadell has LEED NC Gold certification for environmentally friendly construction at its new Central Services headquarters, and is a partner in the GreenBuilding Programme for the sustainable construction of its logistics centre and general archive.
- Environmental management certified to the ISO14001 standard; 15% of group employees in Spain work in one of the six certified Central Services buildings.

## Social innovation

- Developing collaborative platforms to leverage the creative abilities of employees, customers and consumers.
- BS Idea – a social network for employees' ideas and suggestions for improvement. Everyone in the organization is challenged to produce ideas for niche innovations. Lectures are given by visiting experts on market trends.
- BS Carpooling, a car sharing platform.
- The Bank is financial partner to teaming.net, a crowdfunding platform which generates large numbers of small contributions to deserving causes.
- feedback.bancsabadell.com and our suggestions page on Facebook are places where customers and consumers can get involved in promoting service innovations. More than 7,000 visits and 5,000 comments are received each month.
- A first series of lectures on innovation and creativity for employees, featuring guest speakers provided by strategic partners of the Bank. These have included our advertising agency SCPF, Telefónica I+D and Apple.
- A strategic alliance with our main technology suppliers HP, IBM and Telefónica has led to the development of innovative solutions for the banking industry.

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