

# ANNUAL REPORT ON CORPORATE GOVERNANCE

## LISTED COMPANIES

## IDENTIFICATION PARTICULARS

YEAR END: 31/12/2011

TAX NUMBER: A-08000143

Corporate name: BANCO DE SABADELL, S.A.

## ANNUAL REPORT ON CORPORATE GOVERNANCE OF LISTED COMPANIES

For help with understanding and completing this form, please read the instructions at the end.

### A - OWNERSHIP STRUCTURE

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

Last change on (date)	Share capital (€)	Number of shares	Number of voting rights
13/12/2011	173,881,089.63	1,391,048,717	1,738,810

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

NO

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

Name of shareholder	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
BANCO COMERCIAL PORTUGUES, S.A.	9,010	77,461	4.973
INVERSIONES HEMISFERIO, S.L.	1,488	78,874	4.622
JAIPUR INVESTMENT, S.L.	78,874	0	4.536
FAMOL PARTICIPACIONES, S.L.	77,944	0	4.483
FUNDO DE PENSOES DO GRUPO BCP	77,461	0	4.455

Name of indirect holder	Held through (name of direct holder)	Number of direct voting rights	% of total voting rights
BANCO COMERCIAL PORTUGUES, S.A.	FUNDO DE PENSOES DO GRUPO BCP	77,461	4.455
INVERSIONES HEMISFERIO, S.L.	JAIPUR INVESTMENT, S.L.	78,874	4.536

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

Name of shareholder	Date of operation	Description of the operation
BANCO COMERCIAL PORTUGUES, S.A.	20/01/2011	Holding reduced to less than 5% of the capital
BANCO COMERCIAL PORTUGUES, S.A.	25/01/2011	Holding increased to over 5% of the capital
BANCO COMERCIAL PORTUGUES, S.A.	01/02/2011	Holding reduced to less than 5% of the capital
FUNDO DE PENSOES DO GRUPO BCP	01/02/2011	Holding reduced to less than 5% of the capital
MAYOR VENT, S.L. UNIPERSONAL	01/02/2011	Holding reduced to less than 5% of the capital
MAYOR VENT, S.L. UNIPERSONAL	18/05/2011	Holding increased to over 5% of the capital
INVERSIONES HEMISFERIO, S.L.	01/02/2011	Holding reduced to less than 5% of the capital

A.3 Complete the following tables showing members of the Board of Directors owning voting rights attaching to shares in the company:

Name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
JOSÉ OLIU CREUS	2,508	2,585	0.293
ISAK ANDIC ERMAY	10	86,941	5.001
JOSÉ MANUEL LARA BOSCH	605	455	0.061
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	14	0	0.001

Name of Director	Number of direct voting rights	Number of indirect voting rights (*)	% of total voting rights
JAIME GUARDIOLA ROMOJARO	85	85	0.010
CARLOS JORGE RAMALHO DOS SANTOS FERREIRA	10	0	0.001
FRANCESC CASAS SELVAS	1,161	0	0.067
HÉCTOR MARÍA COLONQUES MORENO	53	1,487	0.089
JOAN LLONCH ANDREU	1,376	0	0.079
JOAQUÍN FOLCH-RUSIÑOL CORACHÁN	15,588	0	0.896
JOSÉ PERMANYER CUNILLERA	914	784	0.098
JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	419	0	0.024
MARIA TERESA GARCIA-MILÀ LLOVERAS	27	0	0.002
MIGUEL BÓSSER ROVIRA	944	571	0.087
SOL DAURELLA COMADRAN	10	8,199	0.472

Name of indirect holder	Held through (name of direct holder)	Number of direct voting rights	% of total voting rights
ISAK ANDIC ERMAY	MAYOR VENT, S.L. UNIPERSONAL	86,941	5.000

<b>Total percentage of voting rights held by members of the Board of Directors</b>	<b>7.179</b>
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Complete the following tables showing members of the Board of Directors holding share options in the company:

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

**Type of relationship:**

Corporate

**Brief description:**

ACCIONISTA DE FAMOL PARTICIPACIONES, S.L.

Related name or corporate name
INVERSIONES HEMISFERIO, S.L.

**Type of relationship:**

Corporate

**Brief description:**

PARTICIPADA POR INVERSIONES HEMISFERIO, S. L.

Related name or corporate name
FAMOL PARTICIPACIONES, S.L.

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

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

YES

**Percentage of capital affected:**

0

**Brief description of agreement:**

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

Parties to the shareholders agreement
HÉCTOR MARÍA COLONQUES MORENO
MIGUEL BÓSSER ROVIRA
JOAQUÍN FOLCH-RUSIÑOL CORACHÁN

**Percentage of capital affected:**

0

**Brief description of agreement:**

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

Parties to the shareholders agreement
JOSÉ OLIU CREUS
ISAK ANDIC ERMAY
JOSÉ MANUEL LARA BOSCH

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

NO

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

A.7 State whether there is any individual or corporate entity that is exercising or is able to exercise control over the company within the meaning of Article A.4 of the Stock Market Act: If so, give names:

NO

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

At the year-end:

Number of directly held shares	Number of indirectly held shares (*)	Total % of capital
57,948,027	0	4.166

(\*) Held through:

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

<b>Date of notification</b>	<b>Total direct shares acquired</b>	<b>Total indirect shares acquired</b>	<b>Total % of capital</b>
18/01/2011	12,680,436	0	1.003
02/02/2011	12,655,135	0	1.001
03/02/2011	773,967	0	0.056
08/02/2011	14,029,431	0	1.009
15/02/2011	14,066,777	0	1.012
16/03/2011	16,060,947	0	1.155
19/04/2011	13,943,187	0	1.003
25/05/2011	15,129,332	0	1.088
27/06/2011	15,724,517	0	1.131
12/07/2011	14,258,659	0	1.026
02/08/2011	15,718,160	0	1.131
06/09/2011	8,982,174	0	0.711
18/11/2011	13,963,277	0	1.004
22/12/2011	7,399,179	0	0.532

<b>Capital gain/loss on the company's own shares disposed of during the period (€'000).</b>	2,334
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**A.9 State the terms of any authorisation given by the General Meeting to the Board of Directors to acquire or transfer the company's own shares, and the period within which it must be exercised.**

The Ordinary General Meeting of Shareholders of Banco de Sabadell, S.A. held on second call on 25 March 2010, authorised the Board of Directors in the following terms in respect of item 9 on the agenda:

"To annul the resolution adopted by the General Meeting of 19 March 2009, to the extent that it has not been implemented, and to authorise the company, whether directly or through any of its subsidiary companies, within a period not exceeding five years from the date of this General Meeting, to acquire, at such time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law including the charging thereof to profits for the year and/or disposable reserves, provided that the company may subsequently sell or redeem the said shares, subject always to Article 75 and related articles of the S.A. Companies Act [Ley de Sociedades Anónimas]."

To approve limits to, or conditions on, such acquisitions as follows:

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

The Ordinary General Meeting of Shareholders of Banco de Sabadell, S.A. held on second call on 14 April 2010, authorised the Board of Directors in the following terms in respect of item 6 on the agenda:

"To annul the resolution adopted by the General Meeting of 25 March 2010, to the extent that it has not been implemented, and to authorise the company, whether directly or through any of its subsidiary companies, within a period not exceeding five years from the date of this General Meeting, to acquire, at such time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law including the charging thereof to profits for the year and/or disposable reserves, provided that the company may subsequently sell or redeem the said shares, or transfer them to the employees or directors as part of their remuneration or by their exercising share options held, subject always to Article 146, 509 and related articles of the Companies Act (*Ley de Sociedades de Capital*)."

To approve limits to, or conditions on, such acquisitions as follows:

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

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

NO

<b>Maximum percentage of voting rights that a shareholder may exercise under legal restrictions</b>	0
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State whether there are any restrictions under the Articles of Association on the exercising of voting rights:

NO

<b>Maximum percentage of voting rights that a shareholder may exercise under the Articles of Association</b>	<b>0</b>
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**Description of the restrictions under the law or the Articles of Association on the exercising of voting rights**

From 1 July 2011, upon the entry into force of article 527 of the Companies Act (*Ley de Sociedades de Capital* renumbered as article 2.2 of Law 25/2011 of 1 August, having previously been article number 515), the restriction to the maximum number of votes that can be issued by one single shareholder as established in article 40 of the Articles of Association has been rendered null and void.

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

YES

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

It is a requirement under Articles 57, 58 and 60 of the Credit Establishments Discipline and Intervention Act 26/1988 [*Ley de Disciplina e Intervención de las Entidades de Crédito*] (as amended by Act 5/2009) that clearance be obtained from the Bank of Spain for any proposed purchase of shares in a bank amounting to more than 10 per cent of its share capital, or any other proportion in excess of that amount as expressly indicated..

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

NO

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

## **B - ORGANISATIONAL STRUCTURE OF THE COMPANY**

### B.1 Board of Directors

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

<b>Maximum number of Directors</b>	15
<b>Minimum number of Directors</b>	11

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

<b>Name of Director</b>	<b>Represented by</b>	<b>Office held</b>	<b>Date of first appointment</b>	<b>Date of most recent appointment</b>	<b>Method of appointment</b>
JOSÉ OLIU CREUS	--	CHAIRMAN	29/03/1990	25/03/2010	GENERAL MEETING
ISAK ANDIC ERMAY	--	1st DEPUTY CHAIRMAN	22/12/2005	14/04/2011	GENERAL MEETING
JOSÉ MANUEL LARA BOSCH	--	2nd DEPUTY CHAIRMAN	24/04/2003	27/03/2008	GENERAL MEETING
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	--	3rd DEPUTY CHAIRMAN	18/09/2010	18/09/2010	GENERAL MEETING
JAIME GUARDIOLA ROMOJARO	--	MANAGING DIRECTOR	27/09/2007	27/03/2008	GENERAL MEETING
CARLOS JORGE RAMALHO DOS SANTOS FERREIRA	--	DIRECTOR	27/03/2008	27/03/2008	GENERAL MEETING
FRANCESC CASAS SELVAS	--	DIRECTOR	20/11/1997	27/03/2008	GENERAL MEETING
HÉCTOR MARÍA COLONQUES MORENO	--	DIRECTOR	31/10/2001	29/03/2007	GENERAL MEETING
JOAN LLONCH ANDREU	--	DIRECTOR	28/11/1996	29/03/2007	GENERAL MEETING
JOAQUÍN FOLCH- RUSIÑOL CORACHÁN	--	DIRECTOR	16/03/2000	25/03/2010	GENERAL MEETING

Name of Director	Represented by	Office held	Date of first appointment	Date of most recent appointment	Method of appointment
JOSÉ PERMANYER CUNILLERA	--	DIRECTOR	21/03/2002	29/03/2007	GENERAL MEETING
JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI	--	DIRECTOR	18/09/2010	18/09/2010	GENERAL MEETING
MARIA TERESA GARCIA-MILÀ LLOVERAS	--	DIRECTOR	29/03/2007	29/03/2007	GENERAL MEETING
MIGUEL BÓSSER ROVIRA	--	DIRECTOR	29/03/1990	25/03/2010	GENERAL MEETING
SOL DAURELLA COMADRAN	--	DIRECTOR	19/03/2009	19/03/2009	GENERAL MEETING

<b>Total number of Directors</b>	15
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Give the names of all Members of the Board who ceased to act in that capacity during the period:

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

#### EXECUTIVE DIRECTORS

Name of Director	Committee proposing appointment	Office or position held
JOSÉ OLIU CREUS	NOMINATION AND REMUNERATION COMMITTEE	CHAIRMAN
JAIME GUARDIOLA ROMOJARO	NOMINATION AND REMUNERATION COMMITTEE	MANAGING DIRECTOR

<b>Total number of Executive Directors</b>	2
<b>% of total Board members</b>	13,333

## PROPRIETARY NON-EXECUTIVE DIRECTORS

Name of Director	Committee proposing appointment	Name of shareholder nominating or represented by the Non-executive Director
ISAK ANDIC ERMAY	NOMINATION AND REMUNERATION COMMITTEE	MAYOR VENT, S.L. UNIPERSONAL
CARLOS JORGE RAMALHO DOS SANTOS FERREIRA	NOMINATION AND REMUNERATION COMMITTEE	BANCO COMERCIAL PORTUGUES, S.A.

<b>Total number of Proprietary Non-Executive Directors</b>	2
<b>% of total Board members</b>	13,333

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Name of Director**

JOSÉ JAVIER ECHENIQUE LANDIRIBAR

**Profile**

BUSINESS

**Name of Director**

FRANCESC CASAS SELVAS

**Profile**

BUSINESS

**Name of Director**

HÉCTOR MARÍA COLONQUES MORENO

**Profile**

BUSINESS

**Name of Director**

JOAN LLONCH ANDREU

**Profile**

BUSINESS/ACADEMIC

**Name of Director**

JOAQUÍN FOLCH-RUSIÑOL CORACHÁN

**Profile**

BUSINESS

**Name of Director**

JOSÉ RAMÓN MARTÍNEZ SUFRATEGUI

**Profile**

BUSINESS

**Name of Director**  
MARIA TERESA GARCIA-MILÀ LLOVERAS

**Profile**  
ACADEMIC

**Name of Director**  
MIGUEL BÓSSER ROVIRA

**Profile**  
BUSINESS

**Name of Director**  
SOL DAURELLA COMADRAN

**Profile**  
BUSINESS

<b>Total number of Independent Directors</b>	9
<b>% of total Board members</b>	60,000

#### OTHER NON-EXECUTIVE DIRECTORS

<b>Name of Director</b>	<b>Committee proposing appointment</b>
JOSÉ MANUEL LARA BOSCH	NOMINATION AND REMUNERATION COMMITTEE
JOSÉ PERMANYER CUNILLERA	NOMINATION AND REMUNERATION COMMITTEE

<b>Total number of other Non-Executive Directors</b>	2
<b>% of total Board members</b>	13,333

Give the reasons why they cannot be considered as Proprietary Directors or Independent Directors, and their relationship with the company or its executives or with its shareholders

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**Name of Director**  
JOSÉ MANUEL LARA BOSCH

**Company, executive or shareholder with whom related**  
INVERSIONES HEMISFERIO, S.L.

**Reasons**  
By application of section i) in conjunction with section a) relating to Independent Directors, of point B.1.3 of the instructions for completing the Annual Report on Corporate Governance of Listed Companies set out in the CNMV's Circular 4/2007 of 27 December 2007.

**Name of Director**

JOSÉ PERMANYER CUNILLERA

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

BANCO DE SABADELL, S.A.

**Reasons**

By application of point B.1.3.a) (Independent Directors) of the instructions for completing the Annual Report on Corporate Governance of Listed Companies set out in the CNMV's Circular 4/2007 of 27 December 2007.

Indicate any changes in the status of any Director during the period:

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

State whether the company has refused any formal requests for a presence on the Board from shareholders with holdings that are the same as or larger than those of other shareholders who are represented on the Board. If so, give the reasons for refusal:

NO

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

NO

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

**Name of Director**

JAIME GUARDIOLA ROMOJARO

**Brief description**

The powers of the Managing Director are set out in section "G. OTHER RELEVANT INFORMATION".

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

Name of Director	Name of the company in the group	Office held
JOSÉ OLIU CREUS	BANSABADELL HOLDING. S.L. SOCIEDAD UNIPERSONAL	CHAIRMAN

Name of Director	Name of the company in the group	Office held
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	BANCO GUIPUZCOANO. S.A.	CHAIRMAN
JAIME GUARDIOLA ROMOJARO	BANCO GUIPUZCOANO. S.A.	DIRECTOR
JOAN LLONCH ANDREU	BANCO GUIPUZCOANO. S.A.	DEPUTY CHAIRMAN
JOAN LLONCH ANDREU	BANCSABADELL D'ANDORRA. S.A.	DIRECTOR
JOAN LLONCH ANDREU	BANSABADELL HOLDING. S.L. SOCIEDAD UNIPERSONAL	DIRECTOR
JOSÉ PERMANYER CUNILLERA	AURICA XXI. S.C.R.. S.A.	CHAIRMAN
JOSÉ PERMANYER CUNILLERA	BANCSABADELL D'ANDORRA. S.A.	DIRECTOR
JOSÉ PERMANYER CUNILLERA	BANSABADELL INVERSIÓ DESENVOLUPAMENT. S.A.. SOCIEDAD UNIPERSONAL	CHAIRMAN
JOSÉ PERMANYER CUNILLERA	SINIA RENOVABLES. S.C.R. DE RÉGIMEN SIMPLIFICADO. S.U.	CHAIRMAN
JOSÉ PERMANYER CUNILLERA	SOLVIA DEVELOPMENT. S.L.U.	CHAIRMAN
JOSÉ PERMANYER CUNILLERA	SOLVIA ESTATE. S.L.U.	CHAIRMAN
JOSÉ PERMANYER CUNILLERA	SOLVIA GESTIÓ IMMOBILIARIA. S.L.U.	CHAIRMAN
JOSÉ PERMANYER CUNILLERA	SOLVIA HOTELS. S.L.U.	CHAIRMAN
JOSÉ PERMANYER CUNILLERA	SOLVIA HOUSING. S.L.U.	CHAIRMAN
JOSÉ PERMANYER CUNILLERA	SOLVIA PROPERTIES. S.L.U.	CHAIRMAN
MIGUEL BÓSSER ROVIRA	BANSABADELL HOLDING. S.L. SOCIEDAD UNIPERSONAL	DIRECTOR
SOL DAURELLA COMADRAN	BANCO GUIPUZCOANO. S.A.	DIRECTOR

B.1.8 List any Directors of the company reported to the company to be serving as Directors of other companies quoted on official stock markets in Spain, other than companies in the same group:

Name of Director	Name of listed company	Office held
JOSÉ MANUEL LARA BOSCH	ANTENA 3 DE TELEVISIÓN. S.A.	CHAIRMAN
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	ACS ACTIVIDADES DE LA CONSTRUCCIÓN Y SERVICIOS. S.A.	DIRECTOR

<b>Name of Director</b>	<b>Name of listed company</b>	<b>Office held</b>
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	REPSOL YPF. S.A.	DIRECTOR
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	GRUPO EMPRESARIAL ENCE. S.A.	DIRECTOR
JOAN LLONCH ANDREU	COMPANYIA D'AIGÜES DE SABADELL. S.A.	DIRECTOR
MARIA TERESA GARCIA-MILÀ LLOVERAS	ENAGAS. S.A.	DIRECTOR
SOL DAURELLA COMADRAN	ACCIONA. S.A	DIRECTOR
SOL DAURELLA COMADRAN	EBRO FOODS. S.A.	DIRECTOR

B.1.9 State whether the company has any rules on the number of boards to which Directors may belong, and describe these rules:

YES

<b>Description of the rules</b>
The company has been governed by the provisions of Act 31/1968 of 27 July 1968 on incompatibilities and limitations on Chairmen, Directors and Senior Executives in the Private Banking sector.

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

<b>Investment and Financing policy</b>	YES
<b>Definition of the structure of the group</b>	YES
<b>Corporate Governance policy</b>	YES
<b>Corporate Social Responsibility policy</b>	YES
<b>Strategic or business plan, management targets and annual budget</b>	YES
<b>Policy on remuneration and assessment of the performance of senior executives</b>	YES
<b>Risk control and management policy and regular monitoring of internal information and control systems</b>	YES
<b>Policy on dividends and purchases of own shares, especially the limits thereon</b>	YES

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



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

Item	Amount (€'000)
Fixed remuneration	2,214
Variable remuneration	1,011
Subsistence allowances	0
Payments under the Articles of Association	2,142
Options on shares and/or other financial instruments	0
Others	440

<b>Total</b>	5,807
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Other benefits	Amount (€'000)
Advances	0
Loans	10,028
Pension Funds and Plans: Contributions	3,224
Pension Funds and Plans: Commitments	0
Life insurance premiums	0
Guarantees provided by the company to directors	4,362

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

Item	Amount (€'000)
Fixed remuneration	60
Variable remuneration	0
Subsistence allowances	0

Item	Amount (€'000)
Payments under the Articles of Association	195
Options on shares and/or other financial instruments	0
Others	0

<b>Total</b>	255
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Other benefits	Amount (€'000)
Advances	0
Loans	0
Pension Funds and Plans: Contributions	0
Pension Funds and Plans: Commitments	0
Life insurance premiums	0
Guarantees provided by the company to directors	0

c) Remuneration paid to Directors, by category:

Type of director	By the company	By group undertakings
Executive Directors	4.025	0
Proprietary Non-executive Directors	270	0
Non-executive Independent Directors	1.206	195
Other Non-executive Directors	306	60
<b>Total</b>	5.807	255

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

<b>Total remuneration paid to Directors (€'000)</b>	6,062
<b>Total remuneration paid to Directors as % of attributable profit of controlling company</b>	2,6

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

Name	Office held
JOSÉ LUIS NEGRO RODRÍGUEZ	DEPUTY SECRETARY TO THE BOARD COMPTROLLER GENERAL
MARÍA JOSÉ GARCÍA BEATO	GENERAL SECRETARY
MIQUEL MONTES GÜELL	GENERAL MANAGER
TOMÁS VARELA MUIÑA	GENERAL MANAGER
RAMÓN DE LA RIVA REINA	DEPUTY GENERAL MANAGER
FERNANDO PÉREZ-HICKMAN MUÑOZ	DEPUTY GENERAL MANAGER
JAUME PUIG BALSELLS	DEPUTY GENERAL MANAGER
CARLOS VENTURA SANTAMANS	DEPUTY GENERAL MANAGER
CIRUS ANDREU CABOT	ASSISTANT GENERAL MANAGER
LUIS BUIL VALL	ASSISTANT GENERAL MANAGER
IGNACIO CAMÍ CASELLAS	ASSISTANT GENERAL MANAGER
JOSÉ CANALIAS PUIG	ASSISTANT GENERAL MANAGER
RAFAEL JOSÉ GARCÍA NAUFFAL	ASSISTANT GENERAL MANAGER
SALVADOR GRANÉ TERRADAS	ASSISTANT GENERAL MANAGER
JOAN MATEU GRUMÉ SIERRA	ASSISTANT GENERAL MANAGER
PABLO JUNCEDA MORENO	ASSISTANT GENERAL MANAGER
JUAN KRAUEL ALONSO	ASSISTANT GENERAL MANAGER
JAIME MATAS VALLVERDÚ	ASSISTANT GENERAL MANAGER
BLANCA MONTERO COROMINAS	ASSISTANT GENERAL MANAGER
FEDERICO RODRIGUEZ CASTILLO	ASSISTANT GENERAL MANAGER
ENRIC ROVIRA MASACHS	ASSISTANT GENERAL MANAGER
RAMON ROVIRA POL	ASSISTANT GENERAL MANAGER
PEDRO SÁNCHEZ SOLOGAISTÚA	ASSISTANT GENERAL MANAGER

Name	Office held
JAVIER VELA HERNÁNDEZ	ASSISTANT GENERAL MANAGER

<b>Total remuneration paid to senior executives (€'000)</b>	8,771
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B.1.13 Describe in overall terms any guarantee clauses or other protection for Directors and senior executives of the company or the group, including Executive Directors, in the event of dismissal or a change in the ownership/control of the company. State whether such clauses or other protection must be made known to and/or approved by the decision-making bodies of the company or group:

<b>Number of beneficiaries</b>	24
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	Board of Directors	General Meeting
<b>Clauses approved by</b>	YES	NO

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

<b>Procedure for fixing Directors' remuneration and relevant provisions of the Articles of Association</b>
<p>Article 81 of the Articles of Association requires that the remuneration paid to Directors be deducted from the net distributable profit of the company and that it should consist of not more than 3% of such profit. The Board has authority to fix Directors' annual remuneration up to that limit and is free to allocate it among the Directors and any honorary Directors as it sees fit, once mandatory appropriations to reserves have been made and after allowing for a shareholder dividend of 4%.</p> <p>Subject to a resolution by the General Meeting in the terms of the SA Companies Act, Directors performing executive functions may also participate in incentive schemes approved by the bank's management that provide remuneration in the form of shares or share options or linked to the value of the shares.</p> <p>Under article 14 of the Regulations of the Board of Directors, one of the fundamental duties of the Nomination and Remuneration Committee is to make recommendations to the Board for a system and amount to pay the annual emoluments of the Chairman of the Board, the Executive Directors and the senior executives of the bank and any scheme under which Board members are to share in the profits of the company. It is also responsible for drawing up details of the remuneration payable to Directors for approval by the Board and for inclusion in its annual reporting documents.</p>

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

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

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

YES

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

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

YES

<b>Matters covered by the remuneration policy</b>
Under point 1 on the agenda of the General Meeting, the remuneration policy report was put to a vote, as was Board Member remuneration, annual remuneration of the Chairperson of the Board, the Executive Directors, the members of the bank's senior management and the profit-sharing systems applicable to the Board.
<b>Role performed by the Remuneration Committee</b>
Under Article 14.3.c of the Regulations of the Board of Directors, one of the fundamental duties of the Nomination and Remuneration Committee is to make recommendations to the Board on the system and amount of annual emoluments paid to the Chairman of the Board, the Executive Directors and the Senior Executives of the bank and any scheme under which Board members are to share in the profits of the company, and to report on the policy for Directors' remuneration.

Were external advisers used?	
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Names of the external advisers
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B.1.17 Identify any members of the Board who are also Board members or senior executives of companies holding significant interests in the listed company and/or in companies in the group:

Name of Director	Name of significant shareholder	Office held
ISAK ANDIC ERMAY	MAYOR VENT, S.L. UNIPERSONAL	DIRECTOR

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

**Name or corporate name of associated board member**

ISAK ANDIC ERMAY

**Name or corporate name of associated significant shareholder**

FAMOL PARTICIPACIONES, S.L.

**Relationship**

SHAREHOLDER

**Name or corporate name of associated board member**

JOAQUÍN FOLCH-RUSIÑOL CORACHÁN

**Name or corporate name of associated significant shareholder**

FAMOL PARTICIPACIONES, S.L.

**Relationship**

SHAREHOLDER

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

NO

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

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

1.- Appointment, re-election and evaluation

1.a. Composition: The Board of Directors shall be composed of a maximum of 15 and a minimum of 11 shareholders, appointed by the General Meeting. Any vacancies on the Board shall be filled by the General Meeting, unless the Board, in the interests of the company, decides to co-opt directors in the terms of Article 138 of the SA Companies Act. Directors who are co-opted on to the Board shall hold office until the date of the next General Meeting.

1.b. Requirements: To be a member of the Board of Directors it is necessary to hold a sufficient number of shares to represent a paid-up value of €1,000, which may not be transferred or disposed of until the accounts for the last year in which the Director held office have been approved. Independent Directors may be released from this requirement by a resolution of the Board of Directors following a report by the Nomination and Remuneration Committee at the time of proposing their appointment. Specifically, Royal Decree 1245/1995 requires credit establishments to have a Board of Directors formed of persons of good professional and commercial standing who have the appropriate experience and expertise for performing their duties. The Royal Decree expressly states that persons shall be considered to be of good professional and commercial standing if they have always abided by the laws governing economic activity and business life and have observed good commercial, financial and banking practices. Persons with criminal records or facing criminal charges or - in the case of the proceedings referred to in Title III of Book IV of the Criminal Procedure Act – who have been committed to trial for tax offences, breach of trust in the custody of documents, money laundering, violation of secrets or property offences shall not be considered to be of good professional and commercial standing. Directors must expressly declare in the letter of acceptance of their appointment that they meet the requirements of good standing and, where applicable, professional expertise.

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

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

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

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

1.e. Procedures, evaluation and criteria: Non-executive Directors must form the majority of the total number of members of the Board. Among the Non-executive Directors there must be a significant proportion of Independent Directors.

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

## 2.- Removal

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

Directors shall also be removed from office:

- a) When they are involved in a conflict of interest or are otherwise prohibited from holding office by law or by the Articles of Association (in particular Article 56);
- b) When they have been charged with a criminal offence or have disciplinary proceedings taken against them by the regulatory authorities for a serious or very serious breach of duty;

c) When, by continuing to serve as a member of the Board, they may jeopardise the interests of the company.

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

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

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

2.- Directors shall also be removed from office:

a) When they are prohibited from holding office by law or by the Articles of Association.

b) When they have been charged with a criminal offence or have disciplinary proceedings taken against them by the regulatory authorities for a serious or very serious breach of duty.

c) When, by continuing to serve as a member of the Board, they may jeopardise the interests of the company.

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

YES

<b>Measures to limit such risks</b>
There is no risk of accumulation of power since all decisions are taken by the Executive Committee.

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

YES

<b>Description of the rules</b>
Article 17 (sections 1, 2 and 4) of the Regulations of the Board of Directors states as follows:  1.- The Board of Directors shall meet once a month and whenever the Chairman considers it appropriate for the proper functioning of the company. Notices of meetings should always include the agenda for the meeting, which should set out, inter alia, all business concerning subsidiary companies and Delegated Committees, and all proposals and suggestions put forward by the Chairman and other members of the Board and by the General Manager/s of the bank, and should be sent not less than five working days before the date of the meeting, together with any related documents for distribution to Directors. The Board shall approve the minutes of meetings and fix the date of the next meeting.



Description of the rules
<p>2.- The Chairman may call extraordinary meetings, indicating in the notice the purpose of the meeting. He may also call meetings at the request of any Director in accordance with the provisions of the Articles of Association. If the Chairman has not called a meeting requested by any Director within five working days, the Director in question may ask the 1st Deputy Chairman to call the meeting within the same time limit.</p> <p>And Article 23.e) of the Regulations of the Board of Directors states that Directors are obliged in particular to request persons with the authority to do so to call an extraordinary meeting of the Board or to include on the agenda for the next meeting such items as they consider appropriate.</p>

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

NO

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

**Description of resolution:**

Article 59 *bis* of the Articles of Association: appointment of the chairman of the Audit and Control Committee

Quorum	%
Article 57 of the Articles of Association: the majority of members, present in person or by proxy	0,00

Type of majority	%
Favourable vote of two-thirds of the members	0,00

**Description of resolution:**

Quorum	%
Article 57 of the articles of association: the majority of members, present in person or by proxy	0,00

Type of majority	%
Absolute majority of votes, with the chairman having the casting vote	0,00

**Description of resolution:**

Article 59: all or part of those powers that may by law be delegated are permanently delegated to members of the board in the form of Executive Committees or Managing Directors.

Quorum	%

Article 57 of the Articles of Association: the majority of members, present in person or by proxy	0,00
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Type of majority	%
Favourable vote of two-thirds of the members	0,00

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

NO

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

YES

Matters on which there is a casting vote
The casting vote applies to all resolutions of the Board of Directors

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

YES

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

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

NO

Maximum number of years in office	0
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B.1.27 If there are few or no female Directors, state the reasons why and the steps taken to correct this situation.

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

YES

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

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

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

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

<b>Number of meetings of the Board of Directors</b>	14
<b>Number of meetings of Board of Directors from which the Chairman was absent</b>	0

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

<b>Number of meetings of the Executive Committee</b>	37
<b>Number of meetings of the Audit Committee</b>	6
<b>Number of meetings of the Nomination and Remuneration Committee</b>	10
<b>Number of meetings of the Nomination Committee</b>	0
<b>Number of meetings of the Remuneration Committee</b>	0

B.1.30 State the number of meetings of the Board of Directors held during the year that were not attended by all its members. Proxies without specific instructions are to be considered as absences:

<b>Number of absences of Directors during the year</b>	10
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<b>Number of absences as a percentage of the total number of votes during the year</b>	8,600
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B.1.31 State whether the individual and consolidated annual accounts submitted to the Board of Directors for formal approval have been certified:

YES

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

<b>Name</b>	<b>Office held</b>
JOSÉ OLIU CREUS	CHAIRMAN
JAIME GUARDIOLA ROMOJARO	MANAGING DIRECTOR
TOMÁS VARELA MUIÑA	GENERAL MANAGER - FINANCIAL MANAGER

B.1.32 Explain any procedures established by the Board of Directors to prevent the individual and consolidated annual accounts being submitted to the General Meeting with qualifying statements in the Auditor's Report.

The mechanisms in place are as follows:

1. The Bank's internal departments will draw up the annual accounts clearly and in a way that gives a true and fair picture of its net worth, financial situation and results, applying generally accepted accounting principles to all the relevant information.
2. The Articles of Association and the Regulations of the Board of Directors expressly provide for an Audit and Control Committee to be set up. Article 30 of the Regulations of the Board of Directors states that the Board's relations with the external Auditors shall be channelled through the Audit and Control Committee.

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

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

- a) To review both the individual and consolidated annual accounts of the company before submitting them to the Board of Directors, and to ensure that the legal requirements are met and that generally accepted accounting principles are correctly applied.
- b) To review the regular quarterly and half-yearly financial information for submission to the Board of Directors, and to ensure that accounting policies are consistently applied in drawing up the quarterly, half-yearly and annual accounts.

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

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

NO

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

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

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

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

YES

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

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

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

The Audit and Control Committee shall have the following responsibilities:

(...) 2. Proposing to the Board of Directors, for submission to the General Meeting of Shareholders, the appointment of the external auditors and to lay down the terms of their engagement, the scope of their professional work, and their termination or non-renewal; reviewing the performance of the auditing contract, and ensuring that the auditor's opinion on the annual accounts and the main contents of the auditor's report are drafted in clear, precise terms.

(...) 6. Maintaining contact with the external Auditors to receive information on any issues that could threaten their independence or otherwise have a bearing on the auditing process, and on any other reports concerned with the auditing

of accounts or required by legislation or by the regulations governing the auditing profession.“

Article 30 of the Regulations of the Board of Directors is worded in similar terms: “The Board's relations with the external auditors of the company shall be channelled through the Audit and Control Committee.“

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

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

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

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

NO

Outgoing Auditor	Incoming Auditor

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

NO

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

YES

	Company	Group	Total
Amount charged for non-auditing work (€'000)	334	303	637
Amount charged for non-auditing work as a % of total amount charged by the auditors	34,210	26,250	29,900

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

NO

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

	Company	Group
Number of consecutive years	29	27

	Company	Group
Number of years for which accounts have been audited by current auditors as % of number of years for which company accounts have been audited	93,6	100,0

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

Name of Director	Name of company	% holding	Office or duties
JOSÉ OLIU CREUS	BANCO COMERCIAL PORTUGUES, S.A.	0,000	MEMBER OF THE ADVISORY AND SUPERVISORY BOARD
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	CONSULNOR, S.A.	1,703	(NONE)
JAIME GUARDIOLA ROMOJARO	BANCO SANTANDER CENTRAL HISPANO, S.A.	0,000	(NONE)
JAIME GUARDIOLA ROMOJARO	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	0,001	(NONE)
CARLOS JORGE RAMALHO DOS SANTOS FERREIRA	BANCO COMERCIAL PORTUGUES, S.A.	0,000	CHAIRMAN
CARLOS JORGE RAMALHO DOS SANTOS FERREIRA	BANK MILLENNIUM ANGOLA, S.A.	0,000	CHAIRMAN
CARLOS JORGE RAMALHO DOS SANTOS FERREIRA	BANK MILLENNIUM, S.A. (POLAND)	0,000	MEMBER OF SUPERVISORY BOARD

Name of Director	Name of company	% holding	Office or duties
HÉCTOR MARÍA COLONQUES MORENO	BANCO DE VALENCIA, S.A.	0,000	(NONE)
HÉCTOR MARÍA COLONQUES MORENO	BANCO SANTANDER, S.A.	0,000	(NONE)
JOAQUÍN FOLCH-RUSIÑOL CORACHÁN	BANCO SANTANDER CENTRAL HISPANO, S.A.	0,026	(NONE)
JOSÉ PERMANYER CUNILLERA	BANCO SANTANDER CENTRAL HISPANO, S.A.	0,000	(NONE)
JOSÉ PERMANYER CUNILLERA	BANCO BILBAO VIZCAYA ARGENTARIA, S.A.	0,000	(NONE)
JOSÉ PERMANYER CUNILLERA	CAIXABANK, S.A.	0,001	(NONE)
MARIA TERESA GARCIA-MILÀ LLOVERAS	BANCO SANTANDER CENTRAL HISPANO, S.A.	0,000	(NONE)

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

YES

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

B.1.42 State and detail any procedures in place to ensure that Directors can obtain the information they need to prepare in good time for meetings of the Board and committees:

YES

Details of procedure
Article 17 of the Regulations of the Board of Directors states that "(...) Notices of meetings should always include the agenda for the meeting, which should set out, inter alia, all business concerning subsidiary companies and Delegated Committees, and all proposals and suggestions put forward by the Chairman and other members of the Board and by the General Manager/s of the bank, and should be sent not less than five working days before the date of the meeting, together with any related documents for distribution to Directors (...)".
Article 21 states:



<b>Details of procedure</b>
<p>"1. Directors have the widest powers to seek information on any aspect of the company, to inspect the company's books, records, documents and other items pertaining to the company's operations, and to inspect all facilities and premises. This right to receive information applies to both Spanish and foreign subsidiaries.</p> <p>2. In order not to disrupt the ordinary running of the company, the exercising of this right to information shall be channelled through the Chairman or the Secretary of the Board of Directors, who shall deal with requests from Directors by providing the information direct, offering appropriate interlocutors at the relevant organisational level, or taking such steps as may be necessary to enable them to perform any inspection or examination in situ."</p> <p>The Rules of Procedure of the Audit and Control Committee are worded in similar terms.</p>

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

YES

<b>Describe the rules</b>
<p>Article 27 of the Regulations of the Board of Directors states that a Director must inform the company of the shares he owns in it directly or through companies in which he has a significant holding. He must also inform the company of any other shares owned directly or indirectly by his immediate family.</p> <p>A Director must also inform the company of all posts he holds and activities he performs in other companies or undertakings, and in general any fact or situation that may be relevant to his conduct as a Director of the company.</p> <p>Article 20 of the Regulations of the Board of Directors states that:</p> <p>1. Directors shall be removed from office at the end of the period for which they were appointed or as the General Meeting or the Board of Directors, under the authority vested in them by the law or the Articles of Association, shall decide.</p> <p>2. Directors shall also be removed from office:</p> <p>a) When they are prohibited from holding office by law or by the Articles of Association.</p> <p>b) When they have been charged with a criminal offence or have disciplinary proceedings taken against them by the regulatory authorities for a serious or very serious breach of duty.</p> <p>c) When, by continuing to serve as a member of the Board, they may jeopardise the interests of the company.</p>

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

NO

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

NO

Decision taken	Reasoned explanation

## B.2 Committees of the Board of Directors

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

### EXECUTIVE OR DELEGATED COMMITTEE

Name	Office held	Type
JOSÉ OLIU CREUS	CHAIRMAN	EXECUTIVE DIRECTOR
JAIME GUARDIOLA ROMOJARO	COMMITTEE MEMBER	EXECUTIVE DIRECTOR
JOSÉ PERMANYER CUNILLERA	COMMITTEE MEMBER	NON-EXECUTIVE DIRECTOR

### NOMINATION AND REMUNERATION COMMITTEE

Name	Office held	Type
HÉCTOR MARÍA COLONQUES MORENO	CHAIRMAN	INDEPENDENT DIRECTOR
ISAK ANDIC ERMAY	COMMITTEE MEMBER	PROPRIETARY DIRECTOR
JOAQUÍN FOLCH-RUSIÑOL CORACHÁN	COMMITTEE MEMBER	INDEPENDENT DIRECTOR
JOSÉ MANUEL LARA BOSCH	COMMITTEE MEMBER	NON-EXECUTIVE DIRECTOR

### STRATEGY COMMITTEE

Name	Office held	Type
JOSÉ OLIU CREUS	CHAIRMAN	EXECUTIVE DIRECTOR
ISAK ANDIC ERMAY	COMMITTEE MEMBER	PROPRIETARY DIRECTOR

Name	Office held	Type
JAIME GUARDIOLA ROMOJARO	COMMITTEE MEMBER	EXECUTIVE DIRECTOR
JOAQUÍN FOLCH-RUSIÑOL CORACHÁN	COMMITTEE MEMBER	INDEPENDENT DIRECTOR
JOSÉ JAVIER ECHENIQUE LANDIRIBAR	COMMITTEE MEMBER	INDEPENDENT DIRECTOR
JOSÉ MANUEL LARA BOSCH	COMMITTEE MEMBER	NON-EXECUTIVE DIRECTOR

#### AUDIT AND CONTROL COMMITTEE

Name	Office held	Type
JOAN LLONCH ANDREU	CHAIRMAN	INDEPENDENT DIRECTOR
FRANCESC CASAS SELVAS	COMMITTEE MEMBER	INDEPENDENT DIRECTOR
MARIA TERESA GARCIA-MILÀ LLOVERAS	COMMITTEE MEMBER	INDEPENDENT DIRECTOR
SOL DAURELLA COMADRAN	COMMITTEE MEMBER	INDEPENDENT DIRECTOR

#### RISK CONTROL COMMITTEE

Name	Office held	Type
JOSÉ OLIU CREUS	CHAIRMAN	EXECUTIVE DIRECTOR
JOSÉ PERMANYER CUNILLERA	DEPUTY CHAIRMAN	NON-EXECUTIVE DIRECTOR
JAIME GUARDIOLA ROMOJARO	COMMITTEE MEMBER	EXECUTIVE DIRECTOR
JOAN LLONCH ANDREU	COMMITTEE MEMBER	INDEPENDENT DIRECTOR
MARIA TERESA GARCIA-MILÀ LLOVERAS	COMMITTEE MEMBER	INDEPENDENT DIRECTOR

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

To supervise the production and integrity of the financial information on the company and on the group, and to review compliance with legal requirements, the proper demarcation of the perimeter of consolidation and the correct application of accounting principles.	YES
To regularly review the internal control and risk management systems, so that the main risks are properly identified, managed and reported.	YES
To ensure the independence and effectiveness of the internal auditing functions; to propose the selection, appointment, re-election and removal of the head of the internal auditing	

department; to propose the budget for the department; to receive regular information on its activities; and to check that senior executives take into account the conclusions and recommendations of its reports.	YES
To set up and supervise a mechanism for employees to report in confidence, and if they wish anonymously, any irregularities of potential importance in the company, particularly financial and accounting irregularities.	YES
To make proposals to the Board for the selection, appointment, re-election and replacement of the external Auditor and its terms of service.	YES
To receive regular information from the external Auditor on the audit plan and the results of carrying it out, and to check that senior management takes its recommendations into account.	YES
To ensure the independence of the external Auditor.	YES
In the case of groups, to facilitate matters so that the group's auditor can carry out the audits of the various companies in the group.	YES

### B.2.3 Give a description of the rules of organisation and procedure and the responsibilities of each Board Committee.

#### Committee

##### AUDIT AND CONTROL COMMITTEE

#### Brief description

Specific provision is made for the Committee in the Articles of Association (Article 59 *bis*) and in the Regulations of the Board of Directors (Article 13). Article 59 *bis* was last amended by resolution of the General Meeting on 25 March 2010, which increased the number of Directors "to a maximum of five". Basic rules on the organisation, procedure and governance of the Audit and Control Committee were approved by a decision of the Audit and Control Committee at its meeting of 20 October 2003. These Rules of Procedure were approved and ratified, where applicable, by the Board of Directors of the bank at a meeting on 30 October 2003 and were executed in a public deed on 18 November 2003 before the Sabadell notary Mr. Javier Micó Giner.

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

It also supervises the effectiveness of the group's risk management systems and control procedures, including the internal control system governing the process of preparing and reporting regulated financial information, paying special attention to reviewing the company's accounts and periodical financial information before its disclosure to the market in order to ensure it complies with prevailing accounting regulations, and duly reports the contents thereof to the Board of Directors.

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

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

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

- a) Reporting to the General Meeting on questions put to it by shareholders on matters within its remit.
- b) Making recommendations to the Board of Directors, for submission to the General Meeting, regarding the appointment of the external auditors, their terms of engagement, their professional remit, and the termination or non-renewal of their appointment; reviewing the performance of the auditing contract, and ensuring that the auditor's opinion on the annual accounts and the main contents of the auditor's report are drafted in clear, precise terms.
- c) Reporting on the annual accounts and the quarterly and half-yearly financial statements and the prospectuses required to be filed with supervisory or regulatory authorities, ensuring that legal requirements are complied with and that generally accepted accounting principles are properly applied, and reporting on any proposed changes to those principles.
- d) Supervising the internal audit department and reviewing the appointment and replacement of key personnel.
- e) Keeping up to date with the process of financial reporting and the systems of internal control within the company.
- f) Maintaining contact with the external Auditor so as to receive information on any issues that could threaten their independence or otherwise have a bearing on the auditing process, and on any other reports concerned with the auditing of accounts or required by legislation or by the regulations governing the auditing profession.
- g) Reporting on all matters referred to it by the Board of Directors within its area of responsibility.
- h) All other responsibilities assigned to it by law or by the Articles of Association and any regulations made thereunder and any deriving from general rules on corporate governance.

In addition, the Committee will have the following duties:

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

## **Committee**

### **RISK CONTROL COMMITTEE**

#### **Brief description**

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

The Risk Control Committee shall have the following responsibilities:

- a) Setting overall levels of risk for each country, business sector and risk category and making recommendations to the full Board;
- b) Establishing and recommending to the full Board maximum levels of risk to be assumed with individual lending institutions and customers and for setting maximum exposures in portfolios or individual investments in government or public sector securities, shares, bonds, options, swaps and generally any instrument or security involving a credit, investment, interest rate or liquidity risk for the group;
- c) Establishing and proposing to the full Board annual limits for investment in the property market, and policy and limits for different types of investment within this market;
- d) Deciding and making proposals to the full Board on such delegations of authority as it may consider expedient for the approval and acceptance of individual risks within the limits set in accordance with the previous paragraphs;

- e) Deciding on those individual risks which only the Risk Control Committee has authority to approve, as a result of the delegating of authority under the previous paragraphs;
- f) Supervising and monitoring the proper exercise of authority delegated in accordance with d) above;
- g) Reporting to the full Board each month on all transactions approved and carried out in the course of the previous month and any divergences or irregularities found and any action taken to rectify them;
- h) Reporting to the full Board each quarter on levels of risk exposure, investments undertaken and the performance of those investments, and on any possible impact of changes in rates of interest on group revenue, and the extent to which such risks are consistent with the VaR levels approved by the Board;
- i) Submitting to the Board, for its approval, any variation of more than 10% and 20% in excess of the limits authorised under a) and b) above, respectively. and
- j) Reporting to the Nomination and Remuneration Committee on whether the remuneration systems for employees are consistent with the bank's risk exposure, capital and liquidity.

#### **Committee**

##### STRATEGY COMMITTEE

#### **Brief description**

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

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

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

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

#### **Committee**

##### NOMINATION AND REMUNERATION COMMITTEE

#### **Brief description**

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

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

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

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

The Committee shall also determine the bonus for senior executives of the bank and its subsidiaries on the recommendation of the General Manager/s.

**Committee**

EXECUTIVE OR DELEGATED COMMITTEE

**Brief description**

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

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

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

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

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

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

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

**Committee**

AUDIT AND CONTROL COMMITTEE

**Brief description**

See point B.2.3

**Committee**

RISK CONTROL COMMITTEE

**Brief description**

See point B.2.3

**Committee**

STRATEGY COMMITTEE

**Brief description**

See point B.2.3

**Committee**

NOMINATION AND REMUNERATION COMMITTEE

**Brief description**

See point B.2.3

**Committee**

EXECUTIVE OR DELEGATED COMMITTEE

**Brief description**

See point B.2.3

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

**Committee**

**Brief description**

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

The Audit and Control Committee has drawn up Rules of Procedure setting out its duties and procedures, which have been filed with the Mercantile Registry and are also available on the website ([www.grupbancsabadell.com](http://www.grupbancsabadell.com)). This Committee draws up an annual report of its activities, which is submitted to the Board of Directors for information.

B.2.6 State whether the composition of the Executive Committee reflects the proportional split between the different categories of Directors:

NO

<b>If not, explain the composition of the Executive Committee</b>
<p>The composition of the Executive Committee is established in the Regulations of the Board of Directors: it shall have a minimum of 3 and a maximum of 5 members, including its Chairman, who shall be the Chairman of the Board. The other members shall be freely appointed by the Board from among the Directors. The Board shall also appoint its Secretary, who need not be a Director.</p> <p>The composition and duties of the Executive Committee do not reflect this proportional split since the Executive Committee's only duty is to coordinate the executive management of the bank and its responsibilities only extend to the powers of its members in the terms decided by the Board. The Executive Committee as such has no powers delegated to it by the Board.</p>

## **C - TRANSACTIONS WITH RELATED PARTIES**

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

YES



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

C.3 List any significant transactions involving a transfer of funds or obligations between the company or a group undertaking and a director or senior executive of the company:

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

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

NO

C.6 Specify the mechanisms available to detect, identify and resolve possible conflicts of interest arising between the company and/or the group and Directors, senior managers and significant shareholders.

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

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

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

Article 27 of the Regulations of the Board of Directors states that Directors must inform the company of the shares they own in it directly or through companies in which they have a significant holding. They must also inform the company of any other shares owned directly or indirectly by their immediate family. Directors must also inform the company of all posts they hold and activities they perform in other companies or undertakings, and in general any fact or situation that may be relevant to their conduct as a Director of the company.

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

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

3. At its meeting on 26 November 2009, the Board of Directors passed a resolution to adhere to the Standard Internal Rules of Conduct for matters relating to the Stock Market [*Reglamento-Tipo Interno de Conducta en el ámbito del Mercado de Valores*] drawn up by the Spanish Banking Association and adopted by the stock market regulator (CNMV) on 7 May 2009.

These Rules contain a specific section (Four) titled "Priority of customer's interests and conflicts of interest". This section contains, among other points: (i) a definition of conflict of interest; (ii) possible conflicts; (iii) identification of situations of conflict of interests; (iv) prevention of conflicts; (v) information on conflicts of interest; (vi) settlement of conflicts.

With respect of point (v) it states: "Persons subject to the rules shall make a declaration to the group, which they shall keep up to date, setting out significant relations of a financial, business, family or other nature with customers of the group for services related to the stock market or listed companies."

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

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

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

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

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

5. The Banco Sabadell's general policy regarding conflicts of interest lays down precise rules, procedures and ratings that guarantee that decisions within the group with respect to the provision of investment services are made so as to avoid, eliminate or, in the ultimate instance, reveal the conflict of interest to the customer.

This policy takes account of potential conflicts of interest that could arise as a consequence of the structure and activities of other companies in the group, as well as measures to prevent conflicts of interest within the Banco Sabadell group.

The general policy on conflicts of interest in the Banco Sabadell group includes aspects that help identify the presence of a conflict of interest and describe how to deal with it.

The Compliance Department is responsible for correctly applying the policy, and when necessary it will urge the other departments in the group to take the necessary action.

6. The rules governing the handling of conflicts of interest in the group include measures to be taken by employees to deal with such conflicts of interest.

If such conflicts cannot be handled internally, they must be notified to the Compliance Department, which will take the necessary steps to resolve the issue.

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

NO

Identify the subsidiaries listed in Spain:

## D - RISK CONTROL SYSTEMS

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

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

Risk management and control at Banco Sabadell comprises a comprehensive array of principles, policies, procedures and advanced valuation methods integrated within an effective decision-making structure.

Banco Sabadell has established a number of fundamental principles governing the management and control of risk. These are:

### Solvency

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

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

### Responsibility

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

### Risk management and control

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

## A. TYPES OF RISK ADDRESSED BY CONTROL SYSTEMS

### 1. Credit risk

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

## 2. Market risk

Market risk includes the following risks:

2.a. Discretionary risk: Discretionary risk is the possibility of losses in the value of investments due to fluctuating market risk factors (equity prices, interest rates, exchange rates, implied volatilities, correlations, etc.).

2.b. Structural risk: This risk arises from the ongoing customer-based commercial banking and corporate finance businesses. Management of structural risk seeks to ensure stability at the margin by maintaining appropriate levels of liquidity and capital strength. Structural risk can be broken down into interest rate risk and liquidity risk.

2.b.1.1. Interest rate risk is caused by changes in the interest rates, as shown by the position or slope of yield curves, that provide benchmarks for asset, liability and off balance sheet positions. Gaps or mismatches arise between these items because of differences in repricing and maturity dates so that rate changes affect them at different times, which in turn affects the robustness and stability of results.

2.b.1.2. Liquidity risk can be defined as the possibility of defaulting on debts, even if only on a temporary basis, due to a lack of liquid assets or an inability to access the markets to refinance those debts at a reasonable cost.

## 3. Operational risk

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

## 4. Reputational risk

Reputational risk arises from the perception that our stakeholder groups (customers, suppliers, government agencies and the communities in which we operate) have of the bank. These include legal, economic, financial, ethical, social and environmental aspects, among others.

The perception by stakeholders can be affected by:

- Non-compliance with legislation, regulations, self-imposed rules and codes of conduct applicable to the banking business.
- A lack of concern for the welfare of the community in which the group operates.
- Conduct falling below generally accepted ethical standards.

## B. RISK CONTROL SYSTEMS

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

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

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

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

On the basis of the measures of risk provided by these new methodologies, Banco Sabadell has developed a consolidated risk measurement model with a common unit of measurement, economic capital, the purpose of which is to determine the capital requirement on the basis of internal parameters appropriate to ensure a specified level of solvency.

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

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

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

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

#### 1. Credit risk

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

##### 1.1. Approval, monitoring and recovery

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

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

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

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

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

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

##### Credit rating

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

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

## Credit scoring

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

- a. Behavioural scoring, in which the system produces a maximum exposure figure which is apportioned among different risk products. This classification serves as the basis for monitoring behaviour, while it is also used for approving new products and even for pre-approvals.
- b. Application scoring, which is used to evaluate applications for personal and mortgage loans and credit cards. When all transaction data have been entered, the system generates a result based on estimates of borrowing capacity, financial position and the quality of any collateral or other security.

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

## 1.2. Country risk

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

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

## 1.3. Credit risk due to market operations

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

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

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

## 2. Market risk

### 2.1. Discretionary risk

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

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

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

## 2.2. Structural risk

### a. Interest rate risk

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

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

A number of methodologies are used to measure interest rate risk. These include interest rate gap analysis which measures the sensitivity of net interest income to changes in interest rates over a one-year horizon. By this technique, volumes of asset and liability items are grouped according to their maturity date (for fixed rate instruments) or their re-pricing date (for floating rate instruments). This analysis provides an estimate of the effect that a change in interest rates will have on net interest income, assuming that all rates change by the same amount and in a sustained way.

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

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

### b. Liquidity risk

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

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

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

Liquidity risk is mitigated by a clear policy of using the different markets to diversify its sources of funds, mainly deposits through the group's commercial business and programmes of medium-term debt or securitisation issues.

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

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

### 3. Operational risk

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

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

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

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

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

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

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

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

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

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

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

### 4. Reputational risk

Reputational risk arises from the perception that our stakeholder groups (customers, suppliers, government agencies and the communities in which we operate) have of the bank.

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

a. Measures to prevent our branch network being used for money-laundering operations originating from criminal or terrorist-financing activities:



- A dedicated unit specialising in the detection, analysis and tracking of suspicious transactions.
- An automatic process for tracking payments on a massive scale. This sends out alerts which are then analysed by the specialist unit.
- The group's internal rules and procedures.
- A system of continuous staff training and the integration of reputational issues into the group's internal rules and procedures.

b. Measures to ensure compliance with the various regulatory requirements that apply to the group's business in all countries where it operates, including its operations in the Spanish market:

- The Compliance, Corporate Social Responsibility and Corporate Governance Department is involved in all new product development processes with a view to ensuring that from the outset products comply with regulatory requirements, particularly those concerning the protection of investors (MiFID), transparency and protection of customers.
- The group has set up a team of Compliance Reporting Officers who are responsible for verifying that operations conform to the regulations applicable to specific areas of business and who report to the Compliance Department on a regular basis.

c. Measures to verify compliance with the principles laid down in our Code of Conduct and to encourage higher standards of compliance by adopting guidelines and procedures which can be integrated into our day-to-day working practices. Stock market dealing by employees, Directors and others bound by the Code is subject to systematic disclosure requirements and monitoring by the Compliance, Corporate Social Responsibility and Corporate Governance Department. Other aspects of the Code of Conduct, control of market abuse and the group's adjustment to MiFID requirements are monitored by the Department by such means as the Corporate Ethics Committee considers are necessary to ensure compliance.

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

NO

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

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

YES

If so, give details of its functions.

**Name of committee or body**

RISK MANAGEMENT RESPONSIBILITIES

**Description of functions**

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

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

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

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

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

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

- Credit Operations Committee meetings are held every week and the committee has the following functions: (i) to approve credit operations in accordance with the delegated powers established, (ii) to monitor the use of approved powers and to pass to the Risk Control Committee any proposed modifications considered appropriate, (iii) to report every month to the Risk Control Committee on operations approved and carried out in the previous month, for passing to the Board of Directors, (iv) to monitor the evolution of late payments on a global level, giving details of the most relevant cases and situations, and (v) to approve the criteria for granting and monitoring credit risk for adequate risk handling, in the terms of the policies approved by the Risk Control Committee.

- Financial Department: As part of the planning and budgeting process, the Department draws up proposals for risk structures and overall limits, and for allocations of capital in line with the set strategy; provides information to the various decision-making and risk management functions or units regarding overall risk exposures and monitors the implications; sees that the risk variable is taken into account in all decisions; and oversees specific risk management models, ensuring that these approaches are in line with generally accepted principles and methodologies, particularly so far as the supervisory authorities are concerned.

- Risk Department: The department is responsible for establishing risk management guidelines, methodologies and strategies. It defines and establishes the risk management approach, develops advanced internal measurement systems on the basis of supervisory requirements for the quantification and differentiation of risk, and actively promotes the operational use of these systems. It lays down procedures to ensure optimum performance by the credit function. It manages and integrates the various risk exposures according to the authority limits assigned to each level, through a selective approval of risk in such a way as to ensure risk quality, while fostering growth and maximising profitability.

- Assets and Liabilities Committee: The Committee draws up standards to ensure effective management of the group's structural balance sheet risk acquired in the course of business and taking into account market risk. It oversees interest rate, exchange rate and liquidity risk, and proposes alternative business or hedging strategies to ensure that business objectives will be achieved having regard to market conditions and balance sheet considerations.

- Operational Risk Committee: The Committee defines the strategies and framework for the management of operational risk and establishes the operating priorities for this based on assessment of the risk exposure of the different business and corporate departments.

- Compliance, Corporate Social Responsibility and Corporate Governance Department: It oversees compliance with the legal requirements, operating procedures and codes of conduct that govern the group's activities, including procedures to combat money laundering and the financing of terrorist groups, market abuse and investor protection (MiFID) by establishing alert procedures and systems.

- Internal Control Unit: unit headed by the Comptroller General, it oversees compliance with laws on the prevention of money laundering and combating and blocking the financing of terrorism within the group, on which all the companies in the group that are subject to these laws and the areas of special risk are represented.

- Corporate Ethics Committee: headed by the Comptroller General, it is the body responsible for the control and monitoring of compliance within the group with rules of conduct in matters relating to the stock market and with the general code of conduct.

- Internal Audit Department: Reports directly to the Audit and Control Committee, oversees effective implementation of management policies and procedures, and assesses the appropriateness and effectiveness of management and control activities in each functional and executive unit.

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

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

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

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

. Control audits. The purpose of these is to verify, for a particular area of operations, that the various risks associated with that area have been identified, assessed and controlled by the managers responsible, and that controls are of the approved type and are being implemented.

. Management audits. These are to ensure that the indicators included in each unit's scorecard or "instrument panel" are properly analysed, and to take corrective action in the event of any deviation from target levels.

. Verification audits. These have the aim of validating the information used as a basis for drawing up quality indicators, so as to ensure that indicators are a fair reflection of reality.

. Compliance audits. These ensure that all internal group activities are in accordance with legal and regulatory requirements and ethical standards that apply at any given moment in time.

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

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

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

The group has a Compliance Policy that was approved by the Board of Directors of Banco Sabadell on 26 April 2007 and which states that one of the essential aspects of the group's policy, and the foundation of its organisational culture, is scrupulous compliance with all legal provisions. This commitment significantly reinforces the group's regulatory compliance function before the rest of the organisation.

The direct consequences of infringement of legislation and loss of image in the eyes of the regulator, the market, employees, customers and the media have made it increasingly necessary and important to manage compliance risk, this being understood as the risk of legal or administrative penalties, significant financial loss or damage to reputation through failure to comply with laws, regulations, internal rules and codes of conduct applicable to the banking business. Aware of this, the group has a compliance unit with the mission to promote and ensure the highest levels of compliance and ethics in the group, managing compliance risk in order to minimise the possibility of any such risk materialising and to ensure that any defaults are identified, reported and resolved as quickly as possible. In order to carry out this mission, the group has put in place a compliance model centralised in the parent company with decentralised functions in the Spanish and foreign subsidiaries and overseas offices. It is a flexible, risk-focused approach that adapts easily to the group's strategy at any given time and makes use of synergies, particularly in those aspects with complex global impacts that require technological developments and where the main challenge is the standardisation of levels of compliance control in the group by establishing compulsory minimum standards irrespective of the field of business or country in which the group is operating.

This model is driven by two main elements:

-A robust Compliance Department that provides service to the whole group and is moving from a model aimed at management of specific risks towards a model of global compliance risk management. In this model, the core processes are distribution and controlled implementation of new legislation applicable to the group, and risk focused control of correct compliance with legislation already in force. The risk-focused methodology classifies regulations according to the associated compliance and reputational risks and establishes the level of rigor and the control programme to be executed by the Compliance Department in each case. Combating money laundering and the financing of terrorism, market abuse, the Internal Rules of Conduct and MiFID, for example, are classified as high risk and therefore require direct integrated control by the Compliance Unit. With respect to other regulations, the programme will be articulated through a combination of direct controls by sampling and indirect controls through monitoring the indicators of each risk.

- A system of subordination to the parent company by the compliance officers in each of the subsidiaries and overseas offices (functionally subordinate to the Compliance Department and hierarchically subordinate to the manager of the subsidiary/overseas office), who report regularly to the central unit and ensure compliance with legislation in all the countries and fields of business in which they operate.

The group implements a specific methodology to ensure ongoing advancement in terms of regulatory compliance. This methodology has six mainstays:

- Technology to integrate regulatory compliance into the group's operating processes and facilitate a high level of effectiveness and consistent compliance with prevailing legislation.
- Ongoing training/information for the staff concerned, by implementing an annual training scheme to create awareness, highlight and clarify concepts in those more sensitive or special risk areas.
- Clear procedures of action so that the staff affected know how to proceed in each case.
- Easy and efficient communication channels.
- Control and follow-up programmes to ensure that prevailing regulatory requirements are met and complied with.
- Involvement of the Compliance Department in all processes of approval for new regulations and procedures and in the issuance or marketing of new investment products, which in conjunction with the work carried out to detect new regulations and verify the implementation of any new changes necessary in accordance therewith, guarantee the company's activity is duly in line with prevailing legislation.

#### Structure and functions of the Compliance Department

The Compliance Department forms part of the Compliance, Corporate Social Responsibility and Corporate Governance Department, which reports directly to the Comptroller General and, by order of hierarchy, to the Chairperson and the Board of Directors itself, keeping separate the executive channels in order to avoid conflicts of interest between the objectives of these channels and ensure strict compliance with prevailing regulations and ethical codes.

The main functions of the Compliance Department are summarised as follows:

- To control the implementation of new regulations
- To identify, classify and prioritise risks of non-compliance with regulations
- To set up a programme for annual reviews of incompliance risks
- To manage and directly control the main risks of incompliance
- To detect and manage cases of incompliance
- To mitigate risks, promoting and implementing procedures and controls
- To furnish senior management with Incompliance Risk Management reports

#### Global management of Compliance Risk

The Banco Sabadell group is committed to transparency and to strict compliance with all legislation applicable to the group; the Compliance Department, through its core processes, is responsible for overseeing the group's observance of such regulations. It is in these core processes that the strategy for action centralised in the parent company and decentralised in the Subsidiaries and Overseas Offices is implemented:

- i) controls for the implementation of new regulations and execution of the annual control plan, analysis of the reputational risk of new products and new projects, review and control of advertising, and the fees/charges applied by the group to its operations, are all centralised in the parent company.

ii) through High-level Interlocutors and Compliance Reporting Officers, the level of control and therefore the adherence to applicable regulations are standardised throughout the group in the subsidiaries and overseas offices.

This risk-focused methodology for managing compliance risk is called the Risk Focus Approach (RFA), and it classifies regulations according to the associated compliance and reputational risks, establishing the level of rigor and the control programme to be executed by the Compliance Department in each case.

As regards control infrastructure, the group has: i) internal operating procedures for each of the areas that form part of this central core; ii) an automated system of control through which new regulations are sent to addressees, who after analysing their impact must inform the system of the results and conclusions, as well as plans of action for implementing the regulations within the required time; iii) risk indicators for the continuous monitoring of risks associated with matters classified as high risk on account of their potential reputational impact, which are therefore controlled directly by the Compliance Department, iv) an automated system for creating an annual Compliance Department review based on the risks/controls in the operational risk database. This system also has a function which enables each of the risks reviewed to be monitored on an ongoing basis; v) an advertising control programme to ensure that all the advertising elements used by the group comply with the legal requirements and the requirements of its Commercial Communication Policy; and vi) a model, currently under development, for managing and controlling the group's criminal risks.

#### Prevention of Money Laundering and the Financing of Terrorism

The group has defined a policy and thorough customer identification, knowledge and vetting procedure in order to mitigate the risk of the group being used for money laundering activities or activities connected to the financing of terrorism.

The group has an Internal Control Body, headed by the Comptroller General, which oversees compliance with laws on the prevention of money laundering and combating and blocking the financing of terrorism within the group. All the companies in the group that are subject to these laws and the areas of special risk are represented on this Internal Control Body.

In terms of control infrastructure, the group has: i) a set of group Anti-Money Laundering regulations, regulations for correspondent banks and specific regulations for each national or international subsidiary, and a set of regulations for each of the branches abroad. These regulations are adapted to their specific activity and local legislation, however, they must always comply with the group's minimum standards; ii) group regulations for the blocking of terrorism financing; iii) a customer vetting policy with different authorisation levels based on associated money laundering risks; iv) procedures for identifying, vetting and getting to know customers; v) a Know Your Customer (KYC) questionnaire which gathers customer details regarding their identity and their planned banking activity; vi) a reinforced Due Diligence procedure for correspondent banks, for persons with public responsibilities (PRPs) and other risk groups; vii) an intelligent system for tracking suspicious transactions which generates different types of alerts based on the risk profiles of the customers, transactions and products, in order to monitor business relations on an ongoing basis. These alerts are managed and analysed and, if applicable in accordance with prevailing legislation, notified to SEPBLAC (the Executive Service of the Commission for the Prevention of Money Laundering and Monetary Offences); viii) a mechanised control system that detects possible matches with persons connected with terrorist activities and persons with public responsibilities and their relatives. Any such matches detected are managed immediately and, if appropriate, notified to the Regulator; ix) a remediation plan for applying Due Diligence procedures to existing customers based on risk; x) an annual report drawn up by an outsourced expert evaluating the control procedures and systems in place and reported to the Regulator (SEPBLAC); xi) a training policy for all employees, detailing the different lines of action from the formulation of the mandatory welcoming introduction for all newly-recruited group employees to the annual training scheme with attendance-based and remote courses for all employees, as well as training actions geared towards certain specific collectives. Specialised newsletters are circulated periodically including articles and news items of interest to help create awareness among staff, particularly those who come into contact with customers, regarding new practices to be taken into account.

#### Market Abuse and Investor Protection (MiFID).

The Banco Sabadell group is committed to safeguarding the integrity of the markets since it provides a full range of services related to stock market operations and its shares are listed on the Spanish stock market. In accordance with applicable legislation, the group undertakes to ensure market transparency, correct market pricing and investor protection by establishing procedures, developing and using IT applications for management and control, and managing proper internal training for the staff concerned.

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

The group has in place:

- Internal Rules of Conduct for matters relating to the stock market, approved by the Board of Directors, which provide the relevant employees with details of how to apply the rules for dealing on the stock market. The Rules cover concepts such as insider information, price manipulation, separate areas and conflicts of interest, laying down general directives on how to proceed and the channels of communication to use.
- Internal rules for the handling of insider information in the BS group and rules for reporting suspicious operations.
- A conflicts of interest policy which identifies the different types of conflict that can arise and the procedure for the prevention, handling and reporting of these.
- MiFID policies: policies for the execution and handling of orders, for outsourcing and for safekeeping of financial instruments are revised periodically and updated when appropriate.
- An automatic interactive system for the management of compliance with the Internal Code of Conduct through which potential non-compliances are detected and dealt with.
- A system for detecting transactions suspected of market abuse (manipulation of prices or privileged information). These transactions are analysed and, where appropriate in accordance with prevailing legislation, reported to the stock market regulator (CNMV).
- A control programme for overseeing the group's proper observance of the investor protection requirements included in the Markets in Financial Instruments Directive (MiFID).
- An annual training plan with attendance-based and/or remote courses covering the areas sensitive to detection of transactions suspected of market abuse and an ongoing training scheme dealing with MiFID and stock market codes of conduct.
- Ongoing training is complemented and reinforced with the circulation of specialised newsletters including articles, news items of interest and case studies that help to create awareness among staff, particularly those working with stock market accounts and operations, and new practices to be taken into account.

## E - GENERAL MEETING

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

NO

	<b>% of difference in quorum from Art. 102 of the Act for ordinary resolutions</b>	<b>% of difference in quorum from Art. 103 of the Act for special resolutions</b>
<b>Quorum on 1st call</b>	0	0
<b>Quorum on 2nd call</b>	0	0

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

NO

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

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

Under the Articles of Association, Banco Sabadell shareholders are entitled to exercise all the rights of members under the Spanish Companies Act (*Ley de Sociedades de Capital*, formerly *Ley de Sociedades Anónimas*).

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

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

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

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

At its meeting on 22 July 2010, the Board of Directors decided to set up a Shareholders Online Forum and approved its Regulations, in compliance with the provisions of Article 117.2 of the Stock Market Act, as amended by Act 12/2010.

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

The Bank has always sought to encourage shareholder participation at General Meetings by sending out a shareholder newsletter and by notifying individual shareholders directly of General Meetings (in addition to published announcements in the press and in the Mercantile Registry Gazette - *BORME*);



it also makes arrangements to allow forms of proxy and specific voting instructions to be deposited at any branch, which has produced a high participation in General Meetings.

Article 14.5 of the Regulations provides that, if possible and subject to suitable guarantees with respect to legal security and the authenticity of expressions of shareholders' wishes, the Board may establish systems of postal or electronic voting.

In 2010 the Shareholders Online Forum was set up on the group's website [www.grupbancosabadell.com](http://www.grupbancosabadell.com).

The forum is for the sole purpose of communications among shareholders in Banco Sabadell in connection with the notice of General Meetings up to the date of each meeting.

The following notices may be published on the forum:

- Motions to be submitted to supplement the Agenda announced in the notice of General Meeting.
- Applications to back these motions.
- Measures for reaching a sufficient percentage to exercise a minority right under the law.
- Offers and requests for proxies.

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

NO

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

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

Attendance figures					
Date of General Meeting	% present in person	% present by proxy	% of votes cast by remote means		Total
			Electronic votes	Others	
14/04/2011	5,780	66,950	0,000	0,000	72,730

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

Due to lack of space and the impossibility of making a detailed transcription, the following is an extract from the resolution passed by the General Meeting held during the year. The full text of the resolution is available on the website [www.grupbancosabadell.com](http://www.grupbancosabadell.com) under "Shareholder and Investor Information > General Meetings > Previous General Meetings".

## Ordinary General Meeting of 14 April 2011

### Resolution One

To approve the Annual Accounts – Balance Sheet, Profit and Loss Account, Statement of Changes in Net Worth, Cash-Flow Statements and Notes to the Accounts – and Report of the Directors of Banco de Sabadell, S.A. and its consolidated tax group (including the report on the points required by Article 116 *bis* of the Stock Market Act) and the Report on Remuneration Policy by the Board of Directors of Banco de Sabadell, S.A., all with respect to the year ended 31 December 2010; the management by the directors of de Sabadell, S.A. during the year commencing on 1 January 2010 and ending on 31 December of the same year; as well as the proposal for the allocation of the results for the year, consisting in a distribution of profits as follows:

To voluntary reserves	€179,095,234.30
To legal reserves	€4,149,505.90
To reserves for investment in the Canary Islands	€248,337.87
To distribution of dividends	€197,126,410.02
Interim dividend paid on 20 December 2010	€0.09 per share
Payment of a complementary dividend to take effect on 19 April 2011	

### Resolution Two

At the proposal of the Nomination and Remuneration Committee and in accordance with article 51 of the Articles of Association, to re-elect to the Board of Directors of Banco de Sabadell, S.A., as non-executive director for a further five-year term, Isak Andic Ermay (...)

### Resolution Three

To authorise the Board of Directors of Banco de Sabadell, S.A., with such broad powers as may be required in law, and in accordance with the provisions of Article 297.1.b) of the Companies Act (*Ley de Sociedades de Capital*), to increase the share capital once or more often in such amount, on such dates and terms and in such other circumstances as it may decide, granting the Executive Committee, or the persons it delegates, the powers of substitution, up to the maximum amount and within the time limit laid down in the Act, to fix the type of shares, to offer the shares not subscribed within the deadline for pre-emptive subscription, to establish that if not all the shares are subscribed the capital shall be increased solely by the amount subscribed, and to amend the section of the Articles of Association relating to capital.

Delegation includes the powers to set, if applicable, the share premium, the issuance of privileged shares, without voting rights, redeemable shares or other securities or financial instruments linked or related to the bank's shares that imply a share capital increase and to request the admission, permanence or exclusion from stock market listing of the issued shares or any other procedures necessary for the new shares pertaining to the capital increase or increases to be accepted for trading on national and international stock markets, in accordance with the procedures of each respective stock market. Moreover, it includes the authorisation, if applicable, to exclude the preferential subscription rights relating to the shares issued under the delegation of powers when it is in the interest of the company under the conditions set forth in article 506 of the Companies Act (...).

### Resolution Four

To authorise the Board of Directors of Banco de Sabadell, S.A., to issue non-convertible bonds, subordinated or otherwise, which may be known as non-convertible bonds, preference shares, treasury bonds or by any similar name, mortgage-backed securities and any other Fixed-interest securities, in one or more stages for a period of three years from today's date.

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

The Board may freely determine the total amount of each issue or programme and the maturity dates, interest rates and other applicable conditions, but the number of outstanding bonds or promissory notes may at no time exceed the limits laid down by law; and in general may, without any limitation whatsoever, perform all such public or private acts that may be necessary or that the Board considers appropriate for the implementation of this resolution, and may, if applicable, appoint the security holders' Trustee and approve the basic rules governing legal relations between the bank and the Syndicate of Security Holders of the securities so issued.

To similarly authorise the Board, when it considers it appropriate and subject to obtaining the necessary official authorisations, and the agreement of the assemblies of the respective Syndicates of Security Holders, to amend the conditions for redemption of the fixed-interest securities issued and their respective term and rate of interest in each of the issues carried out under the preceding authorisation.

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

#### Resolution Five

To authorise the Board of Directors de Banco de Sabadell, S.A., under the general regime for the issue of bonds and pursuant to the provisions of Articles 285 to 290, 297 and 511 of the Revised Spanish Companies Act, approved by Legislative Royal Decree 1/2010 (*Ley de Sociedades de Capital*) and Article 319 of the Mercantile Registry Regulations, to issue bonds, preference shares and any other securities representing part of any loan stock that are convertible into new shares issued by the company and or exchangeable for outstanding shares in the company, as well as warrants or other similar securities giving the right to directly or indirectly subscribe or acquire new or outstanding shares in the company (...)

#### Resolution Six

To annul the resolution adopted by the General Meeting of 25 March 2010 to the extent that it has not been implemented, and to authorise the company, whether directly or through any of its subsidiary companies, within a period not exceeding five years from the date of this General Meeting, to acquire, at such time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law including the charging thereof to profits for the year and/or disposable reserves, provided that the company may subsequently sell or redeem the said shares or allot them to employees or directors of the company as part of their remuneration or as a result of their exercising share options held, subject always to Article 146, 509 and related articles of the Companies Act.

To reduce share capital for the purposes of redeeming own shares that the bank may have on its balance sheet, against profits or disposable reserves and for the amount deemed convenient or necessary at the time, up to the limit of the own shares existing at any time.

To delegate to the Board of Directors the execution of the aforementioned resolutions and particularly the capital reduction, which can be carried out in one or more stages over a maximum period of five years from the date of this agreement, undertaking any such procedures and authorisations as required by the Companies Act and other applicable regulations and, in particular, the Board of Directors is delegated to, within the execution terms and limits, set the date(s) of the capital reduction, its suitability and convenience; set the amount of the reduction; determine the allocated destination of the amount thereof, providing the guarantees and complying with the pertinent legal requirements; amend article 7 of the Articles of Association to reflect the new share capital amount; request the exclusion of the redeemed shares from stock market listing and, in general, adopt any agreements necessary for the purposes of this share redemption and resulting capital reduction; designating the persons who shall intervene in its formalisation (...)

#### Resolution Seven

Pursuant to Article 264 of the Companies Act and on the recommendation of the Audit and Control Committee to the Board of Directors, to reappoint PricewaterhouseCoopers Auditores, S.L., tax number B-79031290, as Auditor of the company's accounts and the consolidated annual accounts of the group for a further period of one year (...).

#### Resolution Eight

To grant express authority to the Chairman of the Board of Directors of Banco de Sabadell, S.A., José Oliu Creus, the Secretary to the Board, Miquel Roca i Junyent, and the Deputy Secretary, José Luís Negro Rodríguez, or to any person replacing them in the offices of Chairman, Secretary and Deputy Secretary respectively, so that any one of them may act as follows on behalf of the bank:

To take such steps as may be necessary to obtain the relevant authorisations or registrations at the Bank of Spain, Ministry of Economy and Finance, Directorate-General of the Treasury and Financial Policy, and the CNMV. to appear before a notary to execute the resolutions passed in one or more public deeds and to perform such acts as may be practical or necessary for their registration, where applicable, in public registries and in particular in the Mercantile Register of the Province (...).

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

YES

<b>Number of shares required to attend a General Meeting</b>	800
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**E.10 Describe and explain company policy on appointing proxies for General Meetings.**

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

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

NO

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

The contents required to be published of listed public limited companies are directly accessible on the corporate website [www.grupbancsabadell.com](http://www.grupbancsabadell.com) in the section on "Shareholder and Investor Information".

## F - DEGREE OF ADHERENCE TO RECOMMENDATIONS ON CORPORATE GOVERNANCE

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

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

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

Complies

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

- a) The respective fields of business and any business relations between them, as well as those between the subsidiary and the other companies in the group;
- b) The mechanisms for settling any conflicts of interest that might arise.

*See sections: C.4 and C.7*

Not applicable

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

- a) The conversion of listed companies into holding companies by the "subsidiarisation" or transfer to dependent companies of essential activities hitherto carried on by the company itself, even when the company maintains full control of them;
- b) The acquisition or disposal of essential operating assets when this involves an effective change in the corporate objects;
- c) Operations having an effect equivalent to that of winding up the company.

Complies

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

Complies

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

- a) The appointment or ratification of Directors, which should be voted on individually;
- b) In the case of amendments to the Articles of Association, individual articles or a group of articles that are substantially independent of each other.

*See section: E.8*

Complies

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

*See section: E.4*

Complies

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

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

Complies

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

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

- i) The strategic or business plan, management targets and annual budget;
- ii) Investment and financing policy;
- iii) The structure of the group;
- iv) The corporate governance policy;
- v) The corporate social responsibility policy;
- vi) The policy on remuneration and assessment of the performance of senior executives;
- vii) The risk control and management policy and the regular monitoring of internal information and control systems;
- viii) The policy on dividends and purchases of own shares, especially the limits thereon.

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

b) The following decisions:

- i) Appointment and removal of senior executives, and their compensation clauses, on the Chief Executive's recommendation.

*See section: B.1.14*

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

*See section: B.1.14*

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

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

Authorisation by the Board shall not, however, be considered necessary in transactions with related parties that meet all of the following three conditions:

1. They must be carried out under contracts with standardised terms that are applied en masse to a number of clients;

2. They must be carried out at prices that are applied in general by anyone acting as a supplier of the goods or services in question;
3. The amount must not exceed 1% of the company's annual earnings.

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

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

*See sections: C.1 and C.6*

Complies

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

*See section: B.1.1*

Complies

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

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

Complies

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

*See section: B.1.3*

Complies

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

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

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

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

Complies

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

*See section: B.1.3*

Complies

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

*See sections: B.1.3 and B.1.4*

Complies

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

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

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

Complies

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

*See section: B.1.42*

Complies

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

*See section: B.1.21*

Complies

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

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

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



*See section: B.1.34*

Complies

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

*See section: B.1.29*

Complies

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

*See sections: B.1.28 and B.1.30*

Complies

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

Not applicable

22. The full Board should assess once a year:

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

*See section: B.1.19*

Complies

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

*See section: B.1.42*

Complies

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

*See section: B.1.41*

Complies

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

Complies

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

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

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

Complies

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

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

*See section: B.1.2*

Complies

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

- a) Professional profile and biographical details;
- b) Other boards of directors of which they are members, whether or not the companies are listed companies;
- c) Category of each board member, stating in the case of non-executive directors, the shareholder they represent or with whom they have ties.
- d) Date of first appointment as a Director of the company, and of subsequent appointments; and
- e) The number of shares and share options held in the company.

Complies

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

*See section: B.1.2*

Explain

The company considers this recommendation very appropriate and intends to comply with it in the future. However, at present it considers that these Directors should continue in office, since their independence has been ensured and ratified at all times by the Board and the General Meeting.

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

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

Complies

31. The Board of Directors should not propose the removal of any Independent Director before the expiry of the term of office for which he was appointed, other than for reasons that are justified in the opinion of the Board and subject to a report by the Nomination Committee.

In particular, justified reasons shall be considered to exist when the Director has failed to perform his duties or is in one of the situations described in section III.5 of the definitions given in this Code.

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

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

Complies

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

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

*See sections: B.1.43 and B.1.44*

Complies

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

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

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

Not applicable

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

*See section: B.1.5*

Not applicable

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

- a) Amount, and breakdown, of the fixed components of subsistence allowances for attendance at Board and Committee meetings, with an estimate of the resulting fixed annual remuneration;
- b) Variable remuneration components, including in particular:
  - i) Categories of Directors to which they apply, with an explanation of the relative importance of the variable remuneration components with respect to the fixed components.
  - ii) Criteria for assessing the results on which the right to remuneration in the form of shares, share options or any variable component is based;

- iii) Basic parameters and grounds for any annual bonus system or other benefits not paid in cash; and
  - iv) An estimate of the absolute amount of the variable remuneration under the proposed remuneration scheme, according to the degree of materialisation of the hypothesis or achievement of the targets taken as a reference.
- c) The main features of the benefit schemes (e.g. supplementary pensions, life insurance and the like), with an estimate of their amount or equivalent annual cost.
- d) Conditions to be respected in the contracts of those performing senior management duties as Executive Directors, including:
- i) Duration;
  - ii) Period of notice; and
  - iii) Any other clauses relating to hiring bonuses, and any compensation or protection clauses for early termination of the contract between the company and the Executive Director.

*See section: B.1.15*

Complies

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

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

*See sections: A.3 and B.1.3*

Complies

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

Complies

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

Not applicable

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

Complies

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

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

It shall also include an overall summary of how the remuneration policy was applied during the past year.

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

*See section: B.1.16*

Complies

41. The report should detail the individual remuneration of the Directors during the year and should include:

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

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

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

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

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

Complies

42. When there is a Delegated Committee or Executive Committee (hereinafter "Delegated Committee"), the structure of the different categories of Directors on it should be similar to that of the Board and its secretary should be the Secretary to the Board.

*See sections: B.2.1 and B.2.6*

Explain

Given the composition and duties of the Executive Committee, this recommendation is not considered applicable since the Executive Committee's only duty is to coordinate the executive management of the bank and its responsibilities only extend to the powers of its members in the terms decided by the Board. The Executive Committee as such has no powers delegated to it by the Board.

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

Complies

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

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

- a) The Board should appoint the members of these Committees, taking into account the expertise, skills and experience of the Directors and the remits of each Committee; it should discuss their recommendations and reports; and the committees should report to it on their activities and account for the work carried out, at the first full Board meeting after their meetings;
- b) The Committees should be composed solely of Non-executive Directors, with a minimum of three. The above is without prejudice to the presence of Executive Directors or other senior executives, when specifically decided by the committee members.
- c) Their chairmen should be Independent Directors.
- d) They should be able to obtain external advice when considered necessary for the performance of their duties.
- e) Minutes should be drawn up of their meetings and copies sent to all the members of the Board.

*See sections: B.2.1 and B.2.3*

Complies

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

Complies

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

Complies

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

Complies

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

Complies

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

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

*See sections: D*

Complies

50. It is the responsibility of the Audit Committee:

1. In relation to the internal information and control systems:
  - a) To supervise the production and integrity of the financial information on the company and on the group, and to review compliance with legal requirements, the proper demarcation of the perimeter of consolidation and the correct application of accounting principles.
  - b) To regularly review the internal control and risk management systems, so that the main risks are properly identified, managed and reported.
  - c) To ensure the independence and effectiveness of the internal auditing functions; to propose the selection, appointment, re-election and removal of the head of the internal auditing department; to propose the budget for the department; to receive regular information on its activities; and to check that senior executives take into account the conclusions and recommendations of its reports.
  - d) To set up and supervise a mechanism for employees to report in confidence, and if they wish anonymously, any irregularities of potential importance in the company, particularly financial and accounting irregularities.
2. In relation to the external Auditor:
  - a) To make proposals to the Board for the selection, appointment, re-election and replacement of the external Auditor and its terms of service.
  - b) To receive regular information from the external Auditor on the audit plan and the results of carrying it out, and to check that senior management takes its recommendations into account.
  - c) To ensure the independence of the external auditor, to which effect:
    - i) The company should notify the CNMV, as a significant event, of the change of auditor and attach a declaration on the existence of any disagreements with the outgoing auditor and the contents of these.
    - ii) It should ensure that the company and the Auditor should respect the rules on the provision of services other than auditing services, the limits on the concentration of the Auditor's business and, in general, all other regulations for ensuring the independence of auditors;
    - iii) In the event of the external auditor resigning, it should examine the circumstances leading to the resignation.
  - d) In the case of groups, to facilitate matters so that the group's auditor can carry out the audits of the various companies in the group.

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

Complies

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

Complies

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

- a) Any financial information that the company, as a listed company, is obliged to publish regularly. The Committee should ensure that the interim accounts are drawn up in accordance with the same accounting principles as the annual accounts, and for this purpose it should consider whether a limited audit by the external auditor should be carried out.
- b) The issue or acquisition of holdings in special purpose companies or companies resident in countries or territories classified as tax havens, and any other transactions or operations of a similar nature that because of their complexity could impair the group's transparency.
- c) Transactions with related parties, unless this duty to provide prior information has been attributed to another supervisory and control Committee.

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

Complies

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

*See section: B.1.38*

Complies

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

*See section: B.2.1*

Complies

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

- a) To assess the expertise, skills and experience required on the Board, and consequently to define the duties and aptitudes needed in candidates for each vacancy and to calculate the amount of time and effort required to properly perform their work.
- b) To examine or organise, as they deem fit, the succession to the Chairman and the Chief Executive and to make recommendations to the Board so that the succession takes place in an orderly and well-planned manner.
- c) To report on the appointments and removals of senior executives proposed to the Board by the Chief Executive.
- d) To report to the Board on the gender diversity issues indicated in Recommendation 14 of this Code.

*See section: B.2.3*

Complies

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

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



Complies

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

- a) To propose to the Board of Directors:
  - i) The remuneration policy for Directors and Senior Executives;
  - ii) The individual remuneration of Executive Directors and the other terms and conditions of their contracts
  - iii) The basic terms and conditions of Senior Executives' contracts.
- b) To ensure observance of the remuneration policy laid down by the company.

See sections: B.1.14 and B.2.3

Complies

58. The Remuneration Committee should consult the Chairman and the Chief Executive of the company, especially in the case of matters relating to the Executive Directors and Senior Executives.

Complies

## G - OTHER RELEVANT INFORMATION

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

B.1.2. Miquel Roca i Junyent was appointed Company Secretary at the Board meeting held on 13 April 2000, and José Luis Negro

Rodríguez was appointed Deputy Secretary at the Board meeting held on 21 December 2006.

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

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

2. To draw, accept, take or acquire, negotiate, discount, endorse, collect and guarantee bills of exchange, promissory notes, receipts, invoices, cheques and endorsable commercial paper of all kinds, whether made out to a named person or to bearer; to enter protests on non-acceptance or non-payment and sign any documents required for any of the aforesaid purposes.

3. To pay and receive money of any amount and for any title or estate and cash payment orders by government at central, provincial, municipal or autonomous community level.

4. To open ordinary cash or securities current accounts and current accounts guaranteed by securities and by personal credit, with any bank, credit or savings institution, including in particular the Bank of Spain or any branch thereof; to stand surety for any account or accounts opened by third parties and extend, renew, clear, settle or close the same, and sign any agreements, invoices or other documents required therefor;

to make drafts on any of the aforesaid accounts whether such accounts have been opened under the authority of this Power or are currently held or opened in the future by the Grantor hereof or by any other person on its behalf, and sign cheques, notes, drafts or any other documents accepted for this purpose; to collect from any such banks or the Bank of Spain or any branch thereof books of cheques, notes or drafts in order to draw drafts on any or all the aforesaid accounts; and to confirm acceptance of any balance thereof. To make contracts assigning limits for future loans secured by personal guarantee and conclude rediscounting agreements with the Bank of Spain.

5. To give and receive money on loan and credit facilities of any description with or without collateral or other security. To accept, vary, postpone and extinguish any mortgage, lien, pledge with transfer of possession or otherwise, antichresis, aval, bond or any other personal third party guarantee as security for loans, credit facilities and any other transactions with or by the bank, and for this purpose to sign certificates of delivery or other public or private documents as necessary.

6. To withdraw deposits of cash, securities or jewellery and sign receipts or other documents in respect thereof, withdraw any assets pledged as security for loans or credit or on loans for goods and to sign any documents required; to withdraw any assets transferred to the Grantor in any lending transaction it may carry out and sign receipts in respect thereof; to request the transfer, at the risk and expense of the Grantor, of any assets deposited and any loans and credit and associated collateral, from any premises of the Bank of Spain or other bank to any other premises of the Bank of Spain or such other bank, or from one bank to another.

7. To buy, sell or transfer any personal property including shares in the Bank of Spain or any other bank.

8. To receive, open and respond to postal, telegraphic or telephonic communications addressed to the bank, including registered letters, and take possession of and give receipts for any assets declared to be for the bank.

9. To receive interest or dividends on securities deposited with any banks as aforesaid and the value of any securities that are redeemed, and sign payment orders or drafts as necessary; to charge any amounts to be paid into current accounts demanded by the Grantor for the benefit of any other person, when such payments are cancelled.

10. To apply to the Bank of Spain and other banks for the hire of safe deposit boxes with the same authority as the Grantor to open the same as and when he sees fit, and for this purpose to sign such documents as the Bank of Spain or other bank may require.

11. To approve the opening of current accounts, savings accounts, deposit and term accounts, certificates of deposit and deposits of securities and accounts of any other nature; to hire and open safe deposit boxes and sign any documents necessary for the same to be fully operational.

12. To act on behalf of the bank when any debtor of the bank is compounded with creditors or engaged in insolvency or bankruptcy proceedings and to attend meetings and appoint trustees and administrators, accept or reject proposals by the debtor and continue until the conclusion of proceedings, accept mortgages, pledges, antichresis or any other security, reach settlements on the exercise of claims and remedies, accept the decisions of arbitrators in legal or equitable arbitration.

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

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

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

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

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

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

B.1.11.a) The contributions to pension plans in the amount of €3,224 thousand were made through insurance policies. In the previous year, the contributions amounted to €2,349 thousand.

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

B.1.12 In addition to the senior management remuneration indicated, payments into pension plans of €3,335 thousand were made through insurance policies. In the previous year, the contributions amounted to €2,631 thousand.

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

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

Number of meetings of the Strategy Committee	6
Number of meetings of the Risk Control Committee	11

B.2.1 In addition to the information given in this point, the following persons attended the committee meetings indicated:  
Executive Committee: José Luis Negro Rodríguez, in his capacity as Secretary non-member. Risk Control Committee: José Luis Negro Rodríguez, as Secretary non-member. Audit and Control Committee: Miquel Roca i Junyent, as Secretary non-member. Strategy Committee: Miquel Roca i Junyent, as Secretary non-member.

D.2. In Credit risk, the current generalised financial and economic crisis has led to an increase in bad debts that has been most significant in those segments related to real estate. Even so, the company's NPL ratios are lower than the average for the sector and its levels of cover are higher. The impact on the entity's results in this respect, as described in the public accounts, was the allocation of provisions made strictly in accordance with accounting standards and the assessment of the Bank of Spain.

The established model, based on management by responsibility and a structured analysis method that requires an assessment by the relationship manager and the risk analyst, along with continuous updating of internal rating systems, are essential for achieving these results. Control of procedures, application of rating/scoring systems in the decision-making processes and anticipation of monitoring systems show the excellent performance of the circuits and the high predictive power of the tools used.

With respect to the credit risk arising from market operations, in-depth analysis carried out prior to setting operating limits for the different counterparties, and on-going monitoring thereof, allows early detection of potential increases in exposure and curtailment of the possible effects for the Banco Sabadell group, which has not incurred any significant losses during the year on this account although credit risk has in fact been one of the most significant sources of losses in other banks and in international markets.

With regard to liquidity risk, initially the globalised financial crisis meant a drastic shutting down of finance markets to which the bank had access through multiple bond and securitisation programmes. This meant adjusting its liquidity policies by intensifying the capacity for obtaining financing through traditional markets such as deposits. Specific opportunities for accessing the capital markets were taken up where possible, and the level of liquid assets qualifying as collateral under European Central Bank rules was increased by the creation of asset-backed debt instruments in order to augment the group's line of contingent liquidity with the ECB.

Incidents in the operational risk category were few and insignificant; the main problems in this area in recent years arose from operating mechanisms related to the closure of transactions. Fraudulent transactions and errors in processing operations were also insignificant, as were failures with computer systems.

As for market risk, market fluctuations meant that the Banco Sabadell group's open positions (both discretionary and structural) are at times subject to latent losses depending on market trends. The system of exposure limits ensures that potential losses are minimised and that only relatively small exposures are accepted. In the adverse market situation that has prevailed throughout the year, the operating limits have functioned correctly, alerting VaR limits to periods of extreme volatility. At the same time, the stop-loss limits have enabled losses to be minimised.

Finally, the rigorous policy on selection of life insurance risks adopted by the group's insurance company, and the use of conservative actuarial tables, enables us to mitigate the life insurance risks. The company has adopted the group's financial criteria in accordance with the principles of consistency, profitability, security, liquidity, dispersal and diversification of insurance regulations. The Bank assigns investments to insurance operations pursuant to Article 33.a) of the Private Insurance Regulations, and consequently these coincide in amount and time with the flow of receipts to meet the obligations in respect of its portfolio of policies. The controls in place allow the causes of claims to be identified and the appropriate measures to be adopted to situate them at suitable levels.

E.5 Notwithstanding the contents of this point, the General Meeting is chaired by the Director appointed by the Board of Directors, whether or not he is Chairman of the Board. The Board generally designates its Chairman for this duty. In order to guarantee the independence and proper functioning of the General Meeting, its rules of procedure were adopted in 2003 and these set out in transparent detail its mode of operation.

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

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

Binding definition of Independent Director:

State whether any of the Independent Directors has or has had any relations with the company, its significant shareholders or its senior executives that could have been of sufficient importance to have meant that the Director could not be considered as independent, as the term is defined in Definition 5 of the Unified Code of Good Governance:

NO

Date and signature:

This annual report on corporate governance was approved by the company's Board of Directors at its meeting on

26/01/2012

Name any Directors who voted against this Report or abstained on a motion to approve it.

NO

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**Additional information to the 2011 Annual Corporate Governance Report for listed companies of Banco de Sabadell, S.A. pursuant to article 61bis of Stock Market Law 24/1988 of 28 July, amended by Law 2/2011 of 4 March on Sustainable Economy**

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***Securities traded on a regulated European market, stating, if any, the different types of shares and, for each type, the rights and obligations conferred***

Not applicable

***Any restrictions on the transferring of securities and any restrictions on voting rights***

Not applicable. See section A.10 of the annual corporate governance report.

***Standards applicable for the amendment of the company's articles of association***

Any amendment to the bank's articles of association must be agreed by the general meeting and must meet the following requirements:

The directors, or, as the case may be, the shareholders, when submitting a proposal to modify the articles of association, must prepare a document justifying the same.

That the modifications considered be described at the meeting with due clarity.

The call to meeting shall set forth the right accruing to all shareholders to examine the full text of the proposed amendment and the report thereon and to request that such documents be delivered or sent to them without charge.

That the agreement be adopted by the board in accordance with article 41 or 44 of the articles of association.

Any modification to the articles of association that implies new obligations for the shareholders must be adopted with the consent of all those affected.

***Any significant agreements to which the company is a party and which take effect, alter or terminate upon a change of control of the company following a takeover bid, and the effects thereof***

Not applicable.

***Agreements between the company and its directors and management or employees over indemnities if they resign or are dismissed without due cause, or if the working relationship terminates because of a public takeover bid***

Contracts have been signed containing guarantee or golden parachute clauses in favour of certain members of senior management, giving entitlement to up to a maximum of 3 annual payments, in addition to the legal requirements of the collective agreement for the banking sector and the consolidated workers' statute.

***Description of the main features of the risk management systems and internal controls in relation to the financial reporting process***

**1. THE ENTITY'S CONTROL ENVIRONMENT**

**1. Which bodies and/or functions are responsible for: (i) the existence and regular updating of a suitable, effective ICFR; (ii) its implementation; and (iii) monitoring?**

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Article 5 of the board regulations establish that the board of directors is basically configured as an instrument of supervision and control, responsible for identification of the major risks of the company and of its consolidated group and the implementation and monitoring of the adequate internal control and information systems, and for determination of the policies of information and communication with the shareholders, the market and public opinion.

Additionally, as established in article 13 of the regulations, the board of directors delegates the supervision of the internal controls systems to the committee on audit and inspection.

The functions of the group's internal audit department include supporting the committee on audit and inspection in the supervision of the correct design, implementation and effective functioning of the risk management and control systems, including the ICFR.

For its part, the group's finance department contributes to the implementation of the general framework of the internal control systems in place throughout the organisation. Part of this contribution is the implementation of internal control systems for financial reporting which ensure the accuracy of the financial information generated.

**2. Which departments and/or mechanisms are in charge of: (i) the design and review of the organisational structure; (ii) defining clear lines of responsibility and authority, with an appropriate distribution of tasks and functions; and (iii) deploying procedures so this structure is communicated effectively throughout the company, with particular regard to the financial reporting process?**

The design and review of the organisational structure is the responsibility of the organisational management of each work centre, which based on the BS Group master plan (which usually spans over three years) analyses and reviews the resources needed by each department in order to meet these. This review is carried out annually and determines not only staffing needs but also the organisational structure of each unit. Once a consensus is reached, it is presented to the commercial and operations management committee for approval and issuance to each department management.

In parallel, on a monthly basis human resources management is sent details of all departments/units/branches stating all modifications that may have taken place, so that they may provide the resources deemed necessary for them to perform their tasks.

The BS group organisation chart resulting from the aforementioned process includes all departments, divisions and areas into which the BS group is structured. This organisation chart is complemented with process mapping, wherein the functions and responsibilities of each area of the BS group are detailed in-depth, including presentation, analysis and reviewing of financial information. Both the BS group organisation chart and the process map are located on the corporate intranet which is accessible to all members of staff.

**3. The existence or otherwise of the following components, especially in connection with the financial reporting process:**

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- **Code of conduct, approving body, dissemination and instruction, principles and values covered (stating whether it makes specific reference to record keeping and financial reporting), body in charge of investigating breaches and proposing corrective or disciplinary action**
  - **‘Whistle-blowing’ channel, for the reporting to the audit committee of any irregularities of a financial or accounting nature, as well as breaches of the code of conduct and malpractice within the organisation, stating whether reports made through this channel are confidential**
  - **Training and refresher courses for personnel involved in preparing and reviewing financial information or evaluating ICFR, which address, at least, accounting rules, auditing, internal control and risk**

The BS group has a code of conduct (ethical code), approved by the board of directors and available on the corporate intranet. This code contains a section on shareholders and the protection of BS group assets, wherein mention is given to the group’s commitment to transparency in its relations with its shareholders, placing all information, not merely financial but also corporate at their disposal.

The corporate ethics committee is the body responsible for fostering the development of ethical conduct across the entire organisation, advising and submitting proposals both to the board of directors and to the corporate and business units in making decisions involving aspects which may give rise to a conflict of values. The tasks undertaken by the corporate ethics committee include analysing breaches of the code of conduct or any other existing code or internal regulation. To fulfil its functions the corporate ethics committee avails of the material and human resources of the Compliance, CSR and Corporate Governance Department. If during the course of its functions, the committee detects any incompliance, it shall adopt the necessary measures, including notifying human resources management in order for the necessary corrective or disciplinary actions to be applied.

One of the fundamental principles of the ethical code is the commitment to transparency in its relations with its shareholders and to placing at their disposal financial and corporate information in order to strictly comply with the BS group’s obligation to offer reliable information prepared in accordance with applicable regulations, as well as the responsibility of the employees and management to ensure this, both through the proper development of their functions and by duly notifying the governing bodies of any circumstance that could affect this commitment.

The BS group has implemented and promotes the use of a ‘whistle-blowing’ channel implemented to channel, inter alia, notifications regarding potential non-fulfilment of the ethical code. All communications received are treated confidentially and, once managed by the corporate ethics committee (which comprises 1 chairman and 5 members, all appointed by the board of directors), are then brought to the committee on audit and inspection. The communication channel is managed internally through the following e-mail address: [0901CEC@bancsabaddell.com](mailto:0901CEC@bancsabaddell.com).

With regard to training and refresher courses and the process of preparing financial information, the BS group finance department has set up an attendance-based training



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scheme which fundamentally deals with subjects such as the entity's internal accounting/financial operating methods, analysis of prevailing regulations and drafts of new national and international accounting standards, analysis of the national and international economic climate and training in the use of office computing tools in to facilitate management and financial internal control.

These training sessions are scheduled on the basis of two criteria:

- Sessions scheduled at the beginning of the year by choosing the subject considered by the finance department to be of maximum interest.
- Sessions programmed throughout the course of the year in the event any matter arises which it is deemed requires immediate dissemination (drafts of new accounting standards, evolution of the economic climate, etc.).

These training sessions are not only targeted at the finance department staff but are also extended to other management teams (auditing, risks, property), depending on the content of the sessions.

Attendance-based training is taught by internal BS group specialists from each corresponding area.

In addition, the human resources department makes available to BS group staff a series of online financial training courses. These online courses cover subjects such as IAS (international accounting standards), financial mathematics, the new general accounting plan and general taxation.

The internal audit department has also set up a training plan for all management staff which includes an advanced course in internal auditing for financial entities taught by a prestigious academic institution and covering areas such as accounting principles and financial reporting, foundations in auditing and basic knowledge of control and financial risk management. During 2011 a total of 20 audit staff completed the programme and a further 16 are currently taking the course.

## **2. RISK ASSESSMENT IN FINANCIAL REPORTING**

**4. What are the main characteristics of the risk identification process, including risks of error or fraud? State whether:**

- **The process exists and is documented.**
- **The process covers all financial reporting objectives, (existence and occurrence; completeness; valuation; presentation, disclosure and comparability; and rights and obligations), is updated and with what frequency.**
- **A specific process is in place to define the scope of consolidation, with reference to the possible existence of complex corporate structures, special purpose vehicles, holding companies. etc.**

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- **The process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.**
  - **Which of the company's governing bodies is responsible for overseeing the process.**

The process of identifying risks of error in financial reporting followed by the BS group is documented in a specific procedure which establishes frequencies, methodologies, types of risk and other basic guidelines for the process. This process is performed and documented by the BS group's finance department and supervised by the committee on audit and inspection. The process covers all financial reporting objectives (existence and occurrence, integrity, assessment, presentation, disclosure and comparability, and rights and obligations) and is updated annually. In any event, if any of the following arise: (i) previously unidentified circumstances highlighting potential errors in the financial information, or (ii) substantial changes in the operations of the BS group; the finance department shall assess the existence of these risks, which should be added to those already identified.

The process is structured in such a way that an annual analysis is carried out to identify which areas and processes and in which companies or locations relevant transactions are generated. Once earmarked, these are reviewed in order to analyse potential risks of error for these types of transactions in each financial reporting objective.

In terms of the existence of a process to define the scope of consolidation, details are provided in section 3, point 5 herein.

Additionally, the process also considers the possibility of risks of error in certain processes not linked to specific types of transactions, but particularly relevant due to their importance in the preparation of the reporting information, such as the review process for judgements and significant accounting policies or such as the closing of accounts and consolidation process. In this regard, in order to cover the risks of these processes, the BS group has put in place control procedures which are detailed in section 5 below.

Mention must also be given to the fact that the risk identification process addresses other types of risk (operational, technological, financial, legal, reputational, environmental, etc.) insofar as they may affect the financial statements.

### **3. CONTROL ACTIVITIES**

**5. Documentation and flow charts of activities and controls (including those addressing the risk of fraud) for each type of transaction that may materially affect the financial statements, including procedures for the closing of accounts and for the separate review of critical judgements, estimates, evaluations and projections.**

With regard to activities and controls directly relating to transactions that may materially affect the financial statements, the BS group has documented descriptions of the controls implemented in order to mitigate the risk of (intentional or unintentional) material error in the information disclosed to the markets. For the critical

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areas of the BS group, special emphasis is placed on developing solid descriptions of flow charts of activities and controls, including the following:

- Credit investment
- Fixed income portfolio and issuances made
- Variable income portfolio
- Customer deposits
- Derivatives
- Foreclosed real estate

These descriptions contain information on what the control activity should entail, what it is executed for (risk it aims to mitigate), who should execute it and how often. The descriptions cover controls for proper recording, assessment, presentation and disclosure in these areas.

The BS group has also established procedures to mitigate the risk of error in processes not related to specific transactions. In particular, procedures have been defined for accounts closing processes, including consolidation and the specific review procedures of judgements and relevant assessments.

In terms of the consolidation process included in the closing of accounts process, procedures have been set out to ensure the correct identification of the scope of consolidation. In particular, for instance, the BS group carries out a monthly analysis of the consolidation scope, requesting the information required for this study from all subsidiaries and including all types of company structures in the analysis. The consolidation department publishes a document on bank's intranet each month stating both the group's composition and any variations in the scope of consolidation from one month to the next. Thus this information is accessible to the entire organisation and particularly those who may need it for financial reporting purposes.

With regard to the review of critical judgements and estimates, the BS group discloses in its annual accounts any critical areas in which judgement or estimate parameters come into play and also the key assumptions used by the BS group with respect thereto. In this context, the main estimates made correspond to impairment losses on certain financial assets, actuarial calculations regarding pension liabilities and commitments, the useful lives of tangible and intangible assets, the valuation of goodwill, the reasonable value of unlisted financial assets and of real estate assets.

During 2011 the group's control activities have been formalised and documented in accordance with the recommendations of the CNMV as per its guidance for disclosures on internal control over financing reporting, having completed this process and year end.

**6. Internal control policies and procedures for IT systems (including secure access, control of changes, system operation, continuity and segregation of duties) giving**

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**support to key company processes regarding the preparation and publication of financial information.**

The BS group uses information systems to keep a proper record and control of its operations and is therefore highly dependent upon the correct functioning thereof.

As a part of process for identifying risk of errors in financial reporting, the BS group identifies what systems and software are relevant in each area or process considered significant. The systems and software applications identified include both those directly used to prepare financial reporting and those that are relevant for the effectiveness of the controls that mitigate the risk of errors arising therein.

The design and implementation of the software is carried out within a methodological framework which establishes the different points of control in order to ensure that the solution obtained complies with the requirements requested by the user and the level of quality meets the standards of reliability, efficiency and maintainability required.

Any change in infrastructures or software is managed through the change management operational service which defines the mechanism for its approval, putting it to the change committee if necessary, and defining the impact and possible “backward movement”.

The BS group’s information security and operational continuity department has established policies to ensure secure access, by implementing segregation of functions, defining roles and virtual resources and securing ongoing operation by creating BRS centres and regular operations testing.

**7. Internal control policies and procedures for overseeing the management of outsourced activities, and of the appraisal, calculation or valuation services commissioned from independent experts, when these may materially affect the financial statements.**

The BS group regularly reviews all activities undertaken by third parties which are relevant for the process of preparing financial reporting or which could indirectly affect its reliability. To date, the BS group has not outsourced any processes that have a significant impact on the financial information. However, the BS group does regularly use reports by independent appraisal experts on operations which could potentially have a material effect on the financial statements. For 2011, outsourced activities involving valuations and calculations by independent experts have been in relation to real estate appraisals, valuation of staff retirement benefits, valuation of goodwill and intangible assets and valuation of derivatives and certain fixed-income securities.

The BS group units responsible for these items perform control procedures over the work of these outsourced experts, verifying their competence, skills, certification and independence, as well as the validity of the data and methods implemented and the reasonableness of the assumptions used.

**4. INFORMATION AND COMMUNICATION**

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**8. Procedures for reviewing and authorising the financial information and description of ICFR to be disclosed to the markets, stating who is responsible in each case.**

The review and authorisation procedures for BS group financial information to be disclosed to the markets begins with a review by the finance department. The individual and consolidated annual accounts and half-yearly financial reports are reviewed by the committee on audit and inspection prior to its formulation by the board of directors, as established in the board of director's regulations. Pursuant to its regulations, the committee on audit and inspection reads the information, discusses it with the comptroller general, the finance department, the internal and external auditors, prior to submitting it to the board of directors.

Once the committee on audit and inspection has reviewed the said information and approved it, adding any comments it may deem necessary, the financial director and the chairman and CEO of the BS group sign the accounts and proceed to submit them to the board of directors for their formulation.

In terms of the quarterly reporting, the committee on audit and inspection reviews the critical financial information (profit waterfall and key balance sheet indicators) prior to submitting this information to the board of directors.

**9. A specific function in charge of defining and maintaining accounting policies (accounting policies area or department) and settling doubts or disputes over their interpretation, which is in regular communication with the team in charge of operations.**

Consolidation and reporting (part of the finance department) is responsible for identifying, defining and communicating the accounting policies affecting the BS group and also dealing with accounting inquiries that may be made by subsidiaries or different business units.

In addition, consolidation and reporting is in charge of reporting to the senior management of the BS group regarding new accounting standards, the results of their implementation and their impact on the BS group's financial statements.

**10. A manual of accounting policies regularly updated and communicated to all the company's operating units.**

The BS group has a set of documents adapted to the needs, requirements and dimension of the group which determine and explain the financial reporting standards and how these should be applied to the entity's specific operations. These documents not only make explicit reference to the standards applied to all types of transactions but also develop and explain the interpretation thereof in order for their precise adjustment to each type of transaction.

These documents are updated regularly at least once a year and incorporate all the standards applicable for the year 2011. Any significant modifications made are communicated to all the subsidiaries to which they are applicable via e-mail or by holding specific meetings with the heads of each unit.

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**11. Mechanisms in standard format for the capture and preparation of financial information, which are applied and used in all units within the entity or group, and support its main financial statements and accompanying notes as well as disclosures concerning ICFR.**

The consolidation and preparation of financial information is carried out in a centralised manner. In this process, the financial statements reported by the group subsidiaries in the established formats are used as inputs, in addition to the rest of the financial information required both for the accounting standardisation process and to meet the established reporting requirements. The BS group implements a series of controls to ensure the reliability and correct treatment of the information received from the different subsidiaries, including controlling the correct execution of certain consolidation entries, analysis of variations in all asset and profit items, variations in profits with respect to monthly budgeting and controls specific to the Bank of Spain statements in which the different balance sheet and income statement captions are interrelated.

## **5. MONITORING**

**12. State whether there exists an internal audit function whose competencies include supporting the audit committee in its role of monitoring the internal control system, including ICFR.**

The BS group's internal audit department reports to the group's committee on audit and inspection. In accordance with article 13 d) of the Regulations of the Board of Management, the committee on audit and inspection is responsible for supervising the internal audit services and reviewing the designation and substitution of its management staff.

The internal audit department's functions include supporting the committee on audit and inspection in the supervision of the correct design, implementation and effective functioning of the risk management and control systems, including the ICFR.

**13. State whether a discussion procedure is in place whereby the auditor (pursuant to TAS), the internal audit function and other experts can report any significant internal control weaknesses encountered during their review of the financial statements or other assignments, to the company's senior management and its audit committee or board of directors. State also whether the entity has an action plan to correct or mitigate the weaknesses found.**

The committee on audit and inspection meets at least once every three months (prior to the disclosure of regulatory information) in order to obtain and analyse the necessary information to fulfil the competencies entrusted thereto by the board of directors.

At these meetings the annual and half-year accounts and the interim quarterly statements of the company are reviewed in depth, as well as any other information to be disclosed to the markets. In order to carry out this process, the committee on audit and inspection first gathers all documentation and holds meetings with the comptroller

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general, the finance department (responsible for the preparation of financial information), the internal audit function and the external auditor in the case of annual and half-yearly accounts, in order to ensure the correct application of the prevailing accounting standards and the reliability of the financial information. Additionally, during this discussion process any potential weaknesses that may have been identified in the ICFR are assessed and, if applicable, proposals are made for their correction and the status of any actions implemented is reviewed. Hence, on an annual basis and within the framework of the ICFR, the committee on audit and inspection reviews and approves the action plans proposed by the internal audit function for the purposes of correcting or mitigating any weaknesses found.

For its part, the group's auditor has direct access to the senior management of the group, holding regular meetings both to obtain the information necessary for the audit and to communicate the control weaknesses detected throughout. With respect to the latter issue, the external auditor presents an annual internal control report to the committee on audit and inspection, detailing the internal control weaknesses detected throughout the course of the external audit work. This report includes comments from the group's management and, if applicable, states the action plans put into place to remedy the corresponding internal control weaknesses.

**14. Describe the scope of the ICFR assessment conducted in the year and the procedure for the person in charge to communicate its findings. State also whether the company has an action plan specifying corrective measures for any flaws detected, and whether it has taken stock of their potential impact on its financial information.**

The internal audit function has a 3-year ICFR supervision plan approved by the committee on audit and inspection. The plan entails the testing of areas considered relevant within the BS group, covering all areas over the three year period covered by the plan, with the exception of certain areas or processes considered particularly critical. Critical areas include the accounts closing procedure, the review of judgements and estimates, and the general controls over information systems set forth in section 6 above –for these assessments are performed annually.

The scope of the assessment made in the year 2011 has included supervision of the formal implementation of the ICFR by the finance department and also the review of the key controls in the accounts closing procedure, judgements and estimates and the review of compliance with general IT control policies.

317 controls were evaluated in the 2011 assessment, 93 of which were found to be critical controls and it has been verified since their creation they are operating as defined. Control weaknesses and opportunities for improvement have been detected and certain controls formalised and a total of 20 action plans have been drawn up.

**15. Describe the ICFR monitoring activities undertaken by the audit committee.**

In January 2011, the BS group's committee on audit and inspection approved the 2011-2013 strategic plan for the internal audit function. This strategic plan deals with aspects relating to the general criteria to be applied to specific ICFR supervision activities. The corresponding assessment reports issued by the internal audit function

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in relation to ICFR assessment have been reviewed by the members of the committee on audit and inspection, assessing the weaknesses identified in the corresponding projects. Lastly, the committee has approved the action plan drawn up by the internal audit function to rectify the aforementioned internal control weaknesses.

**16. State whether the ICFR information supplied to the market has been reviewed by the external auditor, in which case the corresponding report should be attached. Otherwise, explain the reasons for the absence of this review.**

The BS group's 2011 ICFR information disclosed to the markets has undergone a review by its external auditor. The scope of the auditor's review procedures was in accordance with the draft action guidelines dated 28 October 2011 and the corresponding guiding model of the audit report has been made public by the corporations representing the auditors. Furthermore, Circular E 01/2012 issued by the Spanish Institute of Chartered Accountants on 25 January 2012 establishes certain additional considerations in this regard and these have also been taken into account in the review procedures applied by the external auditor.





## **Auditor's report on the "Internal Control over Financial Reporting (ICFR)" of Banco de Sabadell, S.A. for 2011**

To the Directors,

In accordance with the request from the management of Banco de Sabadell, S.A. (herein after the Entity) and our proposal dated 12 January 2012, we have applied certain procedures to the "ICFR information" included in the document entitled "Additional information to the 2011 Annual Corporate Governance Report for listed companies of Banco de Sabadell, S.A. pursuant to article 61bis of Stock Market Law 24/1988 of 28 July, amended by Law 2/2011 of 4 March on Sustainable Economy" (pages 2 to 12), wherein the Entity's internal control procedures in relation to annual financial reporting are summarised.

Law 24/2003 of 28 July on the Stock Market, as amended by Law 2/2011 of 4 March on Sustainable Economy, requires that from 1 January 2011 onward, Annual Corporate Governance Reports (hereinafter ACGR) include a description of the main features of internal control and risk management systems which have a bearing on the regulated financial reporting process. In relation to this specification, the Spanish stock market regulator (CNMV) promoted the creation of a working group for internal control over financial reporting (ICWG) in listed companies in order to draw up a set of ICFR recommendations. As a result of the work carried out by the ICWG, in June 2010 the document *Internal Control over Financial Reporting in Listed Companies* was published (hereinafter the ICWG Document). Section III of this document entitled "Guidance for disclosures on internal control over financial reporting" sets forth the basic indicators which, in the opinion of the ICWG, should be dealt with by each entity in the description of the main characteristics of its ICFR. In its letter dated 28 December 2011, the CNMV stresses that the aforementioned legal modifications must be taken into account in the preparation of "ICFR information" until the final publication of the CNMV Circular defining the new ACGR model.

For the purposes of indicator 16 in the ICWG Document, which requires that entities state whether the ICFR description has been reviewed by the external auditor and, if so, that the corresponding report be included, the corporations representing the auditors have made public the draft guidelines dated 28 October 2011 and the corresponding guideline model used for the auditor's report (hereinafter the draft guidelines). Furthermore, Circular E 01/2012 issued by the Spanish Institute of Chartered Accountants on 25 January 2012 establishes certain additional considerations in this regard.

The board of directors is responsible for adopting the suitable measures to reasonably ensure the implementation, maintenance and supervision of an adequate internal control system and to develop improvements in this system and prepare and establish the content of the accompanying ICFR information.

In this regard, it must be taken into account that, regardless of the quality of the design and operating capacity of the internal control system adopted by the Entity in relation to the annual financial information, the Entity can provide reasonable, but not absolute, assurance in relation to the objectives pursued, due to the limitations inherent in all internal control systems.

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During the course of our audit work on the annual accounts and in accordance with technical audit standards, the sole purpose of our assessment of the Entity's internal control has been to establish the scope, nature and date of execution of the audit procedures on the Entity's annual accounts. Therefore, our internal control assessment, carried out for the purposes of this audit, has not had sufficient scope to enable us to issue a specific opinion on the effectiveness of the said internal control over the annual regulated financial reporting.

For the purposes of issuing this report, we have exclusively applied the specific procedures described hereinafter and set forth in the draft guidelines, which establish the work to be performed, the minimum scope thereof and the contents of this report. Since the work resulting from these procedures is, in any event, limited in scope and substantially less than that of an audit or internal control review, we do not express an opinion on the effectiveness thereof, or on its design and operating efficiency, in relation to the Entity's financial information for 2011 described in the accompanying ICFR. Consequently, if we had applied additional procedures to those stated hereinafter or performed an audit or review of the internal control system in relation to the regulated financial reporting, other issues or aspects could have arisen which we would have duly reported.

Given that this special engagement does not constitute an audit nor is it subject to the revised Accounts Audit Law approved by Legislative Royal Decree 1/2011 of 1 July, we do not express an audit opinion on the terms set forth therein.

The procedures applied are listed as follows:

1. Reading and understanding the information prepared by the Entity in relation to the accompanying ICFR and assessing whether this information fully deals with the information required in line with the minimum contents described in section III of the ICWG "Guidance for disclosures on ICFR".
2. Holding interviews with the staff responsible for the information detailed in point 1 above, in order to: (i) gain an understanding of the process followed for its preparation; (ii) obtain information enabling us to assess whether the terminology used is in line with the definitions of the benchmark; and (iii) obtain information on whether the control procedures described are in place in the running of the Entity.
3. Reviewing the documentation supporting the information detailed in point 1 above, which mainly comprises information made directly available to the staff responsible for preparing the ICFR. In this sense, this documentation includes reports prepared by the internal audit function, senior management and other internal or external specialists in their support functions to the audit committee.
4. Comparing the information detailed in point 1 above against the Entity's ICFR knowledge obtained as a result of applying the procedures carried out within the framework of the annual accounts audit work.



5. Reading the minutes of the meetings of the board of directors, audit committee and other Entity committees in order to assess the consistency between the ICFR issues dealt with therein and the information detailed in point 1 above.
6. Obtaining the management representation letter for the work carried out, duly signed by the persons responsible for the preparation and formulation of the information detailed in point 1 above.

As a result of the procedures applied to the ICFR, no inconsistencies or incidents have become apparent that could affect the ICFR.

This report has been prepared exclusively within the context of the requirements established in Stock Market Law 24/2003 of 28 July, amended by Law 2/2011 of 4 March on Sustainable Economy” and the points established in the ICWG Document of June 2010 published by the Spanish stock market regulator (CNMV) for the purposes of ICFR in Annual Corporate Governance Reports.

PricewaterhouseCoopers Auditores, S.L.

Manuel Valls Morató  
Audit Partner

30 January 2012