Risk management

Milestones in 2014

Banco Sabadell passed the comprehensive assessment conducted by the European Central Bank (ECB) in the framework of the Single Supervisory Mechanism, which examined the 128 largest banks in the euro area in cooperation with the national authorities and in close collaboration with the European Banking Authority (EBA).

The published results concluded that the values of Banco Sabadell's assets, collateral and reserves were appropriate and that the Bank would not require additional capital in any of the scenarios considered.

In 2014, the Banco Sabadell Group continued to strengthen its risk management framework and to make improvements in line with best practices in the financial sector.

The main milestones this year were the development of a new risk appetite framework which ensures control and proactive management of all Group risks and strengthens the governance framework as a function of risks. In 2014, the Group also integrated the businesses acquired from Banco Gallego and Lloyds Banking Group Spain (the latter renamed SabadellSolbank) into its systems by standardizing risk management and control.

European Central Bank's Comprehensive Assessment

In October 2014, the European Central Bank (ECB) conducted a comprehensive assessment of the 128 largest banks in the euro area in cooperation with the national authorities and, for the stress test, in close collaboration with the European Banking Authority (EBA).

The Comprehensive Assessment (CA) began in November 2013 and was a prerequisite for the ECB to undertake its new supervisory functions, which it assumed one year later. The CA covered a very significant part of the processes and procedures of the banks that were analysed.

Phases of the comprehensive assessment

1. Asset Quality Review (AQR)

The objective of the first phase was to perform a detailed review of bank balance sheets to determine, inter alia, whether their loan classifications (performing/doubtful), provisions and valuations of specific assets were appropriate.

The ECB started by reviewing the Bank's main accounting policies, processes and criteria, covering areas related to funding activities (treatment of refinanced loans, the accounting system for provisions, and the definition of "doubtful"), and other areas such as consolidation and measurement of financial instruments, including derivatives.

Next, after selecting the portfolios that represented the highest levels of risk and exposure, the ECB reviewed a sample of borrowers (based mainly on loan applications). In the case of Banco Sabadell, the entire loan book was considered, which entailed a review of 905 borrowers (including the 210 largest customers) and remeasurement of more than 1,500 property appraisals.

This phase, which was assisted by leading audit firms and was subject to quality control by the ECB and the Bank of Spain, had the potential to trigger adjustments to the level of CET1 to be used as the starting level for the stress test.

2. Stress test

This second phase sought to analyse the ability of banks' balance sheets to withstand two hypothetical scenarios: a baseline, or more probable, scenario (macroeconomic scenario approved by the European Commission) and an adverse or more severe one (established by the European Systemic Risk Board) for 2014-2016.

The test was based on consolidated balance sheets at 2013 year-end and used a bottom-up approach, applying the methodology defined by the EBA at the lowest level of granularity in the Bank's portfolio, including in this case all of its lending and all of its exposure to sovereign and corporate debt, investees and real estate. As a result, all the main credit, market, counterparty and real estate risks were analysed.

Detailed templates were used to ensure that the exercise was unbiased; as with the previous phase, the ECB and the Bank of Spain oversaw quality.

The minimum capital threshold was fixed at 8% in the baseline scenario and 5.5% in the adverse scenario.

Profit performance

According to the published results of the Comprehensive Assessment for each of Europe's 128 largest banks, 25 institutions failed the test with a capital shortfall totalling €25,000 million. However, corrective actions implemented in 2014 had reduced the shortfall to €9,500 million, distributed among 13 banks. All Spanish banks passed the stress test and the AQR, with the exception of one minor institution (as defined by the ECB), whose capital shortfall was duly covered as a result of actions implemented in the first half of 2014.

Banco Sabadell was the only Spanish bank whose initial capital ratio was not adjusted as a result of the Asset Quality Review (AQR). Only 15 European banks were not required to make any adjustments.

The stress test concluded that, in the baseline scenario, Banco Sabadell had a common equity Tier 1 (CET1) ratio of 10.26% and that, in the most adverse scenario, the ratio would be 8.33%, well above the required minimum of 5.5%. With these ratios, it was estimated that Banco Sabadell had surplus capital amounting to over €1,700 million in the baseline scenario and over €2,200 million in the adverse scenario.

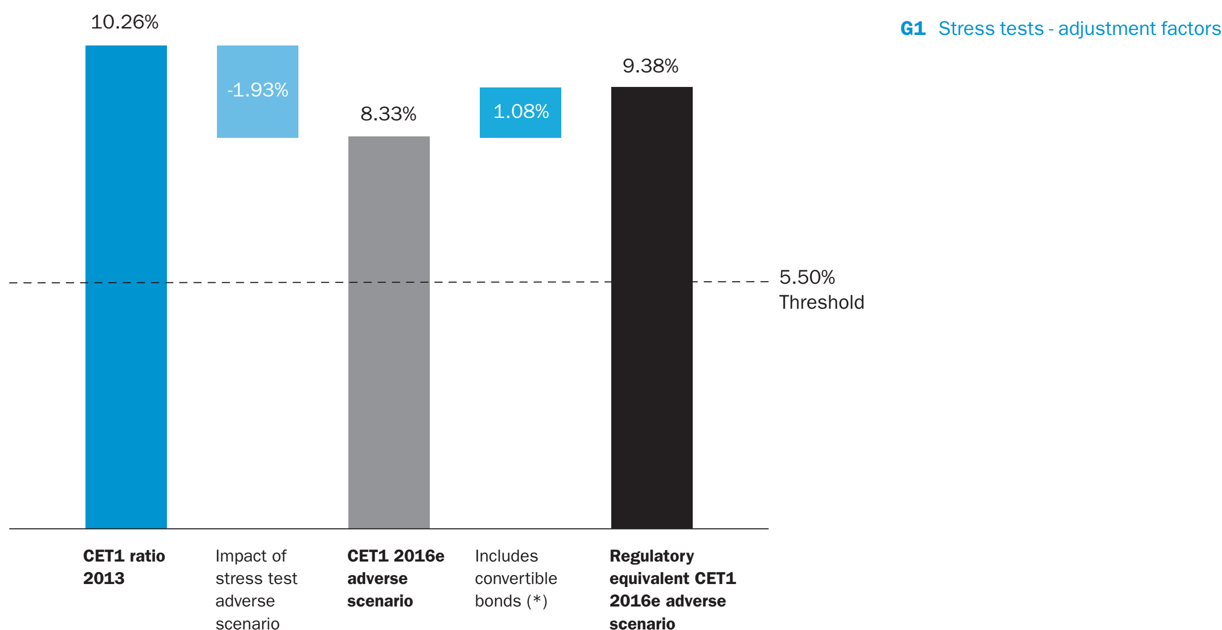
These results did not take account of the effect of mandatory convertible bonds (not included in the stress test even though they are due to convert in 2015); neither did

they include all of the deductions envisaged under Basel III. If those items had been considered, the CET1 ratio would have been 9.38% (including convertibles) and 8.8% (fully loaded) in the adverse scenario.

The Group's directors believe that these results vindicate the capital-raising actions performed by Banco Sabadell in the last three years, while also strengthening its competitive position in Spain, and that they reflect the quality of its financial asset management.

Technological and functional integration of Banco Gallego and Lloyds Banking Group Spain

The successful integration, in terms of technology and risk management, of the two absorbed banks (Banco Gallego and Lloyds Banking Group Spain) was concluded in 2014. The loan portfolio acquired from these banks, and also their branches, are now covered by the Group's risk management framework, in terms of both acceptance and monitoring.



G1 Stress tests - adjustment factors

(*) Since convertibles were not included in the stress tests, they are included here for illustrative purposes.

Total balance of mandatory convertible bonds amounting to €860 million euro at 2013 year-end, of which €17.6 million mature in 2014, €755.6 million in 2015, €68.6 million in 2016 and €17.6 million in 2017.

Banco Sabadell has a risk appetite framework in line with best practices in the financial sector.

The risk appetite framework ensures control and proactive management of risks under an enhanced corporate governance framework.

The Banco Sabadell Group has a new risk appetite framework, which aims to ensure control and proactive management of all Group risks. This new framework includes a risk appetite statement, which establishes the amount and diversity of risks that the Group seeks and tolerates in order to achieve its business goals while maintaining a balance between risk and return.

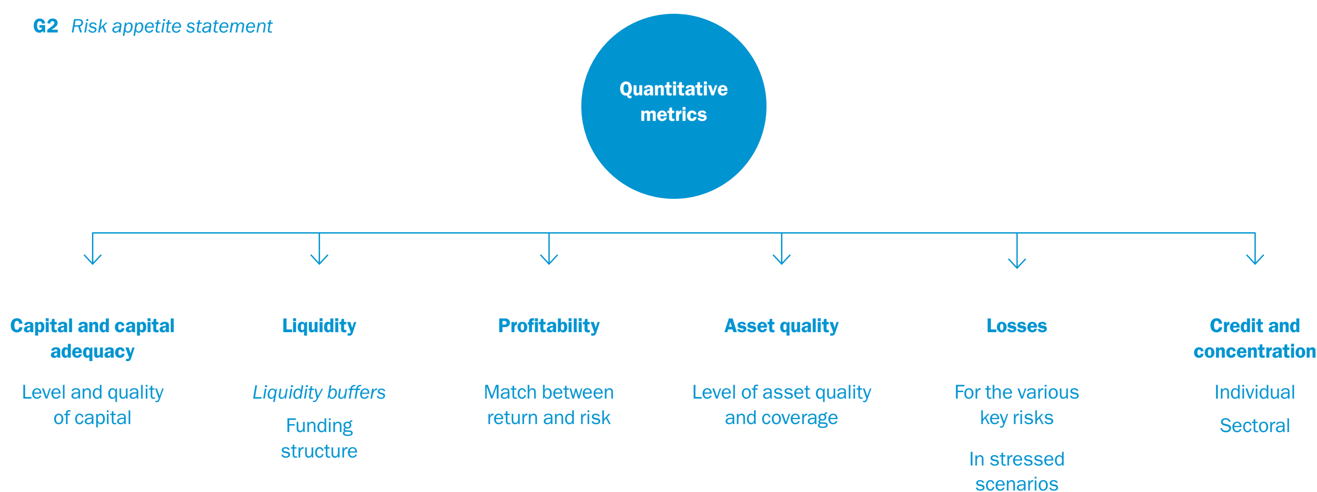
The risk appetite statement is applied to the entire organisation through the risk appetite framework, using various instruments.

The risk appetite statement comprises quantitative metrics which allow the group to monitor the risk management objectives and related qualitative aspects, organised into six basic management sections (G2).

In addition to the quantitative metrics of the risk appetite framework, there are also qualitative metrics, such as:

— The entity's general position with regard to risk-taking seeks a medium-low risk profile through a prudent, balanced risk policy that ensures steadily rising profitability and is aligned with the Group's strategic objectives.
— The Banco Sabadell group's risk management and control approach consists of a broad framework of advanced measurement principles, policies, procedures and methodologies integrated into an efficient decision-making structure.

G2 *Risk appetite statement*



- Risk management is underpinned by solid, ongoing procedures for checking that risks conform to pre-set limits.
- The assumption of market trading risk seeks to cover the flow of transactions arising from customer business and to seize market opportunities while maintaining a position that is commensurate with the Bank's market share, risk appetite, capacity and profile.
- The risk function is independent and has strong senior management involvement, ensuring a strong risk culture focused on protecting capital and ensuring an adequate return on same.
- The Board of Directors is committed to the risk management and control processes: approval of policies, limits, management model and procedures, and the measurement, tracking and control methodology.
- The institution will have sufficient human and technological resources to track, control and manage all the risks that may materialize in the course of its business.
- The Group's compensation systems should align individual interests with compliance with the risk appetite framework.

The principles, policies, procedures and methodologies framework is reflected in the document entitled "*Banco Sabadell Group Risk Management Policies*," which is revised at least once per year. The Board of Directors is responsible for its approval. The document was last updated in January 2015.

For each of the Group's relevant risks, the main parties involved and their functions, policies, methods and procedures, as well as the relevant monitoring and control mechanisms, are explained in detail. Details are also given of risk function organization, indicating the roles and responsibilities of managers and committees with regard to risks and risk control systems, adapted to the business units' activities, including loan and credit granting functions.

Advanced internal credit rating models

The Banco Sabadell Group complies with guidelines drawn up under the Basel Capital Accord, a fundamental principle of which is that a bank's capital requirements should be more closely related to risks actually incurred, based on internal risk measurement models which have been independently validated.

The Bank has supervisory authorization to use its internal models for enterprises, property developers, specialized financing projects, financial institutions, retail businesses and the self-employed, mortgage and consumer loans, and individual credit cards for calculating regulatory capital requirements. Based on the risk metrics provided by these new methodologies, Banco Sabadell has a consolidated system in place for measuring risk.

Strengthening risk function governance

The risk appetite framework is covered by an updated risk governance framework in accordance with European and national regulations (specifically, CRR and CRD IV and their transposition to Spanish law through Law 10/2014 on the organization, supervision and solvency of credit institutions).

The Board of Directors is the body responsible for establishing the general guidelines on the organizational distribution of the risk management and control functions and for determining the main lines of strategy in this respect. It is the body responsible for approving the risk appetite framework (developed in cooperation with the managing director, the director of risk and the chief financial officer) and ensuring that it is aligned with the bank's short- and long-term objectives, as well as with the business plan, capital planning, risk capacity and compensation programmes.

Within the Board of Directors, there are four committees involved in risk management and control (Risk, Executive, Audit and Control and Appointments and Remuneration). The bank also has several other committees which participate in this function.

Accordingly, the Bank has strengthened the supervisory role of the Risk Committee, made up of non-executive Board members, whose main function is to ensure that the risks undertaken by the Group conform to the risk appetite statement approved by the Board of Directors.

The Group has state-of-the-art risk control systems that is well suited to the activities of its business units and to the risk profile it pursues. These control systems are built into the Bank's principal risk acceptance, monitoring, mitigation and recovery procedures.

The Bank's risk control function includes monitoring and assessing the most significant risks, which ensures that all of the risks identified are effectively supervised by the various business units and are monitored on an ongoing basis so that the bank's risk profile aligns with the risk appetite statement.

Reviewing compliance with the established control framework and its application to management is the responsibility of the Internal Audit Department, which advises the Board of Directors and Senior Management on the effectiveness and adequacy of established processes and controls.

Most significant risks in the risk appetite framework

The significant risks managed by the bank are shown in diagram G3.

Of all types of risk, credit is the most significant in Banco Sabadell's portfolio (G4).

Below are some of the main characteristics of managing each of these risks. More comprehensive information can be found in the Directors' Report and the financial statements, which are available on the Bank's website (www.grupobancosabadell.com).

Credit risk

Credit risk is the possibility that losses may be incurred as a result of borrowers failing to meet their obligations or through losses in value due simply to deterioration in borrower quality.

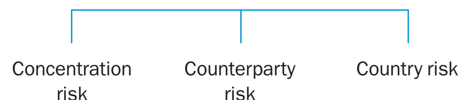
The policies for these risks are established in terms of the management framework and in the form of caps on exposure and mitigation/eligible collateral techniques. Both are enshrined in regulations and specific training programmes with a view to applying them throughout the organisation.

Diagram G5 illustrates the breakdown of credit risk among the group's various segments and portfolios.

G3 Main risks

1

Credit and concentration risk

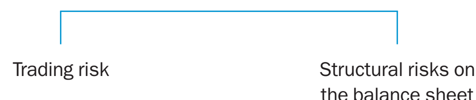


2

Liquidity risk

3

Market risk



4

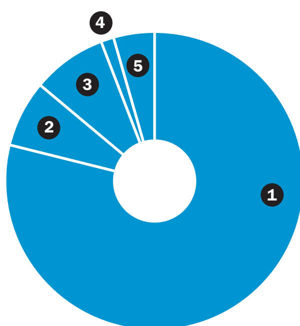
Operational risk

5

Fiscal risk

6

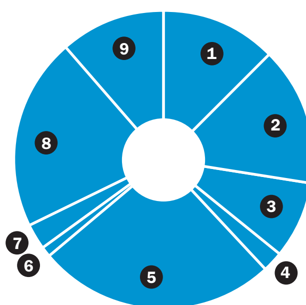
Compliance risk



G4

Capital allocation by type of risk

1	Credit risk	79.1%
2	Structural risk	7.0%
3	Operational risk	8.1%
4	Market risk	1.3%
5	Other risks	4.4%



G5

Overall risk profile by customer category (distribution of credit risk exposures) %EAD (Exposure at default)

1	Large corporates	12.6%
2	Midsize businesses	15.2%
3	Small businesses	8.3%
4	Retailers and sole proprietors	2.1%
5	Mortgage loans	25.9%
6	Consumer loans	1.1%
7	Banks	2.7%
8	Sovereigns	20.9%
9	Other risks	11.4%

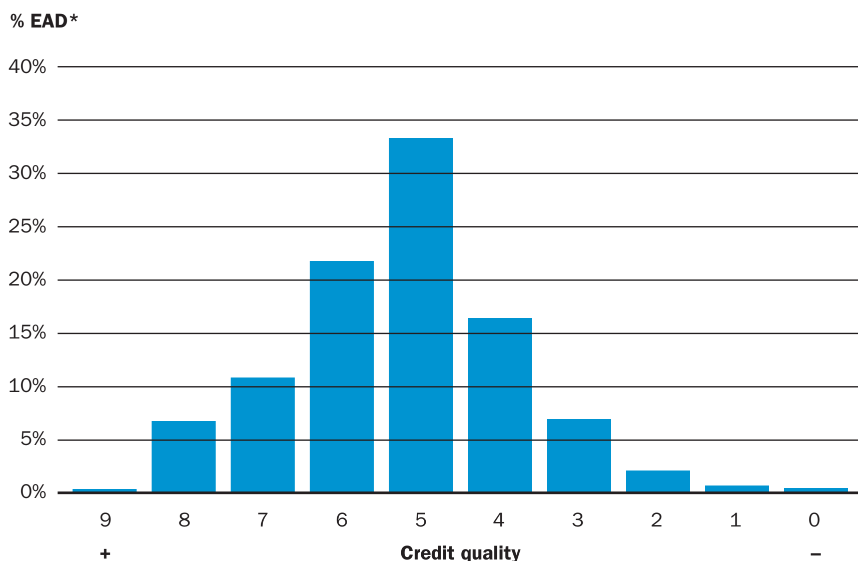
To maximize the business opportunities provided by each customer and to guarantee an appropriate degree of security, responsibility for approving and monitoring risks is shared between the relationship manager and the risk analyst, who are thus able to obtain a comprehensive view of each customer's individual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

Of special note are the advanced internal credit rating models for clients and operations:

— Rating: credit risk exposures to corporate customers, real estate developers, specialized financing projects, retailers and sole proprietors, financial institutions and countries are assessed according to a system of credit ratings based on predictive factors and internal estimates of the probability of default (Diagram G6 reflects the breakdown of companies as a function of their rating).
— Scoring: credit risk exposures to individual customers are classified by means of scoring systems which make use of quantitative modelling based on historical data to identify key predictive factors (Diagram G7 reflects the breakdown of individuals as a function of their scoring).
— Early alert tool: there are early alert tools for both companies and individuals. With an early warning system, the quality of a risk can be monitored in an integrated way and risks transferred to recovery specialists who are best equipped to determine the most suitable type of recovery procedure in each case.

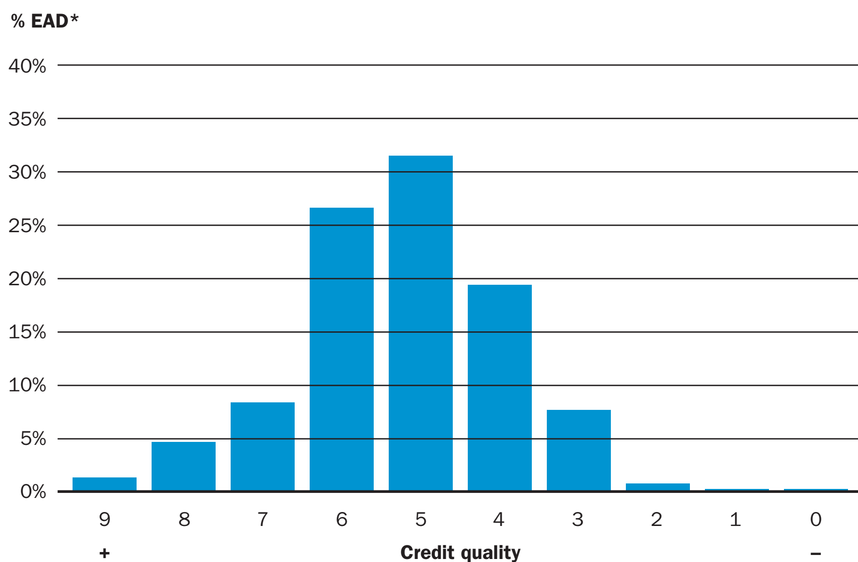
By analysing indicators and early warning alerts in addition to credit rating reviews, the quality of a risk can be constantly monitored in an integrated way. The establishment of efficient processes for managing existing risk exposures also benefits the process of managing past-due and irregular accounts, since the early identification of probable default cases ensures that measures can be taken proactively.

In accordance with responsible banking, the entire branch network has access to documents to help analysts



G6 Individual customer loan portfolio credit rating profile

* EAD (exposure at default)



G7 Individual customer loan portfolio credit score profile

* EAD (exposure at default)

assess the environmental risk associated with an industry or business activity. All risks, including environmental risks, are set out in the risk assessment and are considered when a decision on a loan application is taken.

Country risk

This is the risk of incurring loss from exposures to sovereign borrowers or to persons domiciled in a particular country for reasons connected with national sovereignty or the economic situation of the country, and therefore unrelated to normal business risks. Country risk includes sovereign risk, transfer risk and other risks inherent in global financial operations (war, expropriation, nationalization, etc.).

Diagram G8 illustrates the geographic distribution of credit risk.

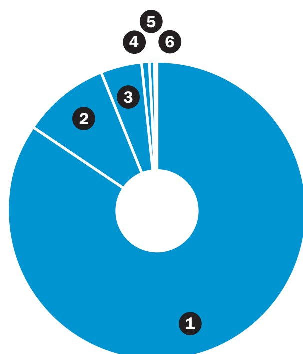
Counterparty risk

Arises from trading in financial instruments with financial counterparties and in the fixed-income portfolio. In the particular case of derivatives and repos, risk exposure is generally substantially below the nominal amount of the contract (counterparty risk).

Banco Sabadell has a system in place for assessing and managing these risks which allows compliance with approved limits to be monitored and controlled on a daily basis.

Additionally, to mitigate exposure to counterparty risk, Banco Sabadell has Credit Support Annexes (CSA) and Global Master Repurchase Agreements (GMRA) with most counterparties, which notably reduces the risks incurred through the provision of collateral.

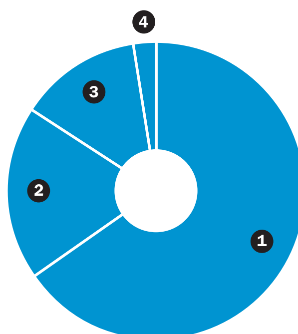
Diagrams G9 and G10 illustrate the breakdown of counterparty risk by geographic area and credit quality.



G8

Geographic distribution of credit risk

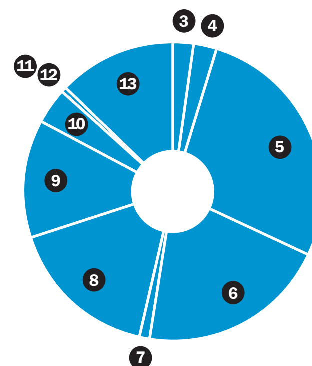
1	Spain	84.8%
2	Rest of European Union	9.3%
3	North America	4.4%
4	Rest of the world	0.9%
5	Latin America	0.5%
6	Rest of OECD	0.2%



G9

Breakdown of counterparty risk by geographic area

1	Eurozone	65.4%
2	Rest of Europe	19.0%
3	USA and Canada	13.1%
4	Rest of the world	2.5%



G10

Breakdown of counterparty risk by rating

1	AAA / Aaa	0.0%
2	AA+ / Aa1	0.0%
3	AA / Aa2	2.3%
4	AA- / Aa3	2.4%
5	A+ / A1	27.4%
6	A / A2	20.4%
7	A- / A3	1.2%
8	BBB+ / Baa1	16.4%
9	BBB / Baa2	12.8%
10	BBB- / Baa3	3.8%
11	BB+ / Ba1	0.1%
12	BB / Ba2	0.6%
13	Other	12.6%

Concentration risk

Concentration risk refers to exposures that can potentially generate losses large enough to threaten the financial health of an institution or the viability of its ordinary business activity.

Concentration risk is organised into two subtypes:

- Individual concentration risk: imperfect diversification of idiosyncratic risk in portfolio due to its small size or to large exposure by specific clients.
- Sectoral concentration risk: imperfect diversification of systematic risk components in the portfolio. Such concentrations may occur in particular sectors or geographical regions, for example.

Concentration risk is controlled and managed on the basis of the definition in the risk appetite statement, which establishes limits in terms of exposure to concentration, at both individual and sector level.

Liquidity risk

Liquidity risk is due to the possibility of losses being incurred as a result of the Bank's being unable, albeit temporarily, to honour payment commitments due to a lack of liquid assets, or of its being unable to access the markets to refinance debts at a reasonable cost. This may be associated with factors of a systemic nature or specific to the Bank itself.

Liquidity risk management is established around the basic requirement that the Bank have, at all times, liquidity at least sufficient to comply with the levels established by regulation and by the Bank's internal risk management policies.

As an additional policy, the Bank requires a reserve margin to cover liquidity needs arising from maintaining liquid assets classified as eligible collateral by the European Central Bank that is sufficient to fund debt issued on the capital markets that matures in the next 12 months.

A number of methodologies and information systems are used to evaluate this risk:

- Information in connection with the daily balance of assets and liabilities and the financial market situation.
- Information on liquid assets and second-line liquidity reserves based on assets eligible for discounting with the ECB.
- Liquidity gap using the tool's measurement framework to assess interest rate risk, with the ability to perform simulations.
- Information on the maturities of funding obtained in the wholesale markets.
- Period stress tests. Banco Sabadell regularly carries out a stress test centred on the Bank's position in the institutional market. The result of this exercise is to ensure that the Bank continues to hold a cushion of liquid assets sufficient to cover the net balance of inflows and outflows in a stress situation lasting for up to a year.
- General market information: issues, spreads, external rating agency reports, etc.

As regards the new short-term liquidity coverage ratio (LCR) and the net stable funding ratio (NSFR), Banco Sabadell is reporting the required information to the regulator using the ECB's new monthly and quarterly liquidity templates, respectively. The Group amply exceeds the LCR requirement. At the end of 2014, its LCR was over 100%, compared with the minimum requirement of 60% in 2015. The NSFR is still in the final phases of being analysed and defined. The NSFR is expected to be implemented in January 2018, with a phase-in period, like the LCR.

Market risk

Market risk arises from possible fluctuations in the fair value or future cash flows of a financial instrument as a result of changes in market risk factors. Several types of market risk factors can be distinguished, the main types being interest rate risk, exchange rate risk, equity price risk and credit spread risk.

Different approaches are taken to manage this risk, depending on which of the Group's main business lines has given rise to it:

- Risk arising from proprietary trading as part of the strategy of focusing on customer business. Risk that is primarily attributable to Treasury and Capital Market operations using currency instruments, equities and fixed-income, in both the cash and derivatives markets.
- Risks arising from the Group's commercial banking with customers and its corporate banking businesses, known as structural balance sheet risk. These risks can be sub-classified into interest rate risk and currency risk. This risk is defined as arising from the possibility of loss in the market value of financial asset positions due to variations in risk factors with an impact on their market prices, volatility or correlation between then (e.g. stock prices, interest rates, exchange rates).

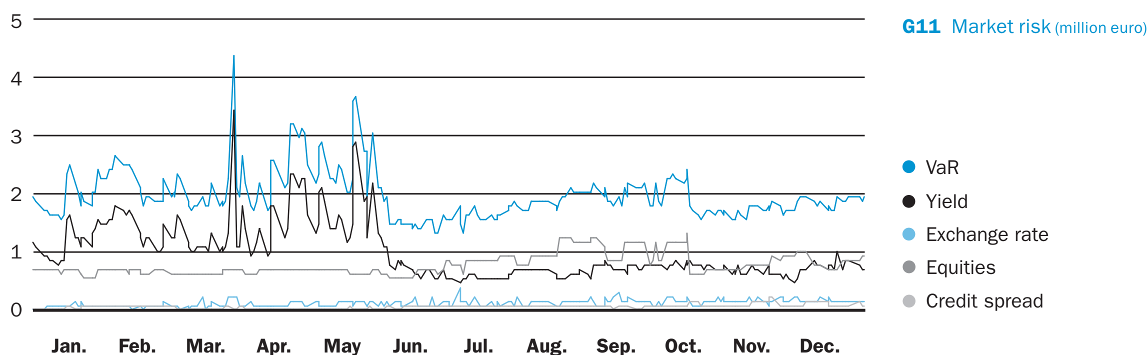
Trading

The main indicator used to measure market risk is VaR (Value at Risk), which allows the risks on different types of financial market transaction to be analysed as a single class. The VaR method provides an estimate of the potential maximum loss on a position that would result from an adverse, though normal, movement in any of the risk factors. This estimate is expressed in money terms and is calculated at a specified date, to a specified confidence

level and over a specified time horizon. The estimate takes account of the different levels of market risk factors (interest rate, currency rate, equities and credit spread) to which the transaction is exposed.

Market risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits assigned to each unit are sent to the risk control functions. Limits are assigned by the relevant decision-making bodies for each risk monitoring unit (based on nominal amounts, VaR or sensitivity limits, as applicable). This makes it possible to track changes in exposure levels and measure the contribution of each risk factor.
The VaR methodology used to assess potential losses is the historical simulation for a time horizon of one day and a confidence interval of 99%. Risk incurred in terms of VaR in 2014 from trading is illustrated in diagram G11.
Risk control of this kind is supplemented by special simulation exercises and extreme market scenarios (stress testing), which provide the positions' risk profile. Therefore, the VaR methodology does not rule out the possibility that losses will exceed the set limits, as significant market movements may occur that exceed the confidence levels being applied. The reliability of the VaR methodology is validated by back-testing techniques which are used to verify that VaR estimates are consistent with the specified confidence level.

The T1 table shows a stress analysis for trading.



G11 Market risk (million euro)

T1 Stress test results at 2014 year-end (million euro)

Scenario	Result
2008 bank crisis	(1.38)
Stressed sovereign debt scenario	(7.74)
Parallel curve decline scenario	(9.69)
Curve flattening scenario	(11.58)
Parallel curve increase scenario	9.15
Curve steepening scenario	11.63

Interest rate risk

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

Management of interest rate risk focuses on overall financial exposure for the Group as a whole and involves proposing alternative business or hedging strategies that will meet business objectives and are appropriate to market conditions and within the exposure limits that apply across the Group. A number of methodologies are used to measure interest rate risk. These include measuring the sensitivity of net interest income to changes in interest rates over a one-year horizon. This is done by means of static (gap analysis) and dynamic (simulation) techniques based, in the latter case, on different assumptions of balance sheet growth and changes in the slope of the yield curve.

Another technique is to measure the sensitivity of equity to changes in interest rates using duration gap analysis. This measures the effect of interest rate changes over a longer time horizon.

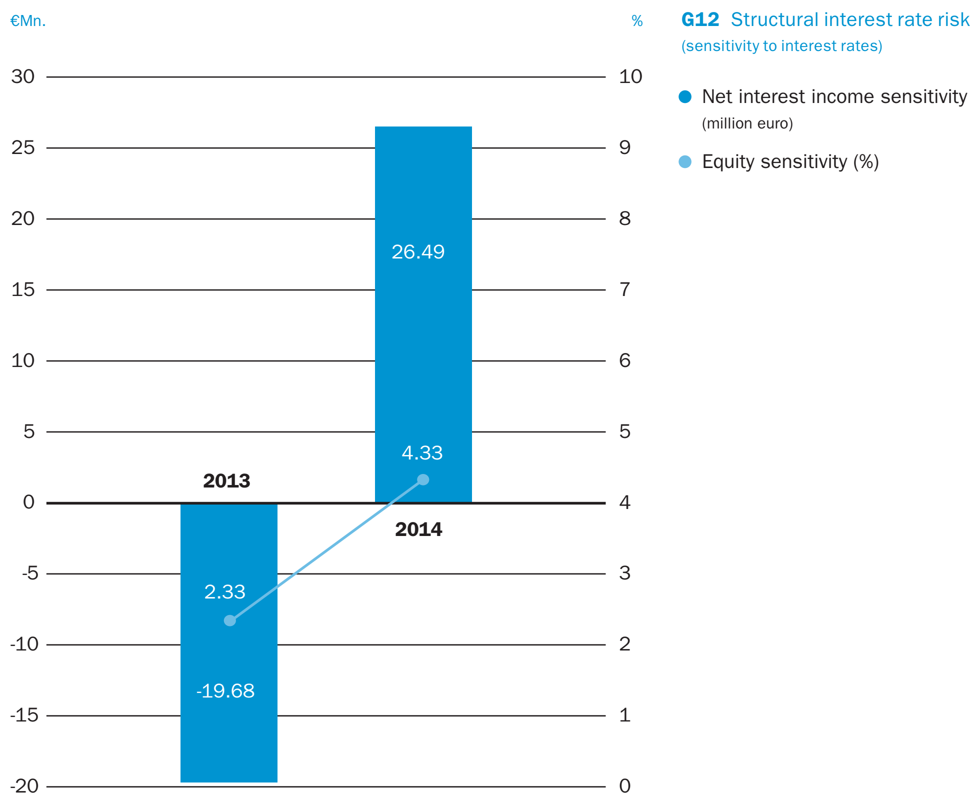
The sensitivity of net interest income and shareholders' equity to a 100 basis point change in interest rates is illustrated in diagram G12.

Exchange rate risk

Structural exchange rate risk arises as a result of changes in the exchange rates between different currencies and the possibility that these movements may result in losses on financial investments and on permanent investments in foreign offices and subsidiaries.

Exchange rate risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits assigned to each unit are sent to the decision-making bodies.

At year-end 2014, the asset exposure sensitivity to a 1% depreciation in exchange rates against the euro of the main currencies to which exposure exists amounted to €6.5 million, of which 52% pertains to the US dollar and 39% to the Mexican peso.



G12 Structural interest rate risk
(sensitivity to interest rates)

- Net interest income sensitivity (million euro)
- Equity sensitivity (%)

Operational and fiscal risk

Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes, and systems or from unforeseen external events. This definition includes model, technology and reputational risk (the latter includes behavioural risk).

Management of operational risk is decentralized and devolved to process managers throughout the organization. All of those processes are identified on a corporate process map, thus facilitating the compilation of information in a way that reflects the structure of the organization. The Group has a specialized central unit to manage operational risk, whose main functions are to coordinate, supervise and promote the identification, assessment and management of risks by process managers in line with the Banco Sabadell Group's process-based approach.

Senior managers and the Board of Directors play a direct, hands-on role in managing operational risk by approving the management framework and its implementation as proposed by an Operational Risk Committee made up of senior managers from different functional areas of the group. They also ensure that regular audits are carried out on the management strategy being applied, the reliability of the information being reported, and the internal validation tests required by the operational risk model.

The database contains historical records of actual losses resulting from operational risk going back to 2002. It is constantly being updated as information is received on losses and recoveries, whether resulting from the Bank's own efforts or from insurance provision (G13 & G14).

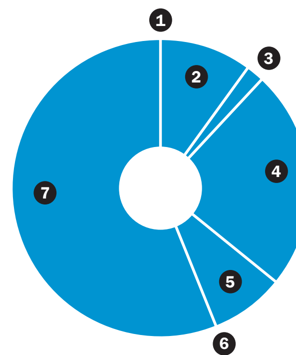
Operational risk includes management and control of the following main risks:

— Reputational risk: the possibility of losses arising from negative publicity related to the Bank's practices and activities, potentially leading to a loss of trust in the institution with an impact on its solvency.
— Technology risk:possibility of losses due to the inability of the systems infrastructure to fully support the continuation of ordinary business activity.
— Model risk: the possibility of losses arising from decision-making based on the use of inadequate models

Banco Sabadell's objective in this area is to ensure compliance with tax obligations while guaranteeing adequate returns for our shareholders.

The Board of Directors determines the tax risk control and management policies, as well as the tax strategy, with the double objective of ensuring that legal obligations are met and ensuring greater returns for shareholders.

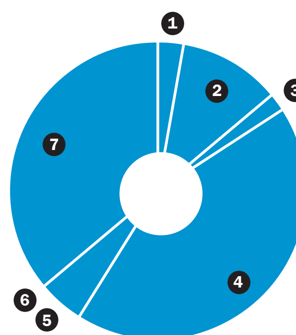
The Tax Advisory Area provides an independent review of the Bank's operations to ensure that they conform to the tax legislation in force.



G13

Distribution of operational risk events by amount (12 months)

1	Internal fraud	0.4%
2	External fraud	9.6%
3	Staff relations and job security issues	1.9%
4	Customers, products and business practices	24.0%
5	Property damage	8.0%
6	Business disruption/ systems failure	0.2%
7	Process execution, delivery and management	55.9%



G14

Distribution of operational risk events by amount (last 5 years)

1	Internal fraud	3.0%
2	External fraud	10.8%
3	Staff relations and job security issues	1.6%
4	Customers, products and business practices	43.0%
5	Property damage	5.0%
6	Business disruption/ systems failure	0.3%
7	Process execution, delivery and management	36.2%

Compliance risk

Compliance risk is defined as the risk of incurring legal or administrative penalties, significant financial loss or an impairment of reputation due to a breach of laws, regulations, internal rules and codes of conduct applicable to the banking industry.

One of the essential aspects of the Bank's policy, and the basis of its organizational culture, is rigorous compliance with all legal provisions. The pursuit of our business objectives must be compliant at all times with the current legislation and with best practice.

With this aim in view, the group has a compliance policy that handles the setting of policies, procedures and controls centrally at head office and delegates implementation to its subsidiaries and branches in other countries.

This is a flexible risk-focused approach that can adapt with agility to the Group's strategy at any given time and which takes advantage of synergy, particularly in areas with complex far-reaching impacts that require technology to be developed. The main challenge is standardisation of the level of compliance oversight within the Group by establishing obligatory minimum standards regardless of the activity or the country where the group operates.

The policy has six main components: technology, training, procedures, communication channels, verification and control programmes, and approval procedure for products and regulations.

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

Key actions implemented in 2014 included the following:

- Constantly updated anti-money laundering monitoring systems and Know-your-Customer and Customer Acceptance procedures.
- Progress in complying with Spanish anti-money laundering legislation on the keeping and updating of customer documents and due diligence procedures.
- Expanded and more rigorous measures to bring greater transparency to all dealings with customers, particularly in the marketing of products and the terms of contracts; making available to the public all fees, commissions, costs and expenses actually charged on the more common banking products and services.
- Improving investor protection by implementing new procedures to evaluate the timeliness and suitability of investments.
- Strengthening the group's resources for the detection of possible market abuse by incorporating additional risk parameters; this will make alerts systems more sensitive and extend the range of possible suspicious behaviour patterns.
- Strengthening the mechanisms for overseeing compliance with the group's Internal Code of Conduct for trading on the securities market.
- Promoting and monitoring implementation of the Foreign Account Tax Compliance Act (FATCA).
- Implementing these compliance systems at branches taken over following the acquisition of assets from Banco Gallego Group and SabadellSolbank (formerly Lloyds Bank España).