

**Annual Report  
on Corporate Governance**

**BancoSabadell**

**Annual Report 2006  
125th year**



**ANNUAL REPORT ON CORPORATE GOVERNANCE  
OF LISTED COMPANIES  
BANCO SABADELL**

**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
08-03-2004	153,001,710	306,003,420

If there are different classes of shares, indicate this in the following table:

Class	Number of shares	Nominal unit value

**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 directly held shares	Number of indirectly held shares (*)	Total % of capital
ENRIQUE BAÑUELOS DE CASTRO	0	16,172,270	5.285

(\*) Held through:

Name of direct holder	Number of directly held shares	% of capital
REALES DE GALICIA SICAV, S.A.	10,400	0.003
REALES DEL TURIA, S.L.	16,161,870	5.282
<b>Total:</b>	<b>16,172,270</b>	

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

Name of shareholder	Date of change	Description of change
ENRIQUE BAÑUELOS DE CASTRO	21-12-2006	Holding increased to over 5% of the capital
CAJA DE AHORROS Y PENSIONES DE BARCELONA	21-12-2006	Holding reduced to below 5% of the capital

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

Name of Director	Date of first appointment	Date of most recent appointment	Number of directly held shares	Number of indirectly held shares	Total % of capital
JOSE OLIU CREUS	29-03-1990	21-04-2005	200,000	800,000	0.327
JOAN LLONCH ANDREU	28-11-1996	21-03-2002	270,153	0	0.088
JUAN MARIA NIN GENOVA	21-03-2002	21-03-2002	102,074	148,730	0.082
ISAK ANDIC ERMAY	22-12-2005	27-04-2006	2,000	10,106,078	3.303
MIGUEL BOSSER ROVIRA	29-03-1990	21-04-2005	47,715	112,223	0.052
FRANCESC CASAS SELVAS	20-11-1997	24-04-2003	202,692	0	0.066
HECTOR MARIA COLONQUES MORENO	31-10-2001	21-03-2002	10,583	39,000	0,016
JUAN MANUEL DESVALLS MARISTANY	28-11-1996	21-03-2002	97,104	0	0.032

JOAQUIN FOLCH-RUSIÑOL CORACHAN	16-03-2000	21-04-2005	3,060,035	0	1.000
JORGE MANUEL JARDIM GONÇALVES	13-04-2000	21-04-2005	4,200	0	0.001
JOSE MANUEL LARA BOSCH	24-04-2003	24-04-2003	5,136	0	0.002
JOSE PERMANYER CUNILLERA	21-03-2002	21-03-2002	174,000	154,000	0.107

(\*) Held through:

Name of direct holder	Number of directly held shares
TORRELLIMONA, S.A.	800,000
ALPAJUA, S.L.	132,680
JAP99 SICAV, S.A.	16,000
JORGE NIN GARAIZABAL	50
MAYOR VENT, S.L.	6,120,068
PUNTA-NA, S.L.	3,558,859
PUNTO-FA, S.L.	427,151
SOMSISBOS, S.L.	112,223
ELISA COLONQUES	19,500
MARC COLONQUES	19,500
CISASENT, S.L.	154,000
<b>Total:</b>	<b>11,360,031</b>

Total proportion of share capital held by members of the Board of Directors	5.076%
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Complete the following tables showing members of the Board of Directors holding options on shares in the Company:

Name of Director	Number of direct share options	Number of indirect share options	Number of equivalent shares	Total % of capital

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:

Name of related parties	Type of relationship	Brief description

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:

Name of related parties	Type of relationship	Brief description
REALES DEL TURIA, S.L.	Commercial	COMMERCIAL RELATIONSHIP / AGREEMENT ON THE TRANSFER OF SHARES. ON 27 JULY 2006, ENRIQUE BAÑUELOS CASTRO, OWNER OF 100% OF REALES DEL TURIA, S.L., SIGNED UP TO THE SHAREHOLDERS AGREEMENT ON THE TRANSFER OF SHARES ENTERED INTO ON THE SAME DATE BY JOSE OLIU CREUS, MIGUEL BOSSER ROVIRA, HECTOR MARIA COLONQUES MORENO, JOAQUIN FOLCH-RUSIÑOL CORACHAN, JOSE MANUEL LARA BOSCH AND ISAK

		ANDIN ERMAY. (FOR FURTHER INFORMATION, SEE RELEVANT FACT No. 69323 FOR BANCO SABADELL S.A. PUBLISHED IN THE CNMV ON 2 AUGUST 2006)
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**A.6. Describe any associative agreements between shareholders that have been notified to the Company:**

Parties to the agreements	% of capital affected	Brief description of agreement
JOSE OLIU CREUS	0.000	SIGNED ON 27 JULY 2006 TO ESTABLISH RESTRICTIONS ON THE TRANSFER OF HIS SHARES IN THE COMPANY. (FOR FURTHER INFORMATION, SEE RELEVANT FACT No. 69323 FOR BANCO SABADELL S.A. PUBLISHED IN THE CNMV ON 2 AUGUST 2006)
ISAK ANDIC ERMAY	0.000	
MIGUEL BOSSER ROVIRA	0.000	
ENRIQUE BANUELOS DE CASTRO	0.000	
HECTOR MARIA COLONQUES MORENO	0.000	
JOAQUIN FOLCH-RUSIÑOL CORACHAN	0.000	
JOSE MANUEL LARA BOSCH	0.000	

**Indicate whether there are any concerted actions between shareholders in your business where known to the Company:**

Parties to concerted action	% of capital affected	Brief description of the concerted action

**Indicate whether there has been any change in, or cessation of, any such associative arrangement or concerted action during the year.**

**A.7. State whether there is any natural or legal person that is exercising or is able to exercise control over the Company within the meaning of Article 4 of the Stock Market Act [*Ley del Mercado de Valores*]:**

Name

Comments

**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
56,138	0	0.018

(\*) Held through:

Name of direct holder	Number of directly held shares
<b>Total:</b>	

**Give details of any significant changes during the year, within the meaning of Royal Decree 377/1991:**

Date	Number of directly held shares	Number of indirectly held shares	Total % of capital

Gains or losses on dealings in the Company's own shares during the year (in €000)	1,267
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**A.9. State the terms of any authorization(s) given by the General Meeting to the Board of Directors to acquire or transfer the Company's own shares as described in Section A.8., and the period(s) within which such authorization(s) must be exercised:**

The Ordinary General Meeting held on 21 April 2005 authorized the Board of Directors in the following terms :

"To annul the resolution adopted by the General Meeting of 30 June 2004, to the extent that it has not been implemented, and to authorize the Company, whether directly or through any of its subsidiary companies, within a period not exceeding eighteen months from the date of this General Meeting, to acquire, at such a time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law including the charging thereof to profits for the year and/or distributable reserves, provided that the Company may subsequently sell or redeem the said shares, subject always to Article 75 and related articles of the SA Companies Act.

To approve limits to, or conditions 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 five per cent of the share capital of Banco de Sabadell, S.A., subject always to the restrictions placed on companies' purchases of their own shares by the regulatory authorities responsible for the markets on which the shares of Banco de Sabadell, S.A. are traded.

- Funds equal to the value of the Company's own shares recorded as assets on the balance sheet may be appropriated to an undistributable reserve shown as a liability on the Company's balance sheet. The reserve shall be maintained until such time as the shares have been sold or redeemed.

- All shares so acquired shall be fully paid shares.

- The purchase consideration shall not be less than the nominal value nor more than 20 per cent above the quoted or other price at which the shares are being valued at the date of purchase. All purchases by the Company of its own shares shall be in accordance with stock market law and practice."

The Ordinary General Meeting of Shareholders of Banco de Sabadell, S.A. held on second call on 27 April 2006, authorized the Board of Directors in the following terms in respect of item 4 on the agenda :

"To annul the resolution adopted by the General Meeting of 21 April 2005, to the extent that it has not been implemented, and to authorize the Company, whether directly or through any of its subsidiary companies, within a period not exceeding eighteen months from the date of this General Meeting, to acquire, at such a time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law including the charging thereof to profits for the year and/or distributable reserves, provided that the Company may subsequently sell or redeem the said shares, subject always to Article 75 and related articles of the SA Companies Act.

To approve limits to, or conditions 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 five per cent of the share capital of Banco de Sabadell, S.A., subject always to the restrictions placed on companies' purchases of their own shares by the regulatory authorities responsible for the markets on which the shares of Banco de Sabadell, S.A. are traded.

- Funds equal to the value of the Company's own shares recorded as assets on the balance sheet may be appropriated to an undistributable reserve shown as a liability on the Company's balance sheet. The reserve shall be maintained until such time as the shares have been sold or redeemed.

- All shares so acquired shall be fully paid shares.

- The purchase consideration shall not be less than the nominal value nor more than 20 per cent above the quoted or other price at which the shares are being valued at the date of purchase. All purchases by the Company of its own shares shall be in accordance with stock market law 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:**

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

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

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

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

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

Without prejudice to the restrictions on voting rights imposed above, all shares represented in person or by proxy at the General Meeting shall be counted for the purposes of determining whether a quorum is present, but the limit of 10 per cent

established by this Article shall nevertheless apply to all such shares when a vote is taken.”

There are no restrictions on the purchase or transfer of shares under the Articles of Association; however, it is a requirement under Articles 57, 58 and 60 of the Credit Establishments Discipline and Intervention Act 26/1988 [*Ley de Disciplina e Intervención de las Entidades de Crédito*] that clearance be obtained from the Bank of Spain for any proposed purchase of shares in a bank amounting to more than five per cent of its share capital, or any other proportion in excess of that amount as expressly indicated.

## 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:

Maximum number of Directors	13
Minimum number of Directors	11

#### B.1.2. Complete the following table of Members of the Board:

Name of Director	Represented by	Office held	Date of first appointment	Date of most recent appointment	Method of appointment
JOSE OLIU CREUS		CHAIRMAN	29-03-1990	21-04-2005	GENERAL MEETING
JOAN LLONCH ANDREU		DEPUTY CHAIRMAN	28-11-1996	21-03-2002	GENERAL MEETING
JUAN MARIA NIN GENOVA		MANAGING DIRECTOR	21-03-2002	21-03-2002	GENERAL MEETING
ISAK ANDIC ERMAY		DIRECTOR	22-12-2005	27-04-2006	GENERAL MEETING
MIGUEL BOSSER ROVIRA		DIRECTOR	29-03-1990	21-04-2005	GENERAL MEETING
FRANCESC CASAS SELVAS		DIRECTOR	20-11-1997	24-04-2003	GENERAL MEETING
HECTOR MARIA COLONQUES MORENO		DIRECTOR	31-10-2001	21-03-2002	GENERAL MEETING
JUAN MANUEL DESVALLS MARISTANY		DIRECTOR	28-11-1996	21-03-2002	GENERAL MEETING
JOAQUIN FOLCH-RUSIÑOL CORACHAN		DIRECTOR	16-03-2000	21-04-2005	GENERAL MEETING
JORGE MANUEL JARDIM GONÇALVES		DIRECTOR	13-04-2000	21-04-2005	GENERAL MEETING
JOSE MANUEL LARA BOSCH		DIRECTOR	24-04-2003	24-04-2003	GENERAL MEETING
JOSE PERMANYER CUNILLERA		DIRECTOR	21-03-2002	21-03-2002	GENERAL MEETING

Total number of Directors	12
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Give the names of all Members of the Board who ceased to act in that capacity during the period:

Name of Director	Date of retirement or cessation

**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
JOSE OLIU CREUS	NOMINATION AND REMUNERATION	CHAIRMAN
JUAN MARIA NIN GENOVA	NOMINATION AND REMUNERATION	MANAGING DIRECTOR
JOSE PERMANYER CUNILLERA	NOMINATION AND REMUNERATION	DIRECTOR

**NON-EXECUTIVE DIRECTORS REPRESENTING SHAREHOLDERS**

Name of Director	Committee proposing appointment	Name of shareholder nominating or represented by the Non-executive Director
JORGE MANUEL JARDIM GONÇALVES	NOMINATION AND REMUNERATION	BANCO COMERCIAL PORTUGUES, S.A.

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

Name of Director	Committee proposing appointment	Profile
ISAK ANDIC ERMAY	NOMINATION AND REMUNERATION	BUSINESS
MIGUEL BOSSER ROVIRA	NOMINATION AND REMUNERATION	BUSINESS
FRANCESC CASAS SELVAS	NOMINATION AND REMUNERATION	COMPANY EXECUTIVE
HECTOR MARIA COLONQUES MORENO	NOMINATION AND REMUNERATION	BUSINESS
JOAQUIN FOLCH-RUSIÑOL CORACHAN	NOMINATION AND REMUNERATION	BUSINESS
JOSE MANUEL LARA BOSCH	NOMINATION AND REMUNERATION	BUSINESS

**OTHER NON-EXECUTIVE DIRECTORS**

Name of Director	Committee proposing appointment
JOAN LLONCH ANDREU	NOMINATION AND REMUNERATION
JUAN MANUEL DESVALLS MARISTANY	NOMINATION AND REMUNERATION

**State why these Directors cannot be considered as either representing shareholders or as independent.**

See section G.

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

Name of Director	Date of change	Previous status	Current status

**B.1.4. Indicate whether the status of Directors, as shown in B.1.3. above, complies with the rules governing the Board of Directors:**

The status of Directors indicated above complies with the provisions of the Articles of Association and of the Regulations of the Board of Directors. Article 54 of the Articles of Association and Article 7 of the Regulations of



the Board of Directors provide that external or Non-executive Directors must form not less than a majority of the Board as a whole, and that a significant proportion of Non-executive Directors should be independent.

**B.1.5. Indicate the powers delegated to the Managing Director(s), if any:**

Name of Director	Brief description
JUAN MARIA NIN GENOVA	THE POWERS OF THE MANAGING DIRECTOR ARE SET OUT IN SECTION "G. OTHER RELEVANT INFORMATION".

**B.1.6. 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
MIGUEL BOSSER ROVIRA	BANSABADELL HOLDING, S.L. SINGLE MEMBER COMPANY	DIRECTOR SINCE 25-05-2006
JUAN MANUEL DESVALLS MARISTANY	BANSABADELL RENTING, S.L., SINGLE MEMBER COMPANY	CHAIRMAN
JOAN LLONCH ANDREU	BANCSABADELL D'ANDORRA, S.A.	DIRECTOR
JOAN LLONCH ANDREU	BANSABADELL HOLDING, S.L. SINGLE MEMBER COMPANY	DIRECTOR
JUAN MARIA NIN GENOVA	BANSABADELL VIDA, S.A. DE SEGUROS Y REASEGUROS, SINGLE MEMBER COMPANY	CHAIRMAN
JUAN MARIA NIN GENOVA	BANSABADELL SEGUROS GENERALES, S.A. DE SEGUROS Y REASEGUROS, S.A., SINGLE MEMBER COMPANY	CHAIRMAN
JUAN MARIA NIN GENOVA	BANSABADELL PENSIONES EGFP, S.A., SINGLE MEMBER COMPANY	CHAIRMAN
JUAN MARIA NIN GENOVA	IBERSECURITIES, S.A. SOCIEDAD DE VALORES, SINGLE MEMBER COMPANY	CHAIRMAN
JOSE OLIU CREUS	BANSABADELL HOLDING, S.L. SINGLE MEMBER COMPANY	CHAIRMAN
JOSE PERMANYER CUNILLERA	BANCO URQUIJO SABADELL BANCA PRIVADA, S.A.	DEPUTY CHAIRMAN
JOSE PERMANYER CUNILLERA	BANCO ATLANTICO (PANAMA), S.A.	CHAIRMAN UNTIL 27-9-2006
JOSE PERMANYER CUNILLERA	AURICA XXI, S.C.R., S.A.	DIRECTOR
JOSE PERMANYER CUNILLERA	BANCSABADELL D'ANDORRA, S.A.	DIRECTOR
JOSE PERMANYER CUNILLERA	EUROPEA DE INVERSIONES Y RENTAS, S.L., SOCIEDAD UNIPERSONAL	CHAIRMAN
JOSE PERMANYER CUNILLERA	BANSABADELL INVERSIO DESENVOLUPAMENT, S.A., SINGLE MEMBER COMPANY	CHAIRMAN
JOSE PERMANYER CUNILLERA	LANDSCAPE SERVEIS IMMOBILIARIS, S.L., SINGLE MEMBER COMPANY	CHAIRMAN UNTIL 28-12-2006
JOSE PERMANYER CUNILLERA	LANDSCAPE AUGUSTA, S.L., SINGLE MEMBER COMPANY	CHAIRMAN UNTIL 28-12-2006
JOSE PERMANYER CUNILLERA	LANDSCAPE PROMOCIONS IMMOBILIARIES, S.L., SINGLE MEMBER COMPANY	CHAIRMAN UNTIL 28-12-2006
JOSÉ PERMANYER CUNILLERA	LANDSCAPE INVERSIONS, S.L., SINGLE MEMBER COMPANY	CHAIRMAN UNTIL 28-12-2006

**B.1.7. 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	Listed company	Office held
JOSE MANUEL LARA BOSCH	ANTENA 3 TELEVISION, S.A.	CHAIRMAN
JOAN LLONCH ANDREU	COMPANIA DE AGUAS DE SABADELL, S.A.	DIRECTOR

**B.1.8. Complete the following tables on the aggregate amount paid in remuneration to Directors during the year:**

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

Type of remuneration	Amount (€000)
Fixed remuneration	1,516
Variable remuneration	1,996
Expense allowances	0
Directors' fees	1,780
Options on shares and/or other securities	0
Other	2,611
<b>Total:</b>	<b>7,903</b>

Other benefits	Amount (€000)
Advances	0
Loans granted	15,333
Pension Funds and Plans: Contributions	3,974
Pension Funds and Plans: Commitments	0
Life assurance premiums	0
Guarantees to Directors given by the Company	276

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

Type of remuneration	Amount (€000)
Fixed remuneration	0
Variable remuneration	0
Expense allowances	0
Directors' fees	0
Options on shares and/or other securities	0
Other	0
<b>Total:</b>	<b>0</b>

Other benefits	Amount (€000)
Advances	0
Loans granted	0
Pension Funds and Plans: Contributions	0
Pension Funds and Plans: Commitments	0
Life assurance premiums	0
Guarantees to Directors given by the Company	0

**c) Remuneration paid to Directors, by status category:**

Type of director	By the Company	By group undertakings
Executive Directors	6,663	0
Non-executive (shareholder) Directors	110	0
Non-executive (independent) Directors	790	0
Other non-executive Directors	340	0
<b>Total:</b>	<b>7,903</b>	<b>0</b>

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

<b>Total remuneration paid to Directors (€000)</b>	<b>7,903</b>
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Total remuneration paid to Directors as % of attributable profit of parent company	0,920
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**B.1.9. Name any senior executives who are not Executive Directors, and indicate the total amount of remuneration paid to them during the year:**

Name	Office held
JOSE LUIS NEGRO RODRIGUEZ	DEPUTY SECRETARY TO THE BOARD - COMPTROLLER GENERAL
JUAN CRUZ ALCALDE MERINO	DEPUTY GENERAL MANAGER
JUAN ANTONIO ALCARAZ GARCIA	DEPUTY GENERAL MANAGER
MIGUEL MONTES GUELL	DEPUTY GENERAL MANAGER
JAUME PUIG BALSELLS	DEPUTY GENERAL MANAGER
JOSE TARRES BUSQUETS	DEPUTY GENERAL MANAGER
TOMAS VARELA MUIÑA	DEPUTY GENERAL MANAGER
CIRUS ANDREU CABOT	ASSISTANT GENERAL MANAGER
IGNACIO CAMI CASELLAS	ASSISTANT GENERAL MANAGER
RAFAEL-JOSE GARCIA NAUFFAL	ASSISTANT GENERAL MANAGER
JUAN MATEO GRUME SIERRA	ASSISTANT GENERAL MANAGER

Total remuneration paid to senior executives (€000)	5,588
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**B.1.10. 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:**

Number of beneficiaries	14
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	Board of Directors	General Meeting
Clauses approved by	X	

	YES	NO
Were clauses reported to the General Meeting?		X

**B.1.11. State the procedure for fixing Directors' remuneration and the relevant provisions of the Articles of Association:**

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

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.

**B.1.12. Identify any members of the Board who are also board members or senior executives of companies holding significant interests in the Company (if a listed company) and/or in companies in the group:**

Name of Director	Name of shareholder	Office held
JORGE MANUEL JARDIM GONÇALVES	BANCO COMERCIAL PORTUGUES, S.A.	CHAIRMAN OF SENIOR BOARD
JORGE MANUEL JARDIM GONÇALVES	BANCO COMERCIAL PORTUGUES, S.A.	CHAIRMAN OF SUPERVISORY BOARD

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

Name of Director	Name of shareholder	Description of relationship

**B.1.13. Describe any changes in the Regulations of the Board of Directors during the year:**

At its meeting on 25 May 2006, the Board of Directors passed a resolution to amend Article 14.1 of the Board Regulations to read as follows, in order to increase the number of Directors on the Nomination and Remuneration Committee:

“Article 14. The Nomination and Remuneration Committee

1. The Nomination and Remuneration Committee shall be formed of four members, all of whom shall be Non-Executive Directors.

Nevertheless, at the request of the Chairman of the Committee, any General Managers, even those who are Directors, may attend meetings when they deal with matters relating to the senior managers of the Bank that do not directly affect them or the Chairman of the Board.

The remaining sections of Article 14 of the Regulations of the Board of Directors remain unchanged.”

**B.1.14. Describe the procedures for appointment, re-appointment, evaluation and removal of Directors. Specify the responsible person or body, the procedure and the guidelines to be followed in each case.**

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

1. Appointment, re-election and evaluation:

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

1.b. Requirements: In order to be a member of the Board of Directors, it is necessary to hold a sufficient number of shares to represent a paid-up value of €1,000, which may not be transferred or disposed of until the accounts for the last year in which the Director has held office have been approved. Independent Directors may be released from this requirement by resolution of the Board of Directors following a recommendation 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 and 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 they have reached the age of 70, Directors may complete the term of office for which they were appointed but may not be re-elected.

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

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

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

1.e. Procedures, evaluation and criteria:

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

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

## 2. Removal.

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

Directors shall also be removed from office:

- a) When they are 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 jeopardize the interests of the Company.

### **B.1.15. Describe the circumstances in which Directors may be required to resign:**

No Director may be compelled to resign under any law or article of the Articles of Association; however, any Director whose circumstances were as described under B.1.14 above would of course have to resign.

### **B.1.16. State whether the office of Chief Executive is held by the Chairman of the Board of Directors. State what measures, if any, have been taken to limit the accumulation of powers in a single person:**

YES  NO

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

### **B.1.17. Are qualified rather than legal majorities required in some types of resolution?**

YES  NO

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

**Adoption of resolutions**

Description of resolution	Quorum	Type of majority
	ARTICLE 57 OF THE ARTICLES OF ASSOCIATION: THE MAJORITY OF MEMBERS, PRESENT IN PERSON OR BY PROXY	ABSOLUTE MAJORITY OF VOTES, WITH THE CHAIRMAN HAVING THE CASTING VOTE.
ARTICLE 59 OF THE ARTICLES OF ASSOCIATION: ALL OR PART OF THOSE POWERS THAT MAY BY LAW BE DELEGATED ARE PERMANENTLY DELEGATED TO MEMBERS OF THE BOARD, INDIVIDUALLY, JOINTLY OR COLLECTIVELY, IN THE FORM OF EXECUTIVE COMMITTEES OR MANAGING DIRECTORS.		TWO- THIRDS OF ITS MEMBERS.
ARTICLE 59 BIS OF THE ARTICLES OF ASSOCIATION: APPOINTMENT OF THE CHAIRMAN OF THE AUDIT AND CONTROL COMMITTEE		FAVOURABLE VOTE OF TWO-THIRDS OF ITS MEMBERS

**B.1.18. State whether there are any special requirements for holding office as Chairman of the Board, other than those applicable to Directors:**

YES  NO

Description of requirements
The age limit for holding the post is 65. Any person over that age will be ineligible, and any person holding the post must leave on attaining that age.

**B.1.19. State whether the Chairman has a casting vote:**

YES  NO

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

**B.1.20. State whether the Articles of Association or the Regulations of the Board of Directors establish any age limit for Directors:**

YES  NO

Age limit for Chairman	65
Age limit for Managing Director	75
Age limit for Director	75

**B.1.21. State whether there are any limits under the Articles of Association or the Regulations of the Board of Directors on the period for which independent Directors may hold office:**

YES  NO

Maximum number of years in office	0
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**B.1.22. 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.1.23. 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 has been absent:**

Number of meetings of the Board of Directors	14
Number of meetings of Board of Directors from which Chairman was absent	0

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

Number of meetings of the Executive Committee	34
Number of meetings of the Audit Committee	6
Number of meetings of the Nomination and Remuneration Committee	11
Number of meetings of the Strategy and Investments Committee	0
Number of meetings of the Risk Control Committee	52

**B.1.24. State whether the individual and consolidated annual accounts submitted to the Board of Directors for formal approval have been certified:**

YES  NO

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

Name	Office held
JOSE OLIU CREUS	CHAIRMAN
JUAN MARIA NIN GENOVA	MANAGING DIRECTOR
TOMAS VARELA MUIÑA	DEPUTY GENERAL MANAGER – FINANCIAL MANAGER

**B.1.25. Explain any procedures established by the Board of Directors to prevent annual accounts being submitted to the General Meeting with qualifying statements in the Auditor's Report:**

The mechanism in place are as follows:



1. The Bank's internal services will draw up the annual accounts 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 Board Regulations 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 will have 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 was issued with qualifying statements, the annual report of the Audit and Control Committee would contain a section stating clearly where disagreements had occurred.

**B.1.26. Describe the procedures that are in place to ensure that information is provided to markets fairly and evenly:**

The Banco Sabadell Group is firmly committed to transparency in its relations with financial markets and other stakeholders and therefore makes all information not only of a financial but also of a corporate nature available to them.

Specifically, Article 29 of the Regulations of the Board of Directors states that the Board shall immediately inform the public about:

- a) relevant facts that could have a noticeable effect on stock market prices;
- b) changes in the ownership structure of the Company, such as variations in significant interests, agreements restricting share transfers, and other forms of coalition of which it is aware;
- c) substantial changes in the regulations governing the Company;
- d) policies relating to holdings in the Company's own shares that the Board proposes to implement under the authorization from the General Meeting.

Similarly, this article states that the Board shall adopt the necessary measures to ensure that quarterly, half-yearly and any other financial information to be made available to the markets is drawn up in accordance with the same principles, policies and professional practices as those applicable to the annual accounts and that it is equally reliable. For this latter purpose, the information must be reviewed by the Audit and Control Committee.

The Banco Sabadell's Internal Code of Conduct requires that it should ensure the transparent communication of information and the protection of investors. In this respect, Banco Sabadell has adequate channels in place for safeguarding non-public or privileged information and has a firm commitment to providing information evenly and simultaneously to the financial markets and to the media.

The Annex to the Banco Sabadell Group's Internal Rules of Conduct in relation to the stock market states in section 2:

"The Group is obliged to immediately inform the market, by notifying the CNMV of all relevant information. Relevant information shall comprise all events, decisions or agreements relating to the group where knowledge thereof could reasonably affect an investor in acquiring or transferring securities issued by the Bank or financial instruments with underlying securities issued by the Bank and that could therefore notably influence their price on a secondary market. An exception is made for cases where a dispensation has been obtained from the CNMV.

The notification to the CNMV must be made prior to dissemination in any form and as soon as the event is known or the decision has been taken or the agreement or contract has been signed. The contents of the notification must be true, clear, complete and, when so required by the nature of the information, quantified, so as not to be confusing or misleading. At all events, the relevant information must be posted for at least one year on the group's website.

Relevant information must be notified to the CNMV through the body referred to in section 9 of the Internal Rules of Conduct or through such person or persons as the Board of Directors of the Bank may determine."

For the purpose of complying with the applicable legislation, the procedures for communicating of information to the market are standardised and follow a predefined process within the framework of the Bank's operating procedures.

All communications are published in real time on the Bank's corporate website and may be consulted without any restrictions.

Financial information is provided quarterly in accordance with the preliminary schedule approved by the Board of Directors for the whole year. The dates are formally ratified at least three days in advance. On the date of publication and before the markets open, the CNMV is provided with all relevant financial information for it to publish, and such information will have been previously approved by the Bank's Audit and Control Committee and its Executive Committee.

Once the information has been published by the CNMV, it will be sent to the media and to analysts and investors at the same time as it is posted on the Bank's corporate website (<http://www.bancosabadell.com>).

Presentations of group results are retransmitted by video webcasting, and the presentation by the senior management and questions from the floor are available for three months after the event. The information is supported by transparencies and by tables of standard historical figures that are easy to consult on the website and easy to use, with special emphasis being laid on the consistency of data over the different periods in order to ensure

maximum stability and transparency in the information provided by the Bank.

The Banco Sabadell Group encourages the use of the Internet as the most suitable vehicle for complying with its commitment to communicate simultaneously and transparently with its shareholders and other stakeholders, and it makes use of this medium to provide one of the most complete sets of financial information on the Bank in Spanish and English in a format that is intelligible and easy to handle.

In order to ensure full access to the information, two specialist departments have been set up: the Investors Information Department [*Dirección de Relación con Inversores*] and the Shareholders Information Service [*Servicio de Relación con los Accionistas*]. The Investors Information Department deals with institutional investors, financial analysts and rating agencies, providing the high level of technical information that they require. The Shareholders Information Service is available to private shareholders for any type of enquiries or comments they wish to make to the Bank, thus ensuring the proper transmission of information in the most suitable manner. Our two specialist units for communicating with shareholders and investors guarantee at all times the level of personal attention that is needed to maintain the high degree of trust that comes from open, transparent access to information.

It should be noted that the Banco Sabadell Group's process of communicating information complies with all the recommendations of the CNMV on information meetings with analysts, institutional investors and other operators in the financial markets, as well as with Article 81 of the Stock Market Act.

In addition to the services provided by the Investor Information Department and the Shareholder Information Service, there is a systematised procedure for communicating information to the market regulator, channelled through the Deputy Secretary to the Board of Directors and the Comptroller General of the Bank. This process includes press releases as well as the notification of relevant information on the operating of the Bank, including changes in senior management, significant financial transactions, dealings in own shares, substantial amendments to regulations governing the company and other operations indicated in Article 29 of the Regulations of the Board of Directors.

**B.1.27. Is the Secretary to the Board of Directors a Director?**

YES  NO

**B.1.28. 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 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. Making 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; reviewing performance of the auditing agreement and ensuring 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.

(...) 6. Maintaining contact with the external auditors to receive information on any issues that could place the auditors' independence at risk or otherwise have a bearing on the auditing process, and on any other reports concerned with the auditing of accounts or required by legislation or by the regulations governing the auditing profession."

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

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

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

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

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

**B.1.29. Indicate whether the Auditors carry out any non-auditing work for the Company and/or the Group, and if so, state the amount paid for such work and the proportion in which this amount stands to the total amount charged by the Auditors to the Company and/or the Group:**

YES  NO

	Company	Group	Total
Amount charged for non-auditing work (€000)	384	29	413
Amount charged for non-auditing work as a % of total amount charged by the Auditors	33.230	7.370	26.699

**B.1.30. State the number of consecutive years for which the current Auditors have been auditing the annual accounts of the Company and/or the Group. Also state the number of years for which accounts have been audited by the current Auditors, as a percentage of the total number of years for which annual accounts have been audited:**

	Company	Group
Number of consecutive years	24	22

	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	92%	100%

**B.1.31. 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	% interest	Office or duties
JOSE OLIU CREUS	BANCO COMERCIAL PORTUGUES, S.A.	0.000	MEMBER OF SUPERVISORY BOARD
JOSE OLIU CREUS	BANSABADELL HOLDING, S.L., SINGLE MEMBER COMPANY	0.000	CHAIRMAN
JOSE OLIU CREUS	BANCO COMERCIAL PORTUGUES, S.A.	0.000	MEMBER OF SENIOR BOARD
JOAN LLONCH ANDREU	BANCSABADELL D'ANDORRA, S.A.	0.000	DIRECTOR
JOAN LLONCH ANDREU	SOCIEDAD DE CARTERA DEL VALLÉS, S.A.	0.000	DEPUTY CHAIRMAN
JOAN LLONCH ANDREU	BANSABADELL HOLDING, S.L., SINGLE MEMBER COMPANY	0.000	DIRECTOR
JUAN MARIA NIN GENOVA	BANSABADELL PENSIONES EGFP, S.A., SINGLE MEMBER COMPANY	0.000	CHAIRMAN
JUAN MARIA NIN GENOVA	BANSABADELL SEGUROS GENERALES, S.A. DE SEGUROS Y REASEGUROS, S.A., SINGLE MEMBER COMPANY	0,000	CHAIRMAN
JUAN MARIA NIN GENOVA	BANSABADELL VIDA, S.A. DE SEGUROS Y REASEGUROS, SINGLE MEMBER COMPANY	0.000	CHAIRMAN
JUAN MARIA NIN GENOVA	IBERSECURITIES, S.A. SOCIEDAD DE VALORES, SINGLE MEMBER COMPANY	0.000	CHAIRMAN
MIGUEL BOSSER ROVIRA	BANSABADELL HOLDING, S.L., SINGLE MEMBER COMPANY	0.000	DIRECTOR
JUAN MANUEL DESVALLS MARISTANY	B.B.V.A	0.000	
JUAN MANUEL DESVALLS MARISTANY	B.S.C.H.	0.000	
JUAN MANUEL DESVALLS MARISTANY	BANCO POPULAR, S.A.	0.000	

JUAN MANUEL DESVALLS MARISTANY	BANSABADELL RENTING, S.L., SINGLE MEMBER COMPANY	0.000	CHAIRMAN
JORGE MANUEL JARDIM GONÇALVES	BANCO COMERCIAL PORTUGUES, S.A.	0.000	CHAIRMAN OF SENIOR BOARD
JORGE MANUEL JARDIM GONÇALVES	BANCO COMERCIAL PORTUGUES, S.A.	0.000	CHAIRMAN OF SUPERVISORY BOARD
JOSE PERMANYER CUNILLERA	AURICA XXI, S.C.R., S.A.	0.000	DIRECTOR
JOSE PERMANYER CUNILLERA	BANCO ATLANTICO (PANAMA), S.A.	0.000	CHAIRMAN UNTIL 27-9-2006
JOSE PERMANYER CUNILLERA	BANCO URQUIJO SABADELL BANCA PRIVADA, S.A.	0.000	DEPUTY CHAIRMAN
JOSE PERMANYER CUNILLERA	BANCSABADELL D'ANDORRA, S.A.	0.000	DIRECTOR
JOSE PERMANYER CUNILLERA	BANSABADELL INVERSIO DESENVOLUPAMENT, S.A., SINGLE MEMBER COMPANY	0.000	CHAIRMAN
JOSE PERMANYER CUNILLERA	GRUPO ASSEGUADOR SABADELL, A.I.E.	0.000	DIRECTOR
JOSE PERMANYER CUNILLERA	SABADELL ASEGURADORA, CIA SEGUROS Y REASEGUROS, S.A.	0.000	DIRECTOR

**B.1.32. State whether there is any procedure to ensure that Directors are able to obtain independent advice:**

YES  NO

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

**B.1.33. 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  NO

Details of procedure
<p>Article 17 of the Regulations of the Board requires that notices of Board meetings should always include the agenda for the meeting and that the agenda should set out, inter alia, all business concerning subsidiary companies and committees of the Board, 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, not less than five working days before the date of the meeting, together with any related documents for distribution to Directors.</p> <p>Article 21 states:</p> <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.1.34. Are Directors of the Company covered by D&O liability insurance?**YES  NO **B.2. Committees of the Board of Directors****B.2.1. The Committees of the Board are as follows:**

Name of committee	Number of members	Responsibilities
EXECUTIVE COMMITTEE	4	CO-ORDINATION
AUDIT AND CONTROL COMMITTEE	4	CONTROL
NOMINATION AND REMUNERATION COMMITTEE	4	APPOINTMENTS
RISK CONTROL COMMITTEE	5	RISKS

**B.2.2. Give details of all Committees of the Board of Directors and their members:****EXECUTIVE COMMITTEE**

Name	Office held
JOSE OLIU CREUS	CHAIRMAN
JUAN MARIA NIN GENOVA	COMMITTEE MEMBER
JOSE PERMANYER CUNILLERA	COMMITTEE MEMBER
JOSE LUIS NEGRO RODRIGUEZ	SECRETARY (non-member)

**AUDIT AND CONTROL COMMITTEE**

Name	Office held
JOAN LLONCH ANDREU	CHAIRMAN
FRANCESC CASAS SELVAS	COMMITTEE MEMBER
JUAN MANUEL DESVALLS MARISTANY	COMMITTEE MEMBER
MIQUEL ROCA JUNYENT	SECRETARY (non-member)

**NOMINATION AND REMUNERATION COMMITTEE**

Name	Office held
HECTOR MARIA COLONQUES MORENO	CHAIRMAN
ISAK ANDIC ERMAY	COMMITTEE MEMBER
JOAQUIN FOLCH-RUSIÑOL CORACHAN	COMMITTEE MEMBER
JOSE MANUEL LARA BOSCH	COMMITTEE MEMBER

**STRATEGY AND INVESTMENTS COMMITTEE**

Name	Office held

**RISK CONTROL COMMITTEE**

Name	Office held
JOSE PERMANYER CUNILLERA	CHAIRMAN
MIGUEL BOSSER ROVIRA	COMMITTEE MEMBER
JUAN MANUEL DESVALLS MARISTANY	COMMITTEE MEMBER
JOAN LLONCH ANDREU	COMMITTEE MEMBER
JUAN MARIA NIN GENOVA	COMMITTEE MEMBER

**B.2.3. Give a description of the rules of organization and procedure and the responsibilities of each Board Committee.**

## EXECUTIVE COMMITTEE:

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 making 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.

## AUDIT AND CONTROL COMMITTEE

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). A resolution of the Audit and Control Committee, passed at its meeting on 20 October 2003, approved the Rules of Procedure containing the basic rules for the organisation, functioning and government of the Audit and Control Committee. These Rules were approved and ratified, where applicable, by the Board of Directors of the Bank at a meeting on 30 October 2003 and were executed in a public deed on 18 November 2003 before the Sabadell notary 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 organization 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 organization that could be inappropriate. The Committee is also responsible for ensuring that all measures, policies and strategies laid down by the Board are properly implemented.

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

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



The Board of Directors also appoints a Secretary to the Committee, who need not be a Director. The Secretary draws 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, 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; reviewing performance of the auditing agreement and ensuring that the Auditors' opinion on the annual accounts and the main contents of the Auditor's report are set out in a clear and precise way.
- 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 function 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 auditors to receive information on any issues that could place the auditors' independence at risk 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.

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.
4. To supervise the corporate governance report to be approved by the Board of Directors for inclusion in the annual report and accounts.

## NOMINATION AND REMUNERATION COMMITTEE

Contemplated in Article 59 ter of the Articles of Association, its regulations are set out in Article 14 of the Board Regulations and it is formed of three Non-executive Directors.

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;
- d) Carrying out regular reviews of the suitability and effectiveness of remuneration programmes;
- e) Ensuring that transparency in respect of remuneration is maintained.

#### RISK CONTROL COMMITTEE

Regulated in Article 15 of the Board Regulations, it will be formed of four Directors, the General Manager(s), the Risk Manager and the Corporate Banking Manager.

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

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

i) Submitting to the Board, for its approval, any variation of more than 10% and 20% in excess of the limits authorized under a) and b) above, respectively.

**B.2.4. State what discretion, if any, Committees have to seek advice, to consult and to delegate responsibility:**

Committee name	Brief description
EXECUTIVE COMMITTEE	SEE POINT B.2.3.
AUDIT AND CONTROL COMMITTEE	SEE POINT B.2.3.
NOMINATION AND REMUNERATION COMMITTEE	SEE POINT B.2.3.
RISK CONTROL COMMITTEE	SEE POINT B.2.3.

**B.2.5. State whether any rules of procedure for Committees are in place, any place(s) where these rules are available for inspection 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:**

Section B.2.3 sets out the articles 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.bancosabadell.com](http://www.bancosabadell.com)) under "Shareholder and Investor Information" > "Corporate governance".

The Audit and Control Committee has drawn up Rules of Procedure which have been filed with the Mercantile Registry and are also available on the website. The Committee prepares an annual report of its activities.

**B.2.6. If there is an Executive Committee, explain what authority is delegated to it and any discretion it is able to exercise in adopting resolutions on Company administration and management:**

Under Article 12.2 of the Regulations of the Board of Directors, the Executive Committee is responsible for coordinating the executive management of the Bank and for taking decisions within the scope of the powers and responsibilities vested in it by the Board of Directors.

The Executive Committee is required to report to the Board all decisions taken at its meetings. Section 7 states that resolutions passed by the Committee shall be 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.2.7. State whether the composition of the Executive Committee reflects the proportional split of executive, non-executive and independent directors on the Board:**

YES  NO

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

The composition of the Executive Committee is established in the Regulations of the Board of Directors: it will have a minimum of 3 and a maximum of 5 members, including its Chairman, who will be the Chairman of the Board. The other members will be freely appointed by the Board from among the Directors. The Board will also appoint its Secretary, who need not be a Director.

The Board of Directors considers that the composition of the Executive Committee is based on criteria of efficiency, although all the decisions it makes are reported to the Board of Directors, as described in section B.2.6.

**B.2.8. If there is a Nomination Committee, state whether all its members are non-executive directors:**

YES  NO

**C TRANSACTIONS WITH RELATED PARTIES**

**C.1. List any significant transactions involving a transfer of funds or obligations between the Company or a group undertaking and a major shareholder of the Company:**

Name of shareholder	Name of the company or group undertaking	Nature of relationship	Type of transaction	Amount (€000)
REALES DEL TURIA, S.L.	BANCO SABADELL, S.A.	Commercial	Others	449,997

**C.2. 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:**

Name of Director or senior executive	Name of the company or group undertaking	Nature of the transaction	Type of transaction	Amount (€000)

**C.3. 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:**

Name of the company in the group	Description of the operation	Amount (€000)

**C.4. Identify any conflicts of interest arising for Directors of the Company within the meaning of Article 127 ter of the SA Companies Act [*Ley de Sociedades Anónimas*]:**

No Director has reported any conflict of interest within the meaning of Article 127 ter of the SA Companies Act.

**C.5. 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 for Directors, senior managers and significant shareholders are as follows:

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

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

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

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

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

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

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

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

At all events the direct or indirect ownership of 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 managers representing a range of functional areas, is responsible for fostering ethical conduct throughout the organization and for making proposals and giving advice to the Board of Directors and the Group's central services and business units on decisions involving issues that could lead to value conflicts. The Committee is also responsible for overseeing the Group's compliance with its self-imposed obligations as set out in the Code of Conduct or in the Internal Rules of Conduct for 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 have access to all documents and information it requires to perform its supervisory function.

## **D RISK CONTROL SYSTEMS**

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

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

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

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

#### **Solvency**

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

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

#### **Responsibility**

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

#### **Risk management and control**

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

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

### Credit risk

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

### Market risk

Market risk includes the following risks:

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

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

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

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

### Operational risk

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

### Insurance risk

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

### Reputational risk

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

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

## **D.2. Describe the control systems in place to assess, mitigate or reduce the main risks faced by the Company and the group:**

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

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

One part of the control system is risk assessment based on the use of advanced measurement techniques. The Basle Committee on Banking Supervision is currently working on a new capital adequacy regulatory framework for financial

institutions known as Basle II, a fundamental principle of which is that a bank's regulatory capital requirements should be more closely related to risks actually incurred, based on previously validated parameters and internal estimates.

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

On the basis of the measures of risk provided by these new methodologies, Banco Sabadell has developed a consolidated risk measurement model with a common unit of measurement, economic capital, the purpose of which is to determine the capital requirement on the basis of internal parameters appropriate to ensure a specified level of solvency. Evaluating risk in terms of an assigned capital requirement means that risk can be related to return, from individual customer up to business unit level. Banco Sabadell has developed an analytical "risk-adjusted return on capital" (RaRoC) system which provides this assessment and incorporates it within the transaction pricing process.

In the management of credit risk, for example, 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, financial institutions and countries), thus allowing transactions to be differentiated on the basis of risk and assessments to be made of the probability of default or the degree of severity in the event of default actually occurring.

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

The control systems in use for each type of risk are described in the following subparagraphs.

#### Credit risk

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

#### Approval, monitoring and recovery

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

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

The Board of Directors delegates powers and discretion to the Risk Control Committee, which is then able to sub-delegate authority at each level. The authority thresholds assigned to each level represent exposure limits for each customer or group of companies, taking account of the overall exposure assumed by the Banco Sabadell Group for that customer or group of companies.



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 rating reviews, the quality of a risk can be constantly monitored in an integrated way.

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

#### Credit rating

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

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

#### Credit scoring

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

- Behavioural scoring, in which the system produces a maximum risk 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.
- Application scoring, which is used to evaluate applications for personal or mortgage loans or for loan accounts and credit cards. When all transaction data has 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 policy is to complete the development of its own credit risk assessment tools in the course of the next few years.

#### Country risk

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

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

## Credit risk due to market operations

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

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

To mitigate exposures to counterparty risk, Banco Sabadell has entered into CSA (Credit Support Annex) contracts with counterparties exposed to greater risk in derivative products. The provision of guarantees significantly reduces the risk incurred with these counterparties.

## Market risk

### Discretionary risk

Discretionary market 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 and reports on current risk levels and on compliance with the limits assigned to each unit are sent to the risk control functions. This makes it possible to observe changes in exposure levels resulting from changes in market product prices and volatilities.

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

## Structural risk

### a) Interest rate risk

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

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

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

provides an estimate of the effect that a change in interest rates will have on net interest income, assuming that all rates change by the same amount and in a sustained way.

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

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

#### b) Liquidity risk

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

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

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

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

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

#### Operational risk

Banco Sabadell has paid particular attention to this type of risk in recent years and has developed a management approach based on a dual methodology:

- An early detection of risk using indicators of those management-related or causal factors which generate potential risk exposures and over which managers have some control.
- A quantitative analysis of actual loss events, the aim of which is to measure operational risk by business line and event type based on combined data of internal and external losses.

This dual approach links measurement with exposure indicators and their associated "action levers", by mapping the operational risks related to key management activities, that is, a mapping of Group processes which encompasses the full range of management functions and forms the basis of the management control system and the Group's organizational structure.

In addition, a detailed analysis of actual loss events resulting from operational risk can enhance the cost/benefit analysis prior to deciding on any investment in improved systems of process management and control; it can also ensure an optimum use of casualty and liability insurance.

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.

The Group has a central unit responsible for managing operational risk. Business units and central support units, and their counterparts in Group financial subsidiaries, have coordinators who take appropriate action in response to risk indicators and actual losses within the administrative and business areas for which they are responsible. One of the coordinator's duties, for example, is to identify and analyse the most serious cases and take appropriate mitigation or contingency action to ensure that they do not reoccur.

#### Insurance risk

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

#### Reputational risk

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

- Measures to prevent our branch network being used for criminal or terrorist-related money laundering activities:

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

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

- The Compliance Department involves itself in all new product development processes with a view to ensuring that from the outset products comply with regulatory requirements, particularly those concerning transparency and customer protection, the markets and personal data.
- The Group has set up a team of Compliance Reporting Officers who are responsible for verifying that operations conform to the regulations that apply to specific areas of business and report to the Compliance Department on a regular basis.

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

**D.3. If any of the risks to which the Company and/or the group are exposed have materialized, state in what circumstances they occurred and whether existing risk control systems were effective:**

As regards credit risk, there have been no circumstances that have had any significant effect. The loan loss ratio, as shown by the figures published by the Group, have remained at very low levels.

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

With respect to credit risk related to market dealing, the in-depth analysis that precedes the setting of exposure limits for different counterparties, and the constant monitoring of these limits, ensures that possible losses of risk quality can be detected in advance and their possible impact on the Group reduced to a minimum. As a result, the Group has not had to face an event of this type in recent years.

Cases attributable to operational risk have been few in number and of minor importance. The main problems in the last five years have related to administrative difficulties with loans or recoveries, for which provisions are made. To a very minor degree, there have been incidents involving fraud or error in transaction handling, albeit with negligible impact, and IT system failures.

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

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

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

**D.4. State whether there is a committee or other authority responsible for setting up and supervising these control systems and, if so, give details of its functions:**

## RESPONSIBILITIES IN RELATION TO RISK MANAGEMENT

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

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

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

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

The Audit and Control Committee, which (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 reviewing performance of the auditing agreement, ensuring 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 on any other financial information required to be disclosed to the supervisory or regulatory authorities or made public, monitors regulatory compliance and ensures that generally accepted accounting principles are properly applied; (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 ensure that it is aware of any matters that could place the Auditor's independence at risk or otherwise have a bearing on the auditing process. To this end, the Committee receives regular reports on the results of work done by the Comptroller General and the Internal Audit and External Audit functions.

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

**Global Risk Committee:** the body that defines the criteria relating to the identification, management and control of risk considered from a global viewpoint, as well as its interaction with business. Certain specific objectives that are specially monitored by this committee are the Master Plan for the Implementation of Basle II and the study and proposal of internal risk models to be approved by the Board of Directors.

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

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

**Asset and Liability Committee:** The Committee draws up standards to ensure effective management of the Group's structural balance sheet risk acquired in the course of business. It oversees interest 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.

**Insurance Risk Committee:** The Committee is responsible for managing risks undertaken by the Group's insurance business, within the limits of its authority. Credit, market and operational risk arising from the insurance business is managed centrally.

**Quality and Compliance Department:** It oversees compliance with the legal requirements, operating procedures and ethical principles that govern the Group's activities, including procedures to prevent money laundering and the financing of terrorist groups by establishing alert procedures. It is also responsible for driving all aspects of quality management by establishing corporate quality models and systems and providing training, motivation, research and technical support.

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

In recent years the Internal Audit function has undergone considerable change. Having previously performed auditing and verification functions, its work is now mainly concerned with risk management.

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 divergences.

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

This new conception of auditing is, in fact, entirely consistent with the Basle II Accord, under which the Committee is responsible for supervising the adequacy and effectiveness of controls set up for different areas of responsibility, and for acting as internal consultants on the systematic identification 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 the drawing up of quality indicators to ensure that indicators are a fair reflection of reality.
- Compliance audits. These ensure that all internal Group activities are in accordance with legal and regulatory requirements and ethical standards that apply at any given moment in time.

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

#### **D.5. Identify and describe the processes in place for ensuring compliance with the regulatory requirements that apply to the Company and/or the group:**

Operational compliance with regulatory requirements is verified through the incorporation of compliance as a key element of reputational risk, as described in Section D.2 above. The reader is referred to that section.

## **E GENERAL MEETING**



**E.1. Enumerate the quorum rules for the General Meeting under the Articles of Association. Describe how these differ from the quorum rules established by the SA Companies Act:**

Under Article 43 of the Articles of Association, for an Ordinary or Extraordinary General Meeting to be validly held once called, it is necessary that at the first summons not less than 25% of the subscribed capital with voting rights be present or represented; at second summons, the General Meeting is validly constituted regardless of the proportion of the subscribed capital present or represented.

For the adoption of certain resolutions, such as a resolution for an issue of bonds, for an increase or reduction in capital, or for a change in the status or a merger or demerger of the Company, Article 44 of the Articles of Association requires a special quorum which, for a General Meeting held at first summons, is that shareholders present in person or by proxy should be the holders of not less than 50 per cent of the subscribed capital with voting rights. Where the meeting is held at second summons, a proportion of 25 per cent of the subscribed capital is sufficient; although in this case, where those present in person or by proxy represent less than half of the capital with voting rights, for any of the aforesaid resolutions to be validly adopted, shareholders representing not less than two-thirds of the share capital must vote in favour.

There are no discrepancies with respect to the quorum rules established by the SA Companies Act.

**E.2. Explain the system for adoption of resolutions by the Company. Describe any discrepancies with the rules established by the SA Companies Act:**

Article 14 of the Regulations for General Meetings provides that resolutions must be adopted by a simple majority of validly cast votes unless a special or qualified majority is required by law or the Articles of Association.

Where the General Meeting is attended by shareholders representing less than 50 per cent of the subscribed capital with voting rights, a resolution for the issue of bonds, or for an increase or reduction in capital, or for a change in status, merger or de-merger of the Company may only be validly adopted by a favourable vote of two-thirds of the validly cast votes. This provision is consistent with the requirements of the SA Companies Act.

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

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

With regard to shareholders' right to receive information, shareholders are able to access the Annual Accounts and other documents required to be submitted to the General Meeting for approval, and the Auditor's report on the accounts, on the Banco Sabadell Group website, [www.grupobancosabadell.com](http://www.grupobancosabadell.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 guarantees in respect of authenticity and legal certainty to enable electronic proxy mechanisms to be

used, and consequently the Board authorized its use for this purpose for General Meetings and this facility was announced in the notices of meetings.

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

Shareholders may, in addition, use the website to have access to 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 and the Internal Rules of Conduct for dealing on the stock market, the Code of Conduct, the Annual Report on Corporate Governance, the Annual Report on Corporate Social Responsibility, and may also consult any of the documents registered in the Mercantile Registry, on such conditions as to access as the Registry may determine.

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

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

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

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

YES  NO

Detail such measures
The General Meeting is chaired by a Director appointed by the Board of Directors, and may or may not be the Chairman of the Board. The normal practice is that the Board of Directors appoints the Chairman of the Board to chair the General Meeting. To ensure the independence and proper conduct of General Meetings, Regulations for General Meetings were adopted in 2003, providing detailed rules for the transparent conduct of proceedings.

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

There has been no change during 2006.

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

## Attendance figures

Date of General Meeting	% present in person	% present by proxy	% votes cast by remote means	Total %
27-04-2006	20.100	53.110	0.000	73.210
05-10-2006	2.670	58.380	0.000	61.050

**E.8. Summarize 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:**

Extraordinary General Meeting held on 27 April 2006

One.

To approve the Annual Accounts (Balance Sheet, Profit and Loss Account and Notes to the Accounts) and Report of the Directors of Banco Sabadell, S.A. and its Consolidated Group for the year ended 31 December 2005, the stewardship exercised by the Directors of the Bank in the year from 1 January to 31 December 2005, and the proposed allocation of profits for the year, with profits being apportioned as follows:

To reserves for investments in the Canary Islands	€1,362,733.21
To voluntary reserves	€133,145,319.19
To distribution of dividends	€205,022,291.40
Interim dividend paid	€0.30 per share
Final dividend to be paid as from 2 May 2005	€0.26 per share

This resolution was passed unanimously with no abstentions or votes against it.

Two.

At the proposal of the Nomination and Remuneration Committee, to ratify the co-opting on to the Board of Directors of Isak Andic Ermay, holder of identity card number 43680074-S, as an Independent Director and, pursuant to Article 51 of the Articles of Association, to confirm his appointment as a member of the Board of Directors for a term of five years.

The Resolution was adopted by a majority of 99.99% of all voting shares represented in person or by proxy, with 1,082,184 votes in favour, no votes against and 65 abstentions.

Three.

A) To authorize the Board of Directors, with such broad powers as may be required in law, and in accordance with the provisions of Article 153.1.b) of the SA Companies Act, to increase the share capital once or more often in such amount, on such dates and terms and in such other circumstances as it may decide, up to the maximum amount and within the time limit laid down in the Act, to fix the type of shares, to offer the shares not subscribed within the deadline for preemptive 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.

The authorization includes fixing any share premium, issuing non-voting redeemable preference shares and financial instruments indexed or otherwise related to the Bank's shares that serve to increase the capital, and applying for the listing and delisting of the shares issued. It also includes authorization to exclude preemptive subscription rights in respect of shares issued under authorization when so required in the interests of the Company in the terms of Article 159.2 of the SA Companies Act.

B) To authorize the Board of Directors 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, in one or more stages for a period of three years from today's date.

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

The Board may freely determine the total amount of each issue or programme and the maturity dates, interest rates and other applicable conditions, but the number of outstanding bonds or promissory notes may at no time exceed the limits laid down by law.

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

The Resolution was adopted by a majority of 99.87% of all voting shares represented in person or by proxy, with 1,080,833 votes in favour, 1,107 votes against and 308 abstentions.

Four.

To annul the resolution adopted by the General Meeting of 21 April 2005, to the extent that it has not been implemented, and to authorize the Company, whether directly or through any of its subsidiary companies, within a period not exceeding eighteen months from the date of this General Meeting, to acquire, at such a time or times as it shall see fit, shares in Banco de Sabadell, S.A. in any manner permitted by law including the charging thereof to profits for the year and/or available reserves, provided that the Company may subsequently sell or redeem the said shares, subject always to Article 75 and related articles of the SA Companies Act.

To approve limits to, or conditions 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 five per cent of the share capital of Banco de Sabadell, S.A., subject always to the restrictions placed on companies' purchases of their own shares by the regulatory authorities responsible for the markets on which the shares of Banco de Sabadell, S.A. are traded.

- Funds equal to the value of the Company's own shares recorded as assets on the balance sheet may be appropriated to an undistributable reserve shown as a liability on the Company's balance sheet. The reserve shall be maintained until such time as the shares have been sold or redeemed.

- All shares so acquired shall be fully paid shares.

- The purchase consideration shall not be less than the nominal value nor more than 20 per cent above the quoted or other price at which the shares are being valued at the date of purchase. All purchases by the Company of its own shares shall be in accordance with stock market law and practice.

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

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

The Resolution was adopted by a majority of 99.99% of all voting shares represented in person or by proxy, with 1,082,144 votes in favour, 65 votes against and 39 abstentions.

Five.

Pursuant to Article 204 of the SA Companies Act and on the recommendation of the Audit and Control Committee to the Board of Directors, to reappoint PricewaterhouseCoopers Auditores, S.L., Tax No. B-79031290, as Auditors of the Company's accounts and the consolidated annual accounts of the Group for a further period of one year.

The Resolution was adopted by a majority of 99.99% of all voting shares represented in person or by proxy, with 1,082,206 votes in favour, 4 votes against and 39 abstentions.

Six.

To grant specific authority to the Chairman of the Board of Directors, José Oliu Creus, and to the Secretary to the Board, Miquel Roca Junyent, or to any person replacing them in the offices of Chairman and Secretary respectively, so that any of them may do the following on behalf of the Bank:

To appear before a Notary with the purpose of making the Resolutions adopted by the Meeting into a public instrument and to do such acts and make such arrangements as may be expedient for the Resolutions to be fully implemented and entered in the appropriate public registers, in particular, the Mercantile Registry of the Province; together with any correction, clarification or interpretation of the Deed or drafting of annexes thereto relating to assets and liabilities of the Company, and in implementing the said Resolutions to supplement them, as and where required, by the execution of any deeds and documents and to remedy such defects as to form or substance as may prevent the said Resolutions or any consequences

thereof from being accepted by the Mercantile Registry for the Province, including on their own authority any changes felt to be necessary or pointed out in the oral or written opinion of the Registrar or as required by the appropriate authorities, and to do any of the above without further reference to the General Meeting.

To carry out on behalf of the Company any legal acts required to execute and fully implement the above resolutions.

The Resolution was adopted by a majority of 99.99% of all voting shares represented in person or by proxy, with 1,082,209 votes in favour, no votes against and 40 abstentions.

Extraordinary General Meeting held on 5 October 2006

One.

To approve the Merger Proposal approved by the Directors of BANCO DE SABADELL, S.A. and BANCO URQUIJO, S.A. on 20 July 2006, and accordingly the merger by absorption of BANCO URQUIJO, S.A. by BANCO DE SABADELL, S.A., and also to approve as the Merger Balance Sheet of BANCO URQUIJO, S.A. the balance sheet as at 30 June 2006, and consequent resolutions.

To approve the Merger Proposal signed by the Directors of BANCO DE SABADELL, S.A. (hereinafter "BANCO SABADELL") and BANCO URQUIJO, S.A. (hereinafter "BANCO URQUIJO") on 20 July 2006, deposited in the Barcelona and Madrid Mercantile Registries, as being the Registries corresponding to the registered offices of the companies involved in the Merger, on 25 and 28 July 2006 respectively, in respect of which HORWATH PLM AUDITORES, S.L., as the independent expert appointed by the Barcelona Mercantile Registry, issued on 22 August the report on the Merger Proposal hereby approved. The text of the Merger Proposal hereby approved is attached as Annex I to the minutes of the Meeting.

To approve the merger by absorption of BANCO URQUIJO by BANCO SABADELL, involving the dissolution without liquidation of the former and the transfer of its assets and liabilities *en bloc* to the latter by universal succession, and the substitution of BANCO SABADELL in all the rights and obligations of the absorbed company without any reservation or limitation whatsoever, all in accordance with the terms of Merger Proposal.

In compliance with the provisions of Article 228 of the Mercantile Registry Regulations, and as an integral part of this merger resolution, the following circumstances are recorded:

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

a.1. Absorbing company

BANCO DE SABADELL, S.A. was incorporated for an unlimited duration by public deed number 620 attested by the Sabadell notary Mr. Antonio Capdevila Gomà on 31 December 1881, and its Articles of Association were adapted to the current SA Companies Act (hereinafter the LSA) by deed number 903 attested by the Sabadell notary Mr. Máximo Catalán Pardo on 26 April 1990.

The company is registered in the Barcelona Mercantile Register in volume 20092, folio 1, section 2, page B-1561.

According to its Articles of Association, its registered offices are currently at Plaça Catalunya 1, Sabadell (Barcelona).

Its tax number is A-08000143.

#### a.2. Absorbed company

BANCO URQUIJO, S.A. was incorporated for an unlimited duration in 1870 and its Articles of Association were adapted to the LSA by deed number 2416 attested by the Madrid notary Mr. Rafael Ruiz Gallardón on 24 July 1990.

It is registered in the Madrid Mercantile Register in volume 310, section 8, folio 84, page M-6189.

According to its Articles of Association, its registered offices are currently at Príncipe de Vergara 131, Madrid.

Its tax number is A-07000466.

#### b. Amendments to the Articles of Association

No amendments shall be made to the Articles of Association of BANCO SABADELL as a consequence of the Merger.

#### c. Share exchange ratio

The exchange ratio, determined on the basis of the net worth of the companies involved in the Merger, shall be 9 shares in BANCO SABADELL, with a nominal value of €0.50 each, for every 10 shares in BANCO URQUIJO, with a nominal value of €3.01 each.

The 30,795,264 shares in BANCO URQUIJO, representing 100% of its capital, have a nominal value of €3.01 each, are fully subscribed and paid up and are represented by book entries.

The shares in BANCO SABADELL to be allotted in exchange are treasury shares with a nominal value of €0.50 each and are represented by book entries.

Since BANCO SABADELL is the direct owner of 30,714,734 shares in BANCO URQUIJO, representing approximately 99.74% of its capital, under the provisions of Article 249 of the LSA these shares may not be exchanged for shares in BANCO SABADELL, and shall be redeemed in due course.

#### d. Share exchange procedure

The shareholders in BANCO URQUIJO owning shares in this company shall be entitled to exchange their shares for shares in BANCO SABADELL as a result of the Merger.

The exchange of shares shall be effective as from the date of registration of the Merger in the relevant Mercantile Registries and upon expiry of the time limit for opposing the Merger pursuant to Article 243 of the LSA.

The shares in BANCO URQUIJO shall be exchanged for shares in BANCO SABADELL within one (1) month after publication of the announcement of the Merger in the *Boletín Oficial del Registro Mercantil* and in one of the newspapers with the highest circulation in the provinces in which the companies involved in the Merger have their registered offices, which shall take place upon conclusion of the Merger process.

The exchange of shares in BANCO URQUIJO for shares in BANCO SABADELL shall be carried out in accordance with the procedures laid down for the system of book entries through the depositaries, who shall follow the instructions received from the company responsible for keeping the register of book entries.

The shareholders of BANCO URQUIJO owning an insufficient number of shares in the company to obtain 9 shares in BANCO SABADELL may form a group with other shareholders in the company.

Otherwise, in order to settle any fractions resulting from the share exchange procedure at the ratio established, BANCO SABADELL shall acquire any surplus shares in BANCO URQUIJO from their owners at €24.74 per share.

As a consequence of the Merger, the shares in BANCO URQUIJO shall be cancelled.

e. Rights attaching to the shares

The shares allotted by BANCO SABADELL in exchange shall carry the full rights attaching to them and shall entitle the owner to participate in the corporate profits, without any time restrictions and on the same terms as the other outstanding shares.

The existing shares in BANCO SABADELL and those allotted in exchange shall participate in the profits distributed after the date of registration of the Merger in the Mercantile Register on the same terms, in proportion to the nominal value of each share.

f. Date of operations for accounting purposes

The date as from which operations by BANCO URQUIJO shall be considered for accounting purposes as having been carried out by BANCO SABADELL shall be 1 August 2006.

g. Special shares and rights

In accordance with the provisions of Article 235 of the LSA, it is expressly stated that there are no holders of special classes of shares or other special rights in the shares in BANCO URQUIJO, and therefore this question need not be considered in the Merger.

h. Advantages

No special advantages shall be granted as a consequence of the Merger to independent experts or to Directors of the companies involved in the Merger, or to any Directors of the absorbing company, BANCO SABADELL, who are appointed as such after the completion of the Merger of the two companies.

To approve as the Merger Balance Sheet, pursuant to the provisions of Article 239 of the LSA, the Balance Sheet of BANCO SABADELL as at 30 June 2006 drawn up and approved by the Directors of BANCO SABADELL and audited by the Auditors of BANCO SABADELL. The Merger Balance Sheet and the Auditor's report are attached as Annex 2 to the minutes of the General Meeting.

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



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

The merger is subject to the condition precedent that all necessary authorizations and consents for executing the merger are obtained from the competent authorities.

This resolution was passed unanimously with no abstentions or votes against it.

Two.

To authorize the Chairman and the Secretary of the Board of Directors of Banco de Sabadell to formally implement the preceding resolution.

To grant the Chairman and the Secretary of the Board of Directors all powers required to formally implement and execute the resolutions passed by the General Meeting, and consequently to perform all such acts as may be necessary or practical for the formal implementation, execution and completion of the merger, in particular the publication of the necessary announcements; to guarantee the credit rights of any creditors who may in due time and form oppose the merger, to execute the relevant public deeds, to determine the terms and conditions not hereby fixed for the exchange procedure, and in general to execute all such public or private documents as may be appropriate. In particular they are granted all necessary powers for the full and formal implementation and execution of the resolutions passed by the General Meeting, for the correction or any errors or omissions, and for performing all acts required for the resolutions to be registered in the Mercantile Register if so required.

This resolution was passed unanimously with no abstentions or votes against it.

**E.9. State, if applicable, the number of shares required to attend the General Meeting and whether there is any limit laid down in the Articles of Association:**

Any shareholder wishing to attend a General Meeting and to speak and vote thereat must have his shares entered on the Register of Shareholders not less than five days before the day set for the holding of the Meeting and have obtained an admission card. Admission cards are issued by the Company Secretary up to 5 days before the day set for holding the Meeting and will show the number of votes to which the shareholder is entitled in a proportion of one vote for every 100 euros of fully paid shares of any class or series held by the shareholder or for which he is acting as proxy.

Senior managers and advisors to the Company may attend General Meetings and shall have the right to speak but not to vote.

The right to attend General Meetings may be exercised by a shareholder either in person or by proxy through his or her spouse, or a relative within the first degree of kinship or any other shareholder with speaking and voting rights, but may not be exercised through a corporate entity or any individual expressly appointed by a corporate entity to act for it at the Meeting.

To attend a General Meeting and to exercise speaking and voting rights, shareholders must show proof of holding, or acting as proxies for the holders of, fully paid shares with a value of not less than 100 euros. Holders of shares below this amount may form groups in order to attain the said minimum value and may appoint as their proxy any shareholder in the group or any other shareholder who is entitled to attend the meeting under the terms of this Article.

**E.10. Describe and explain Company policy on delegation of voting rights for General Meetings:**

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

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

YES  NO

**Describe the policy**

The Caja de Ahorros y Pensiones de Barcelona considers the investment it has held up to 28/12/2006 to be of a purely financial nature and does not have a seat on the Board of Directors. Banco Comercial Português considers its holding as strategic, and is represented on the Board of Directors by its Chairman, Jorge Manuel Jardim Gonçalves.

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

The content required to be published pursuant to Act 26/2003 of 17 July 2003 on transparency of listed public limited companies, as developed by Order ECO/3722/2003 of 26 December 2003, and as required by CNMV Circular 1/2004 of 17 March 2004 on the Annual Report on Corporate Governance of listed public limited companies, is directly accessible on the corporate website: [www.grupobancosabadell.com](http://www.grupobancosabadell.com) > "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 or, if applicable, any failure to comply with the recommendations.

If none of the recommendations have been complied with, specify the recommendations, guidelines, practices or criteria that are applied by the Company.

Until such time as the single document referred to in the Order ECO/3722/2003 of 26 December is drafted, the recommendations of the Olivencia Code and the Aldama Report must be taken as sole reference in completing this section.

Although the single document to which Order ECO/3722/2003 refers – the Unified Good Governance Code – has been drawn up and approved, it has not been taken into account in the reply to this section, since it is not applicable until 2007.

The Bank follows all the recommendations set out in the Report of the Special Commission to Foster Transparency and Security in the Financial Markets and in Quoted Companies (The “Aldama Report”) and also, except as modified by Aldama, the recommendations of the earlier Code of Good Governance (the “Olivencia Code”), but with two qualifications: firstly, the Executive Committee, owing to its special functions, does not replicate the executive/non-executive split of Board members, as this would be unnecessary and even inappropriate; and secondly, the Board of Directors does not share the view expressed in the Aldama Report on removing all restrictions on voting rights, given the Bank’s share ownership structure. In today’s world, the 10% limitation on shareholders’ voting rights offers a safeguard for minority shareholders, who would otherwise be unduly limited in their ability to have a say in the Bank’s decisions. The limitation contained in Article 40 of the Articles of Association is not a blocking measure; it is a limitation on the right of major shareholders which benefits a very large number of minority shareholders.

## **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.**

**In this section you may include any other relevant information, explanations, or qualifications related 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.**

Some explanatory notes have been included in certain sections where this has been deemed necessary.

A.2: On 28 December 2006, the Caja de Ahorros y Pensiones de Barcelona disposed of its remaining shareholding.

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

B.1.3: Mr. Jardim has declared himself to be a Non-Independent Director, having been nominated by a major shareholder, Banco Comercial Português, S.A. However, BCP does not at present have a large enough holding to have a representative on the Board.

None of the non-executive Directors described above can be said to represent shareholders, as they do not represent any interest in the Company that would entitle them to act in that capacity. Although they have not been described as “independent” they could be so considered, as their status is similar to that of independent Non-executive Directors; however, they were not independent Directors at the time they were appointed.

There have been no changes in the status of any Director of the Bank during the period for which he or she was appointed.

B.1.5: Juan María Nin Genova, Managing Director, has been granted the following powers:

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

2. To draw, accept, take or acquire, negotiate, discount, endorse, collect and guarantee bills of exchange, promissory notes, receipts, invoices, cheques and commercial documents of all kinds, whether endorsable or not and whether made out to a named person or to bearer; enter protests on non-acceptance or non-payment and sign any documents required for any of the aforesaid purposes.

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

4. To open ordinary cash or securities current accounts and current accounts guaranteed by securities or 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 to make drafts on any or all the aforesaid accounts and confirm acceptance of any balance thereof.

To make contracts assigning limits for future loans secured by personal guarantee and conclude rediscounting agreements with the Bank of Spain.

5. To give and receive money on loan and credit facilities of any description with or without collateral or other security.

To accept, vary, postpone and extinguish any mortgage, lien, pledge with transfer of possession or otherwise, antichresis, aval, bond or any other personal third party guarantee as security for loans, credit and any other transactions with or by the Bank, and for this purpose to sign certificates of delivery or other public or private documents as necessary.

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

7. To buy, sell or transfer any personal property including shares of the Bank of Spain or any other bank.
8. To receive, open and respond to postal, telegraphic or telephonic communications addressed to the Bank, including registered letters, and take possession of and give receipts for any assets declared to be for the Bank.
9. To receive interest or dividends on securities deposited with any banks as aforesaid and the value of any securities that are redeemed, and sign payment orders or drafts as necessary; to charge any amounts to be paid into current accounts demanded by the Grantor for the benefit of any other person, when such payments are cancelled.
10. To apply to the Bank of Spain and other banks for the hire of safe deposit boxes with the same authority as the Grantor to open the same as and when he sees fit, and for this purpose to sign such documents as the Bank of Spain or other bank may require.
11. To approve the opening of current accounts, savings accounts, deposit and term accounts, certificates of deposit and deposits of securities and accounts of any other nature; and to hire and open safe deposit boxes and sign any documents necessary for the same to be fully operational.
12. To act on behalf of the Bank when any debtor of the Bank is compounded with creditors or subject to a temporary suspension of payments or engaged in insolvency or bankruptcy proceedings and to attend meetings and appoint trustees and administrators, accept or reject proposals by the debtor and continue until the conclusion of proceedings, accept mortgages, pledges, antichresis or any other security, reach settlements on the exercise of claims and remedies, accept the decisions of arbitrators in legal or equitable arbitration; appear or make representations, whether in person or through counsel or such other authorized representatives as he shall appoint by Power of Attorney or otherwise, in or to any authority, court, hearing, jury, tribunal, office, commission, committee, union, ministry, employment tribunal, national fund or institution, department or authority of central, provincial or municipal government in any Autonomous Community and any other official body, and to institute, commence, pursue, abandon or reach settlements in any proceedings, litigation, suit, judicial process, application or appeal and approve pleadings drafted on behalf of Banco de Sabadell, S.A. when required and reply to interrogatories on the Bank's behalf, represent the Bank in all matters and generally carry out all acts of administration, management and commerce.
13. 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 Banco Hipotecario de España, the Banco de Crédito Industrial, the Banco de Crédito Local, the Bank of Spain and any other official credit institution or any company, firm, organization, office, entity or official body whether of central, institutional, regional, provincial or local government, and in particular the aforementioned public bodies and authorities and local tax offices so as to be answerable to the Treasury for the monies in respect of which the guarantee was given and to issue avals, including avals by pledge without the deposit of any security, to the General Deposit Fund of the Ministry of Finance, and revoke any such bonds or guarantees and discharge the same in any manner deemed expedient.
14. 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.
15. To take on and dismiss employees and make any determinations as to promotion, responsibilities, emoluments, bonuses and compensation; to initiate, pursue and conduct employment-related proceedings until decided and brought to a conclusion.

16. 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.1.8: The contributions to pension plans in the amount of €3,974,000 were made through insurance policies.

B.1.9: In addition to the senior management remuneration indicated, payments into pension plans of €2,683,000 were made through insurance policies.

No remuneration is paid to Directors or senior executives for serving on the Boards of Directors or in senior executive posts of other companies of the Banco Sabadell Group.

B.1.20: 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); in no circumstances may a Director be over 75 during a term of office. Terms of office are limited to 5 years and are renewable.

B.1.31: The Director Juan Manuel Desvalls Maristany holds 1,845 shares in B.B.V.A., 344 shares in the Banco Popular and 2,788 shares in B.S.C.H. This is below the minimum required to be disclosed in the table, so the interest indicated is 0,000%.

B.2.2: The Board of Directors at its meeting on 21 November 2006 appointed the Comptroller General, José Luis Negro Rodriguez, as Deputy Secretary to the Board.

B.2.4: Under Article 21 of the Regulations of the Board of Directors, all 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.

In addition, Article 21 of the Rules of the Audit and Control Committee entitles its members to seek independent professional advice in carrying out their duties.

C.1: Operation described in section C.1: On 28 December 2006, Banco de Sabadell, S.A. sold its wholly-owned subsidiary Landscape Promocions Immobiliàries, S.L.U., with 49.99% being purchased by Astroc Mediterraneo, S.A. (chaired by Enrique Bañuelos de Castro, who owns 51.58% of the capital), 45.01% by Alramaev, S.L. and 5% by Courrent Assets, S.L. (for further details see relevant fact number 74717 published by the CNMV on 29 December 2006 and section A.5 of this report). The total price of the operation was €900,000,000, of which €449,997,000 was paid by Astroc Mediterraneo, S.A.

Apart from this, there were no other significant transactions with major shareholders, and any transactions effected were in the normal course of business and were carried out on an arm's length basis.

C.2: No transactions that could be considered significant were conducted with Directors or senior managers. Those transactions that were carried out were in the normal course of company business, either at arm's length or on the same terms as apply to employees.

E.7: In 2005, Banco de Sabadell, S.A. instigated the electronic proxy voting system provided for in the Regulations for General Meetings. The response rate was high – 810 shareholders used electronic proxy voting in 2006 – particularly considering that these systems are not yet widely established and that this was the first year of its implementation.

This annual report on corporate governance has been produced using the computer program provided by the CNMV, and consequently the information, data (including the order in which they are given) and format follow the structure of the program.

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**This Annual Report on Corporate Governance was approved by the Company's Board of Directors at its meeting on 22 February 2007.**