

Ordinary General Meeting of Shareholders
Sabadell, 27 April 2006
Speech of the Managing Director, Mr. Joan M. Nin i Genova

Good afternoon, ladies and gentlemen,

I should like to start the management report by underlining the most significant events which have marked the last financial year of Banco Sabadell.

1. 2005 was the first year of the three-year master plan **Value and Growth 2007** (ViC 07).

Thus, ViC 07 signifies value, given that it is a plan which positions Banco Sabadell at the appropriate efficiency and profitability levels, after consolidating its new dimension in the Spanish market. In addition, we are also talking about growth, as there is still a long road to cover in the domestic market which we wish to take advantage of.

In terms of return, a ROE of 16.5% was established for the horizon 2007 and at the end of 2005 it already stood at 15.2%, a notable improvement of 180 basic points over the close of 2004.

In terms of cost to income, we set a ratio of 45.0% for the horizon 2007 and at the close of 2005 this ratio stood at 50.5%, which shows a major improvement of 500 basic points compared to the end of 2004.

2. 2005 was the first year of the **full business integration of Banco Atlántico** in Banco Sabadell. This integration, as you are aware, started on 6 December 2004 with the full technological and operational integration.

Here we should stress the two main courses of action which characterized last year.

On the one hand, during the first half of the year, strict management to achieve synergies and full adaptation to the functioning of the integrated business group.

On the other, the intensity in converging the sales speeds of the businesses, which was progressively achieved during 2005 and has been more readily apparent during the past quarter.

These facts enable us to forecast a close for 2006 in which we will have fully achieved the 124 million synergies budgeted in the operation, so as to consider closed this major stage of growth and consolidation.

3. In addition, 2005 was not only a year of cost management and progressive acceleration of the business, but we also moved forward in **focusing on management excellence**.

Thus, Banco Sabadell, according to various external studies, now leads the objective quality ranking of banking sales networks and we can boast the lowest ratio of claims per turnover in Spanish banking, in accordance with the information published by the Bank of Spain.

We should also highlight any of the milestones achieved in 2005: the Global ISO 9001 Certification for the financial group as a whole, making the Bank the only one in Spain to have this quality certificate.

4. Lastly, 2005 was also a year in which a great effort was made to **adapt to the new regulatory environment**, because it was the first in which we submitted the profit and loss account and balance sheet in accordance with the criteria of the new Bank of Spain Circular 4/2004 on the adaptation to the

new International Accounting Standards, of aim of which is to improve the standardization and comparability of information at an international level.

Having underlined the most important defining features of the past year, I shall now set out in detail the most significant aspects of the balance sheet and profit and loss account.

BALANCE SHEET

Banco Sabadell closed the year with **total assets** of 52,320.4 million euros, 14.5% up over the previous year.

The total **equity** of the Bank at the end of 2005 stood at 3,506.7 million euros, an increase of 10.4% compared to 2004.

As regards the **solvency ratios**, rigorous capital management placed the Core Capital ratio at the end of 2005 at 7.4%, which constitutes a full guarantee of the capacity for future growth.

As regards the assets, **gross loans and advances to customer** totaled 41,642.7 million euros, which represents a growth of 21.3%.

These figures were made possible by the extraordinary activity of Banco Sabadell branches throughout 2005.

This activity was supplemented by the progressive consolidation of branches from Banco Atlántico in the business culture of Banco Sabadell. All this has translated into a progressive acceleration of the pace of the Bank's business growth as a whole.

As regards **funds under management**, these reached 52,777.7 million euros, a 15.6% increase over the previous year.

On balance sheet customer funds totaled 41,717.2 million euros, 14.1% more than in 2004.

In this respect, we should underline the intense activity carried out in issues in the institutional markets with the aim of taking advantage of extraordinary conditions of liquidity and price internationally. This has made it possible to finance the strong loan activity on highly favorable terms and prices.

As regards **off-balance sheet customer funds**, the major effort made by the branch network has led to an increase of 17.6% in investment funds, which have reached a total of 9,147.2 million euros and 18.7% in pension funds, closing the year with 2,655.9 million euros.

PROFIT AND LOSS ACCOUNT

Having explained the most important items on and off the balance sheet, I shall comment on the most significant aspects of the profit and loss account.

The **net interest income** was 975.8 million euros, a year-on-year increase of 5.8%, thanks to the careful management in defending margins by the bank in a highly competitive environment to capture volumes.

Profits from fees and commissions totaled 451.6 million, which represents an increase of 7.3%. A notable feature in this area are the commissions from mutual and pension funds and insurances, with a growth of 11.9%, 30.6% and 21.6% respectively. In the case of service fees, these show an increase of 3.7% compared to 2004.

The insurance activity also made a positive contribution to group profits with 43.7 million euros, 6.4% more than the previous year.

As regards **results from financial transactions**, these totaled 65.6 million, with an increase of 133.6%. This includes, in addition to the disinvestment in

Panrico, a highly intense derivatives activity, as a result of strengthening customer treasury.

Income from exchange rate differences stood at 42.1 million, an increase of 18.8% as a result of the Bank's specialization in international business.

Bearing in mind the above, the income from typical banking activity, i.e. the **gross operating income**, totaled 1,591.4 million at the end of 2005, a 9.5% increase compared to 2004.

These results were achieved in a scenario in which interest rates have maintained historically lower levels.

As you will remember, it was not until the past 1 December that the European Central Bank commenced the process to standardize monetary policy by increasing the reference interest rate by 0.25%, which ended 2005 at 2.25%.

It has not only been the official rates which have stayed at these low levels, but also those of the money market, public debt and credit margins. This has, from the viewpoint of the banking business, led to a positive environment with high liquidity and strong demand for credit and complex margin management.

As 2006 progresses, this strong credit growth could undergo a turning point. The restriction on monetary policy may continue in the Eurozone, which would lead to an increase in the financial burden on families and more difficult access to credit by the various economic agents.

In such a scenario, the rigorous criteria for arranging risk applied by Banco Sabadell will involve a major competitive advantage in terms of our bank's solvency in the future.

Having commented on the management of traditional sources of income, I shall now detail the **contribution to gross operating income from service**

provision by non-financial subsidiaries, which totaled 113.34 million euros. Of these companies we should mention, given their leading role, Landscape – the group’s real estate company – and BanSabadell Renting.

Having commented on the growth in volume and income, it is time to inform you about the **cost management**.

Here we need to refer once again to the ViC 07. When defining the plan we set ourselves the doubly ambitious challenge of achieving strong growth in volumes combined with strong cost control. This is the combination which has enabled us to achieve the profitability and efficiency horizon which I mentioned at the beginning of my speech.

This challenge requires the Bank make a major effort to transform its structure, prioritizing the business side and Central Administration. This will be possible via more effective and efficient bank management, seeking out the streamlining and outsourcing of activities, redesigning processes and centralized purchasing management, which are all activities which are in line with the essentially austere nature of the Bank.

These activities, which commenced in 2005, have started to produce results during the same year.

Operating expenses totaled 804.1 million euros at the end of 2005, a drop of 0.2%. This has contributed to the notable improvement of 500 basic points of the efficiency ratio, which stood at 50.5% at year end.

The **net operating income** was therefore 793.5 million euros, 23.7% higher than in 2004, a figure which constitutes the largest increase among countrywide Spanish banks.

Of this figure, 169.1 million euros were allocated to **impairment losses and provisions** – previously termed provisions for insolvencies–, 7.8% higher than the previous year, as a result in the growth in loans.

In addition to the increase in business and cost control, another key management aspect in 2005 was strict risk management, enabling us to improve asset quality in a context of major loan increases and has brought the non-performing loans ratio to 0.49%. This is a reduction of 12 basic points compared to 2004 and places us as market leaders in terms of risk quality ratio.

As is the case each year, under **other income** we find 38.3 million euros, fundamentally the result of the capital gains from the sale of real estate during 2005, due to the streamlining of redundant branches.

After recording the financial profit from non-financial activities, the **profit before tax** totaled 644.3 million euros, an increase of 17.8% over 2004.

Tax on profit totaled 189.8 million euros, 9.7% higher than the previous year. This, taken to the accounts together with the profits from interrupted operations and minority interests, results in **attributable net profit** amounting to 453.1 million euros, i.e. an increase of 21.4% compared to the previous year.

BUSINESSES

Having commented on the evolution of the most significant items on the balance sheet and profit and loss account, I shall briefly set out the most important developments relating to the evolution of the chief businesses.

Let me just remind you that in the Annual Report you will find, as always, a complete, thorough explanation of the evolution of all the group businesses during the year 2005.

Banco Sabadell's aspiration to offering customers a full range of financial services materialized in the form of an organization by businesses which, in addition to ensuring we satisfactorily meet all types of financial needs, we also benefit from a diversification in our sources of income.

Thus, **Commercial Banking** has accounted for 294.9 million euros pre-tax profit in 2005, up 44.1% over the previous years, a percentage of the total pre-tax profit for the group of 45.8%.

This is the result of the intense sales effort to capture customers and cross selling, and also of the effort in innovation and creation of products in a context of new needs, such as BS Cuenta MÁS –a flat-rate current account with a complete set of non-financial advantages – or BS Móvil.

The opening of branches in new markets also played a special role last year, as it guarantees us the future growth of the bank and the necessary risk diversification for sustainable growth of the bank.

In short, 2005 has been a year of sustained growth for Commercial Banking thanks to the positive evolution of all the intervening segments.

As regards **Corporate Banking**, 2005 totaled 208.8 million euros in profits before tax, 21.9% more than the previous year and which accounts for 32.4% of the group's pre-tax profits.

Thus, 2005 was a year of consolidation of the business model and strong expansion: 25 branches opened which are specialized in companies, bringing the branch network to double that of 2004. This enables us to progressively bring our network to the level of the main competitors in Spain.

It was also a year which saw the creation of new specialized units, such as Corporate Treasury or Corporate Benefits and Corporate Insurance.

We have once again been particularly active in foreign trade, in which we achieved a share of 10.2% in exports and 8.3% in imports to Spain, figures which are well above those which correspond to us given our size and are the result of the specialization of Banco Sabadell in this field.

Bancassurance, the first of all the supplementary business in typical banking distribution by contribution to the group profits, achieved 44.8 million euros profit before tax, an increase of 13.9% compared to 2004 which represents 6.9% of the group's total pre-tax profit.

2005 was a year of strong growth in this business: 19% in pension plans, 10% in saving insurance and 32% in life protection premiums, together with the improvement in their profitability and operating efficiency.

Asset management at the end of 2005 achieved a pre-tax profit of 17.7 million euros, 27.1% more than the previous year, which signifies a contribution of 2.8% to the group's total pre-tax profit.

The efforts in profitability and the creation of new products was a key factor in this success in the face of a future of major fiscal changes. This situation, in a context of low interest rates, will force investment funds to compete with the traditional savings products in terms of management effectiveness and also in terms of tax treatment, as has been the case to date.

Landscape – the group's real estate company – totaled 42.1 million euros in the group's pre-tax profit in 2005, a growth of 7.7% compared to the previous year.

2005 was, for this business, a year of consolidation of the investment. At the end of the year the book value of the property assets stood at 1.416 million, 21% more than the previous year.

These assets are distributed among three lines of business: 43% in land management; 30% in property and 27% in promotion, with latent gains of 513 million euros at the end of 2005.

2005 was also an excellent year in the development and maturing of **other Bank business**, such as Sabadell Banca Privada or Ibersecurities – in this case, the Group's securities company – and businesses part-owned with Dexia and General Electric, such as Dexia Sabadell Banco Local and BanSabadell Fincom respectively.

Lastly, 2005 was a year of great activity in **international business**. The Bank's aim in this field is to accompany firms in their foreign activity, especially in those countries in which the need for guidance and advice is greater due to their inherent difficulties, such as China, India, Turkey or the Arab countries.

The evolution of the branches in London, Paris and Miami was highly positive, especially in the case of Miami, as the ordinary business continued during the merger with the Banco Atlántico branch and the migration to a new technological platform.

The evolution of the seventeen representative offices, which includes the opening of new offices in Shanghai and India, as well as the new company Sabadell Asia Trade Services Ltd. in Hong Kong, was equally positive. I should also like to comment on the sale of the Bahamas business of Banco Atlántico for strategic reasons, as it did not adapt to the priorities of Banc Sabadell.

OTHER MATTERS OF INTEREST

Having commented on the evolution of the main businesses, we must also refer to two matters which are particularly important, such as the management of the branch network and the first year's development of the business plan ViC 07 (Value and Growth 2007).

Active branch management has helped to improve efficiency, thanks to the opening of branches in new markets and the closure of those which were unnecessary due to redundancy or sales strategy.

In this respect, in 2005 61 new branches opened: 55 under the trademark SabadellAtlántico – 25 of which belonged to Corporate Banking –, 5 under the trademark Solbank and 1 Sabadell BancaPrivada.

The re-organization of the network was also completed in 2005 as a result of the integration of Banc Sabadell with the 277 branches of Banco Atlántico in Spain, which signified the merger of 43 branches, but which in no case has meant abandoning any market. In addition, the final adjustments were made to Banco Herrero with the closure of 5 redundant branches.

This gives a total number of branches in Spain of 1,104, 1,048 of which belong to Commercial Banking, 49 to Corporate Banking and 7 to Private Banking.

And lastly, I should like to inform you regarding the evolution of the bank during the first year in which the three-year plan ViC **07** has been applied.

This has entailed the implementation of 12 priority programmes together with 78 operating plans and 289 work modules, all of which are under budgeted development. The first year of the plan has therefore concluded with the performance of 43% of the total tasks planned for three years.

In figures, this signifies that in 2005 there was a growth of the ordinary margin of 139 million of the 400 planned over three years.

In the case of recurring costs, this first year ended with a reduction of 19 million compared to the increase of 25 forecasted for the horizon 2007. We

have therefore fulfilled the corresponding part of the objectives we set ourselves for the period 2005-2007.

CONCLUSION

And at the end of my speech, I should like to thank all of you, ladies and gentlemen, for your attendance and support.

I should also like to express my thanks for the important effort and professionalism which the Bank's staff has shown, as they are the basis on which rest the results we have presented today.

And I should also like to thank the members of the Board of Directors for their support in achieving the milestones described.

Many thanks.