BancoSabadell

Annual Report 2007

126th year

Contents

Annual
Report 2007


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The Banco Sabadell group in 2007

€'000

Financial highlights	2007	2006	% 07/06
Group shareholders' equity	4,501,383	4,041,205	11.4
Total assets	76,776,002	72,779,833	5.5
Loans and advances to customers - gross	63,219,330	55,632,966	13.6
On-balance sheet deposits and issued securities	65,620,880	59,304,579	10.7
of which: Customer deposits	33,350,687	30,090,641	10.8
Customer deposits ex repos	29,929,049	25,572,584	17.0
Assets held in investment funds	15,548,492	16,482,067	(5.7)
Assets held in pension funds	3,502,159	3,317,514	5.6
Deposits and assets under management	86,578,086	80,247,702	7.9

€'000

Income and earnings performance			
Net interest income	1,317,237	1,097,871	20.0
Net income from basic operations	2,046,696	1,726,434	18.6
Gross operating income	2,196,395	1,811,476	21.2
Net operating income	1,059,029	813,718	30.1
Profit before tax	989,840	629,781	57.2
Net attributable profit	782,335	908,398	(13.9)
Net attributable profit - comparable basis (1)	782,335	569,308	37.4

Resources			
Number of branches	1,249	1,204	
Number of employees	10,234	10,066	

Share data (2)			
Number of shares	1,224,013,680	1,224,013,680	
Number of shareholders	80,669	67,633	
Quoted share price (€)	7.41	8.48	
Attributable earnings per share (€)	0.64	0.74	
Dividend per share (€)	0.28	0.21	
Total dividend paid (€'000)	342,724	253,983	

%

Ratios	2007	2006
Balance sheet and cost/income ratios:		
ROA (net profit/average total assets)	1.08	1.48
ROA - comparable basis (net profit/average total assets) (1)	1.08	0.93
ROE (net attributable profit/average shareholders' equity)	20.37	28.09
ROE - comparable basis (net attributable profit/average shareholders' equity) (1)	20.37	17.61
Cost/income (general administrative expenses/gross operating income)	46.67	50.47
Cost/basic income (general administrative expenses/income from basic operations)	50.08	52.96
BIS capital ratios:		
Total	10.87	11.42
Tier I	7.22	7.33
Risk management:		
Loan loss ratio	0.47	0.39
Provisions/bad and doubtful debts	394.29	466.56

(1) Previous year comparisons are distorted by the extraordinary gain on the sale of Landscape group in December.
(2) Adjusted to eliminate the effect of the 4-to-1 share split in May 2007.

Chairman's letter

Dear Shareholder,

I am happy to say that 2007 has been another excellent year for Banco Sabadell. The end-of-year results show that we are reaping the benefits of our efforts over the last three years to grow and create value. Growth and value creation were, of course, the principal aims of the 2005-2007 master plan which came to an end on 31 December. It is clear from the final result that these aims were more than achieved and that the actions we took to bring this about were the right ones.

Our consolidated balance sheet is now 68% above what it was when we launched the plan, and during this time lending has increased by 84% and customer funds under management by 90%. Our cost:income ratio has improved by 9% and our profitability as measured by ROE is 7 points higher, having risen to 20.4%.

The growth of the world economy continued at a high rate in 2007 thanks to the strength of the European economy and the key role played by the powerhouse economies of the emerging markets, China foremost among them.

The Spanish economy again performed very well and grew by 3.8%, outstripping the growth of the other euro zone economies. A high level of capital investment and an improved contribution from exports did much to offset a slowdown in consumer spending and a downturn in construction after several years of very rapid growth.

The second half of the year, however, was marked by a global financial crisis stemming from credit practices in the US mortgage market and the distribution throughout the world of the associated credit risk. Spanish banks, unlike banks in other European countries, did not have any exposure to bonds linked to US mortgages, but the country's financial system and the performance of Spanish financial companies were affected by the lack of confidence that dominated the markets.

Rapidly rising borrowing costs and the difficulties faced by banks in tapping sources of medium-term finance resulted in a loss of confidence in near-term economic prospects and this adversely affected the securities markets, which fell sharply in the last few months of 2007 and early 2008.

Uncertainty over the depth and duration of the likely economic downturn is now a factor in all decision-taking by economic agents.

Despite the generally unstable environment that we have been seeing since mid-2007, Banco Sabadell completed its 126th year of trading with a net attributable profit of €782.34 million, up 37.4% on the year before in comparable terms, i.e. after adjusting for the one-off profit in 2006 generated by the sale of the Landscape real estate business. The profit from ordinary activities is the best in the group's history.

A healthy consolidated profit and excellent results across all group businesses are not only a reflection of the strength of the Bank and its successful business strategy, but a sure sign of its ability to turn its recent acquisitions to account and to respond swiftly and positively to changes in market conditions, no matter how challenging.

In 2007 the new Banco Urquijo, created from the integration of the private banking business of the old Banco Urquijo with that

of Sabadell Banca Privada, completed its first year of trading and confirmed its leading position in the Spanish private banking industry. The good growth achieved this year and a €29.8 million contribution to group profits clearly show that the purchase in May 2006 was justified.

Of the Bank's many achievements this year, one that I would like to highlight is the design and roll-out of a new strategic plan that will take us through to the end of 2009.

The two-year plan is based on flexibility and prudence and has been designed for the environment of economic slowdown that we now face. Its aims are to boost operational efficiency and commercial productivity and thus increase business volumes by more than the average for the banking system as a whole, while keeping operating costs at a low level and without affecting our excellent risk and service quality levels, and to continue to build up our financial strength and increase liquidity to be able to withstand any change for the worse on the economic front.

Optima '09, as our new strategic plan is called, focuses on innovation and leveraging the Bank's capabilities and strengths to ensure that it remains one of the most efficient and profitable financial institutions in the Spanish market, consolidating its leadership and its unique positioning in corporate banking and retail banking targeted on high and medium-income earners.

Another major achievement was to boost the Bank's position in the Miami international banking market, where it has been operating since 1993. This year saw the acquisition of Transatlantic Bank, a local Miami-based operation, and the conclusion of an agreement with BBVA to purchase its private banking business in that city. These two purchases have significantly increased the Bank's operational capability and market position in the business and personal customer-focused private and corporate banking businesses being carried on by our Miami branch.

To ensure that we had the best IT systems available, and that innovation would continue to be a key area of excellence and a differentiating factor for the Bank within the marketplace, a number of major agreements were reached in the course of the year with top-ranking IT suppliers such as Telefónica, Hewlett Packard and IBM. This is the kind of initiative that will help to increase sustainability and underpin confidence in the Bank in the coming years.

Another development this year was the start of work to extend the Bank's main central services building in Sant Cugat del Vallès, which was opened in 2003. The extension has been made necessary by high levels of usage of other Bank premises and to accommodate anticipated growth in the coming years.

2007 has been a difficult year for financial companies generally, and these difficult conditions have continued into 2008. The solid results achieved by the Bank are therefore all the more remarkable and clearly reflect the exacting standards and the mature approach of the management.

Our senior managers form a solid and close-knit team, led by the heads of the various business units into which the Bank is structured. Not only have they proved themselves capable of achieving the objectives that were set for 2007– plus the added burden of integrating a bank into the organization – but they have also shown their ability to act firmly and cohesively when changes in key personnel have occurred.

This team of managers, supported by a fine organization of highly skilled people, was responsible for drawing up the new master plan and setting fresh challenges in customer value creation and shareholder income generation for the period to 2009.

It is a prudent plan but also an ambitious one, and one which I think will bear the fruit which we all hope to see in this new climate of slower economic growth.

With cordial good wishes,

José Oliu Creus

Chairman

Macroeconomic environment

The global economy continued to show considerable buoyancy in 2007 thanks to the strength of the emerging markets and continuing robust growth in Europe. China grew at its highest rate for more than a decade, while the euro area benefited from positive labour market developments. Meanwhile, growth in the USA moderated on the back of slowing residential property investment. The Japanese economy also continued to show modest growth. Overall, however, the world economic outlook worsened as financial markets suffered bouts of turbulence and global credit markets tightened as a result of problems in the US sub-prime mortgage sector. On the inflation front, global price levels were pushed higher by rising food and energy costs in the latter part of the year.

The Spanish economy performed well over the year as a whole, growing at 3.8%, a similar rate to 2006. Activity slowed gradually as the year progressed, although the pattern of growth was more balanced. Weaker consumer spending and investment in construction contrasted with a less lacklustre contribution from exports and an excellent performance from investment in plant and equipment. Looking ahead, economic confidence on the part of businesses and consumers is likely to further weaken growth rates. On the labour market front, unemployment stabilized at around 8% of the workforce and job creation, although moderating, continued its positive trend. With regard to inflation, consumer prices accelerated in the last few months of the year, reaching annualized rates of more than 4.0%. Domestic inflation continued the pattern of the last few years, with rates remaining above those in the euro area as a whole. However, there was some slackening in the rate of growth of house prices, continuing a trend that began in 2004. On the fiscal front Spain's public finances remained healthy and the government was able to end the year 2007 with a budget surplus of 2.2% of GDP.

Financial market turbulence in the second half of the year impacted on the monetary policy of the main central banks, causing them to make further injections of liquidity to restore the markets to a state of normality. The Federal Reserve kept the Fed Funds rate at 5.25% throughout the first half of the year as the inflationary outlook continued to be its main concern. In the second half of the year the Fed eased rates to 4.25% in three stages (0.50% on 18 September, another 0.25% on 31 October and a final 0.25% on 11 December), with the intention of mitigating the adverse effects of tightening credit conditions and giving a boost to a slowing economy. In the euro zone, the European Central Bank (ECB) continued its cycle of interest rate rises in the first half of the year, increasing its benchmark rate from 3.50% to 4.00%. From June onwards official rates remained unchanged despite annual eurozone inflation of 3.1% – its highest level since mid-2001 – and the institution's admission that inflation risks were clearly on the upside. The ECB saw no reason to change its monetary policy given the uncertainty over the potential economic impact of financial market turbulence. The Bank of Japan limited itself to a quarter per cent increase in interest rates to 0.5% in February, having left rates unchanged since July 2006. The process of returning to a normal monetary policy was stopped in its tracks by recent financial upheavals.

On the long-term government bond markets a rise in yields in the first half of the year was followed by falls in the second half. From the end of the first half onwards, bond prices began to reflect

a worsening growth outlook as bonds became a refuge in an environment of reduced financial stability. However, measures to curb liquidity in Asia, the trend towards diversification of global reserves away from government bonds and increased inflation expectations limited the fall in yields. Over the year as a whole, US bonds actually outperformed European as a consequence of economic cycles being out of phase and divergences in monetary policy in the two regions.

In the currency markets, the dollar weakened more sharply against the euro. The US currency fell to the lowest levels seen since the launch of the single European currency, trading at around USD 1.50 against the euro in late November. The dollar slide was driven by uncertainty over the US economy, as the US property market plunged and consumer spending looked vulnerable. News of diversification of central bank reserves and reduced euro zone/US interest rate differentials were further contributors to dollar weakness. The yen appreciated strongly against the dollar, especially in the second half of the year. The Japanese currency benefited from increased market volatility and heightened uncertainty, causing capital to return to Japan as speculative carry trade positions in the yen were unwound.

Most of the world's equity markets ended the year with positive returns. Support for equities in the first half of the year was provided by high corporate earnings growth. In the second half, however, equities were affected by difficult conditions in the credit derivatives market. These difficulties led to significant losses for financial companies as a result of the sector's exposure to the US sub-prime mortgage market, and corporate earnings in other sectors also suffered as credit conditions worsened.

Share performance

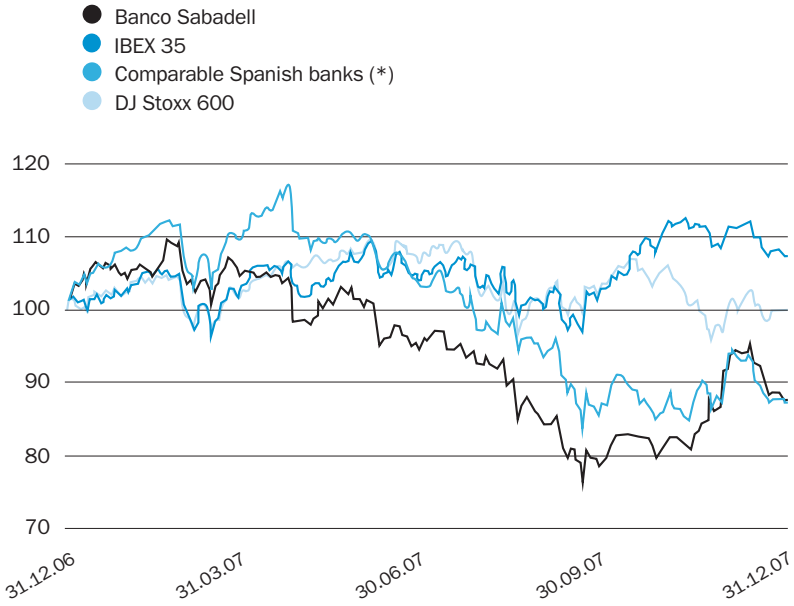
In what has been a highly volatile period for the stock market and particularly the Spanish banking industry, holders of Banco Sabadell shares saw their dividend increase by 34.6% based on the full dividend for 2007, on the back of a very notable increase in the company's earnings. Meanwhile, the share price fell by 12.59% in the course of the year, leaving it somewhere in the middle of a very wide range of variations in domestic banking stock prices. Over this same period the IBEX 35 stock market index rose by 7.3% while the DJ Stoxx 600 index fell by 0.2%. The evolution of the Banco Sabadell share price in 2007, along with movements in the IBEX 35 and DJ Stoxx 600 indexes and the share prices of comparable Spanish banks, can be seen in the chart below.

The best-performing equity markets in 2007 were emerging markets (MSCI Emerging Markets +36.5%), followed by Spain (IBEX 35 +7.3%) and the USA (S&P +3.5%). Negative performances were returned by Europe (DJ Stoxx 600 -0.2%) and Japan (Nikkei -11.1%).

The dominant theme for the markets in 2007 was the financial market downturn which, to a greater or lesser degree, was present throughout the year and impacted mainly on the real estate and banking sectors, although the latter experienced a marked upward correction in the last two months of the year.

The steepest decline began near the end of the first half of the year when the news broke of problems in the US subprime mortgage market. This developed into a climate of rapidly ebbing confidence in the global money markets. In Spain, the contraction spread to the property market which had already started to cool as a result of a succession of interest rate rises as well as exceptionally high rates of growth in the preceding years.

G1 Banco Sabadell share price – comparative performance



(*) Includes Banco Popular, Banesto, Bankinter, Banco Pastor, Banco de Valencia and Banco Guipuzcoano.

All this had a highly negative impact on equity markets and had especially severe effects on the property and banking sectors in Spain. In addition, in 2006 unwarranted speculative pressures had pushed up the Banco Sabadell share price; when these pressures eased, the speculative component of the high share price was removed.

In the last quarter of 2007, helped by the Bank's announcement of excellent earnings growth, the fact that targets in the ViC 07 plan had been exceeded, and a favourable reaction to the new Optima '09 master plan, the share price rallied strongly, although not so much as to fully cancel the sharp correction it had suffered in the first three quarters of the year.

On 7 May, following a resolution of the Annual General Meeting on 29 March, the Bank executed a share split in a ratio of 4 new shares for each existing share held. The purpose of the split was to make the shares more liquid.

With the share price standing at €7.41 and a market capitalization of €9,069.90 million at the close of the year, Banco Sabadell maintained its position as Spain's fourth largest banking group by market value, as it did on most of the other financial measures that could be used.

Monthly price movements and average daily trading volumes for Banco Sabadell shares are shown in the following table. Trading volumes for the year as a whole averaged 6,296,244 shares per day, equivalent to a daily average of €51 million in value terms, compared with an average 4,367,512 shares per day in 2006.

T1 Monthly share price movements - 2007 (*)

Month	Closing price €	Maximum €	Minimum €	IBEX at end of month €	Average daily trading volume ('000 shares)
December 2006	8.48			14,146.5	
January	8.83	9.11	8.43	14,553.2	4,144
February	8.85	**9.50**	8.80	14,248.4	4,112
March	8.92	9.22	8.50	14,641.7	11,810
April	8.34	8.93	8.13	14,374.6	5,554
May	8.59	8.94	8.23	15,329.4	9,830
June	8.15	8.63	7.88	14,892.0	6,002
July	7.95	8.30	7.73	14,802.4	4,877
August	7.14	8.00	7.06	14,479.8	3,909
September	6.75	7.25	**6.38**	14,576.5	5,912
October	7.00	7.09	6.70	15,890.5	4,757
November	7.95	8.00	6.81	15,759.9	7,376
December	7.41	8.13	7.37	15,182.3	7,342
Change	**-12.59%**			**7.32%**	

(*) Adjusted for the 4 x 1 split.

At the close of 2007 earnings per share stood at €0.64. With a year-end share price of €7.41, the P/E ratio at the end of the year was 11.59 x. Book value per share was €3.68, giving a price/book value ratio of 2.01 x.

In line with the Bank's dividend policy, two dividend payments were made during the year: a final dividend for 2006 of €0.113 per share, and an interim dividend for 2007 of €0.130 per share, resulting in dividend yields of 3.28% based on the share price at 31 December 2007 and 2.87% based on the share price at 31 December 2006. The total dividend payable for 2007 will be €0.28 per share, made up of an interim dividend of €0.13 and a final dividend of €0.15. This will be proposed in a motion at the Annual General Meeting. The total dividend proposed will be 34.6% higher than the one paid in 2006 and represents a payout ratio of 43.81%.

At the close of 2007 Banco Sabadell's share capital after the split consisted of 1,224.01 million shares. Private investors made up 57.2% of the Bank's shareholder base, with institutional investors accounting for the remaining 42.8%.

As part of the Bank's commitment to full and transparent reporting an "Investor Day" was held on 6 November. This was a high-profile event at which senior executives of the Bank reviewed the current economic climate and presented the new Optima '09 master plan to an audience of investors and analysts. Material from the Investor Day presentations can be found, along with other published information about the group, on the group's corporate website and in the shareholder newsletter, *InfoAccionista*.

Banco Sabadell has a Shareholder Relations Department and an Investor Relations Department whose functions are to respond to enquiries, suggestions and views of existing or potential shareholders, whether private or institutional, on any aspect related to the Bank and its performance.

T2 Share data 2003-2007

	Mn.	€ Mn.	€ Mn.	€
	Number of shares(1)	**Net attributable profit**	**Shareholders' equity**	**Book value per share**
2003	816.0	234.9	2,131	2.61
2004	1,224.0	326.0	3,004(2)	2.45(2)
2005	1,224.0	453.1	3,374	2.76
2006	1,224.0	908.4	4,041	3.30
2007	1,224.0	782.3	4,501	3.68

(1) Adjusted for the 4 x 1 split.

(2) Shareholders' equity and book value per share were affected in 2004 by issues of new capital and charges to the share premium account to amortize the Banco Atlántico merger reserve.

Share price at 31/12/07	€ 7.41
P/E 2007	11.59 x
P/B 2007	2.01 x
Dividend yield 2007	3.28%
Payout ratio	43.81%

T3 Analysis of shareholdings at 31.12.2007 (*)

Size of holding	Number of shareholders	Number of shares	% of total
14,000 or less	72,620	153,869,601	12.57%
14,001 to 140,000	7,248	272,668,743	22.28%
140,001 to 280,000	444	86,075,981	7.03%
280,001 to 1,400,000	300	157,656,441	12.88%
1,400,001 to 24,000,000	51	207,883,452	16.98%
More than 24,000,000	6	345,859,462	28.26%
TOTAL	**80,669**	**1,224,013,680**	**100.00%**

(*) Adjusted for the 4 x 1 split.

T4 Analysis of shareholdings at 31.12.2006

Size of holding	Number of shareholders	Number of shares	% of total
3,500 or less	59,444	36,029,631	11.77%
3,501 to 35,000	7,359	69,459,664	22.70%
35,001 to 70,000	454	21,827,515	7.13%
70,001 to 350,000	318	40,516,612	13.24%
350,000 to 6,000,000	49	55,131,140	18.02%
More than 6,000,000	9	83,038,858	27.14%
TOTAL	**67,633**	**306,003,420**	**100.00%**

2007 - a year of growth and value

The year 2007 was a year of growth and value creation for Banco Sabadell. At the close of the year, the Bank's 126th year of trading, comparable-basis profit was 37% higher than in 2006, business volume indicators showed double-digit increases and business growth, efficiency and profitability targets had been more than met.

This achievement is all the more impressive as a considerable part of the year's operations necessarily took place against a backdrop of general instability and uncertainty. Early in the second half-year the global money markets were convulsed as confidence and liquidity drained away following the collapse of the sub-prime mortgage market in the United States.

Banco Sabadell has not been affected directly by the subprime mortgage debacle, as it did not have any exposure to subprime mortgages or to financial instruments designed to spread the exposure to third party investors. However Banco Sabadell, like other financial institutions, has had to face collateral damage in the form of increased funding costs and tightening credit conditions.

Faced with these unforeseen developments, as soon as the first signs of alarm surfaced in August 2007 the group took a series of preventive measures to transfer the increased cost of funding to the full range of its products and services and to redouble its efforts to attract customer deposits.

Thanks to its responsiveness, its financial strength and the prudence that governs all its actions, Banco Sabadell is in an excellent position to weather the current conditions. The sources of finance available to it and its varied portfolio of eligible assets for discounting at the European Central Bank ensure that it has sufficient liquidity to meet both its own needs and those of its customers for as long as it takes markets to recover their composure and return to normal.

ViC 07 - aims fulfilled

2007 was the third and last year in which the group's operations were subject to the guidelines in the ViC 07 (Value and Growth) 3-year plan, whose purpose was to increase business volumes and return to the levels of profitability and efficiency that had prevailed before the corporate restructuring that helped the group to reach competitive scale within the Spanish market.

By 31 December 2007 loans and advances to customers had increased by 84% compared to the end of 2004 when the plan was launched, while customer funds and assets under management were up 90%. The cost:income ratio was 46.67% and the ROE was up by 7 points to 20.4%.

Banco Urquijo

The new Banco Urquijo completed the task of redefining its strategic role following its integration into the Banco Sabadell group, and completed its first year with a strong business focus on the private banking segment and a contribution to group results before tax of €29.8 million.

The professionalism and the high quality service provided by Banco Urquijo through its 17 branches were highlighted by *Euromoney* magazine in naming it Spain's second best private bank.

The Optima 2009 plan

A major development in 2007 was the design and implementation of the Optima '09 plan, a series of action programmes that will govern the Bank's activities for the next two years.

Optima '09 has been designed as a response to the current economic slowdown and has as its principle aim the achievement of ever greater excellence in business effectiveness and operational efficiency. In difficult and uncertain market conditions, the group will use its capacity for innovation to optimize its operational model and boost the value creation made possible by its business strategy.

Increasing the customer base, boosting commercial productivity, reducing production costs and developing the talents of our people – this is what Optima '09 is all about. We anticipate that this will bring about cumulative increases of 14% per annum in on-balance sheet funding, 12% in lending and a €400 million increase in our revenue base. This growth, combined with below-inflation cost increases, should make it possible to achieve a cost:income ratio of 37.5% and an ROE of 20.5% by the end of the two-year programme.

Corporate actions

In January 2007 Banco Sabadell acquired TransAtlantic Bank, a provider of retail banking services in the Miami-Dade area with strong links to the local Hispanic community.

Prior to the acquisition, Banco Sabadell's international business had been concerned with satisfying domestic customers' needs related to their foreign trade activities. Having acquired TransAtlantic Bank, Banco Sabadell will now put its retail banking model to work in a market where it has already been operating since 1993.

Another development on 2007 was the conclusion of an agreement with BBVA to purchase its private banking business in Miami. With this purchase Banco Sabadell has strengthened its position in the international banking market in Miami and significantly increased the operational and commercial capabilities of its private and corporate banking businesses based on individual and business customers in that city.

The state of Florida in the USA, Mexico and Portugal are the markets chosen by Banco Sabadell as platforms for the development of its foreign operations. The factors that led it to make these choices were the operational capabilities it had in these countries, cultural affinities, and a generally benign regulatory and operating environment for the development of a banking business.

During the year Banco Sabadell took control of 100% of Aurica XXI, the development capital business it set up in the year 2000 in partnership with Banco Pastor. It also sold its Exelbank subsidiary, formerly part of the old Banco Urquijo, to BNP Paribas. Exelbank was set up as a specialist provider of custodian and depositary services for foreign and Spanish financial institutions, a business which is not considered to be of strategic importance to the group.

Branch network and other channels

At the end of the year Banco Sabadell had a total of 1,249 branches, 45 more than at the close of 2006. Of these, 922 branches were operating under the SabadellAtlántico name (62 of them specialist corporate banking branches); 188 (including 4 corporate banking branches) were part of the Banco Herrero network in Asturias and León; 17 were part of the Banco Urquijo network; 95 were operating under the Solbank brand that serves foreign residents in Spain's coastal areas; and the remaining 24 branches made up the group's international network. There were also three ActivoBank customer service centres.

Enrolments and usage for remote banking services continued to increase, with sign-ups for the group's BS Online internet banking service showing year-on-year growth of 5%, and transaction volumes up by 11%. Sign-ups for the BS Móvil mobile phone-based service are now in excess of 190,000.

Innovation

Banco Sabadell's unwavering commitment to innovation was clearly in evidence throughout the year in a number of actions and initiatives, many of them banking industry firsts, such as the introduction of electronic ID cards in transaction processing, the use of BiDi code technology in the execution of title deeds for new properties, with stamp duty and registration formalities being completed entirely by electronic means.

Another development in 2007 was a network of alliances to give Banco Sabadell a leadership role within Spain in developing a banking model based on technological excellence.

This included an agreement with Hewlett Packard to provide outsourcing and development services and to launch technological initiatives with a high strategic value. As part of an "Instant Banking" programme that was launched during the year in cooperation with Telefónica, projects are under way to offer faster, more secure services based on mobile devices and electronic signatures.

A start was also made, in partnership with IBM, on the introduction of Web 2.0 technologies within the financial sector.

Banco Sabadell also played a key role, together with leading world financial institutions, as a sponsor of the Banking Innovation Forum. The forum provides support for exchanges of information among those responsible for driving innovation in participating banks, on ways of optimizing productivity within their respective institutions.

Quality

In 2007 Banco Sabadell again confirmed its leadership in quality, which is critical to every aspect of managing a financial institution.

The Bank has for years been top of the league in quality of service as confirmed by independent consultants, and has continued to increase the quality differential with respect to the average for the financial system generally. In addition, information

from the Bank of Spain's complaints department shows Banco Sabadell is the bank with the lowest number of complaints as a percentage of gross revenue.

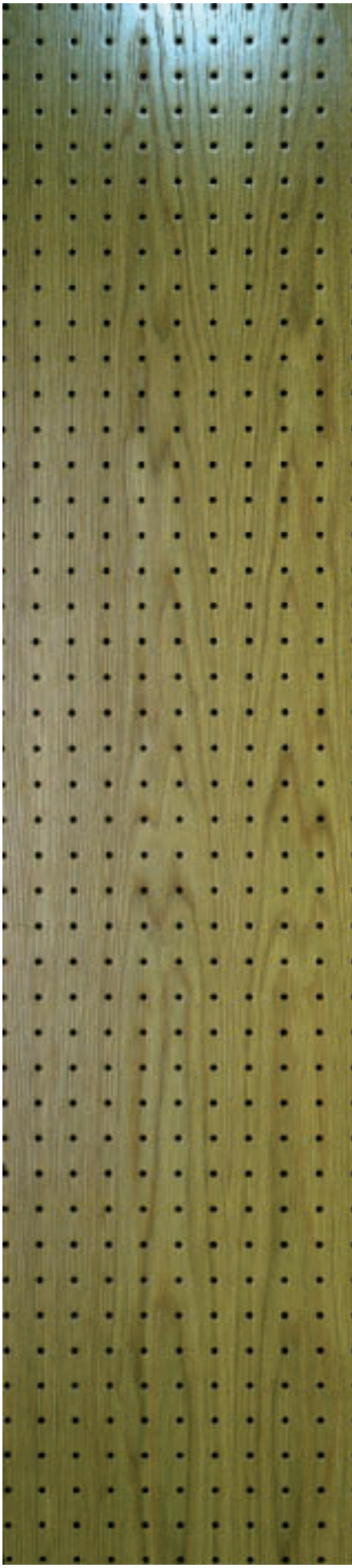
Banco Sabadell thus maintained its progress in the achievement of excellence which has made it the only Spanish bank to have gained certification to the ISO 9001 standard for 100% of its operations and to have been awarded the EFQM European Gold Seal of Excellence.

With regard to risk quality, thanks to strict loan approval criteria and careful monitoring of credit risk, at the end of the year the Bank's loan loss ratio was one of the lowest in the Spanish financial system, a fact of particular significance bearing in mind the more challenging operating environment it faced in the second half of 2007.

José Oliu Creus
Chairman

Jaime Guardiola Romojaro
Managing Director

Financial review

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The balance sheet and income statement for the Banco Sabadell group for the year 2007 are presented on the pages that follow, together with additional tables showing breakdowns of the more significant items.

These statements clearly show the advances made by the Bank in almost every category, including a 5.5% increase in total assets, a 13.6% rise in gross loans and advances to customers and growth of 17.5% in customer deposits.

When making prior year comparisons it should be borne in mind that the €908.4 million profit for 2006 included an extraordinary gain on the disposal of the Landscape real estate group. For this reason the net attributable profit for 2007 shows a fall of 13.9%. Taking the comparable basis net profit for 2006 of €569.31 after eliminating the effect of the Landscape sale, the net attributable profit for 2007 is 37.4% higher than the figure for 2006.

The statutory audited accounts are presented with full and detailed accounting information and can be found at the end of this annual report. They are preceded by the Auditor's report on the financial statements.

Consolidated balance sheet

€'000

Assets	2007	2006	% 07/06
Cash and balances with central banks	1,220,763	904,751	34.9
Assets held for trading, derivatives and other financial assets	1,035,996	725,332	42.8
Available-for-sale financial assets	5,420,592	3,449,367	54.9
Loans and receivables	66,163,819	64,575,570	2.5
Loans and advances to credit institutions	*3,574,102*	*6,928,116*	*(48.4)*
Loans and advances to customers	*61,999,362*	*54,557,292*	*13.6*
Debt securities	*0*	*1*	*(100.0)*
Other financial assets	*590,355*	*3,090,161*	*(80.9)*
Held-to-maturity investments	0	0	-
Equity investments	272,521	229,670	18.7
Tangible fixed assets	980,465	982,078	(0.2)
Intangible fixed assets	715,792	627,296	14.1
Other assets	966,054	1,235,769	(21.8)
Total assets	**76,776,002**	**72,779,833**	**5.5**

Liabilities	2007	2006	% 07/06
Liabilities held for trading, derivatives and other financial liabilities	863,224	373,388	131.2
Financial liabilities at fair value through equity	0	0	-
Financial liabilities at amortized cost	67,184,369	63,775,738	5.3
Deposits from central banks	*426,145*	*300,499*	*41.8*
Deposits from credit institutions	*3,528,357*	*4,112,937*	*(14.2)*
Deposits from other creditors	*33,350,687*	*30,090,641*	*10.8*
Debt certificates including bonds	*27,039,762*	*23,923,137*	*13.0*
Subordinated liabilities	*1,961,978*	*2,273,068*	*(13.7)*
Other financial liabilities	*877,440*	*3,075,456*	*(71.5)*
Liabilities under insurance contracts	3,018,453	2,765,683	9.1
Provisions	424,146	499,873	(15.1)
Other liabilities	431,306	917,685	(53.0)
Capital having the nature of a financial liability	250,000	252,050	(0.8)
Total liabilities	**72,171,498**	**68,584,417**	**5.2**

Equity	2007	2006	% 07/06
Minority interests	21,250	17,503	21.4
Valuation adjustments	81,871	136,708	(40.1)
Own funds	4,501,383	4,041,205	11.4
Total equity	**4,604,504**	**4,195,416**	**9.8**
Total liabilities and equity	**76,776,002**	**72,779,833**	**5.5**

Off-balance sheet items	2007	2006	% 07/06
Contingent exposures	7,575,190	8,218,834	(7.8)
Contingent commitments	23,291,982	21,703,635	7.3
Total off-balance sheet items	**30,867,172**	**29,922,469**	**3.2**

Loans and advances to customers

Gross loans and advances to customers stood at €63,219.3 million at the end of 2007, an increase of 13.6% compared with the previous year.

Mortgage loans showed a notable increase, rising by 16.6% year-on-year. In the area of business finance significant increases were once again seen in the factoring business and in advances of the type known as "confirming", which grew by 44.0% and 17.2% respectively.

Other components of lending showed year-on-year increases in nearly every case, particularly in the "other secured loans and receivables" and "other loans" categories, which were up by 24.2% and 12.0% respectively.

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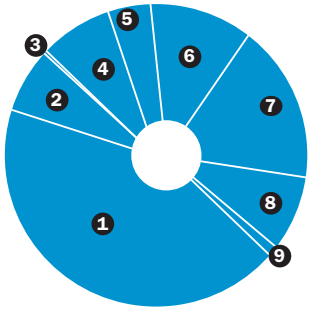
	2007	2006	% 07/06
Loans and advances to general government	**266,322**	**143,164**	**86.0**
Mortgage loans and receivables	26,871,714	23,240,312	15.6
Other secured loans and receivables	4,570,347	3,636,368	25.7
Commercial loans	3,472,460	3,648,961	(4.8)
Other loans	7,067,802	6,846,562	3.2
Other receivables	9,935,097	8,850,037	12.3
Finance leases	3,586,746	3,191,471	12.4
Factoring	1,592,978	1,084,263	46.9
Confirming	943,882	805,818	17.1
Overdrafts and other accounts	810,086	819,447	(1.1)
Reverse repos	54,475	88,502	(38.4)
Loans and advances to residents	**58,905,587**	**52,211,741**	**12.8**
Mortgage loans and receivables	1,932,140	1,452,387	33.0
Other secured loans and receivables	385,398	353,717	9.0
Commercial loans	74,770	80,897	(7.6)
Other loans	1,143,349	1,006,354	13.6
Other receivables	72,576	85,267	(14.9)
Finance leases	4,616	5,676	(18.7)
Factoring	47,859	55,003	(13.0)
Confirming	431	195	121.0
Overdrafts and other accounts	62,586	24,828	152.1
Reverse repos	0	0	–
Loans and advances to non-residents	**3,723,725**	**3,064,324**	**21.5**
Doubtful assets	**324,226**	**237,962**	**36.3**
Prepayments and accrued income	**(530)**	**(24,225)**	**(97.8)**
Loans and advances to customers - gross	**63,219,330**	**55,632,966**	**13.6**
Provisions for bad and doubtful debts and country risk	(1,219,968)	(1,075,674)	13.4
On-balance sheet loans and advances to customers - net	**61,999,362**	**54,557,292**	**13.6**
Memorandum item: Total securitized assets	*5,898,276*	*4,511,099*	*30.8*
of which: Securitized mortgage assets	*3,280,729*	*3,166,753*	*3.6*
Other securitized assets	*2,617,547*	*1,344,346*	*94.7*
of which: Securitization issues after 01.01.04	*5,558,048*	*4,023,448*	*38.1*
of which: Securitized mortgage assets	*2,981,089*	*2,766,716*	*7.7*
Other securitized assets	*2,576,959*	*1,256,732*	*105.1*

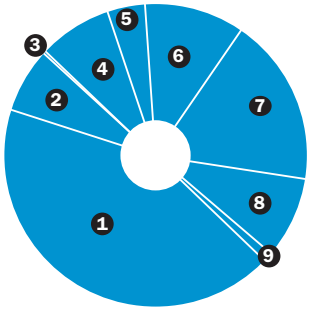
G1 Loans and advances to residents 31.12.2006

1	Mortgage loans and receivables	44.5%
2	Other secured loans and receivables	7.0%
3	Reverse repos	0.2%
4	Commercial loans	7.0%
5	Factoring and confirming	3.6%
6	Other loans	13.1%
7	Other receivables	17.0%
8	Finance leases	6.1%
9	Overdrafts and other accounts	1.6%

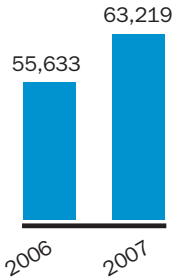


G2 Loans and advances to non-residents 31.12.2007

1	Mortgage loans and receivables	45.6%
2	Other secured loans	7.8%
3	Reverse repos	0.1%
4	Commercial loans	5.9%
5	Factoring and confirming	4.3%
6	Other loans	12.0%
7	Other receivables	16.9%
8	Finance leases	6.1%
9	Overdrafts and other accounts	1.4%



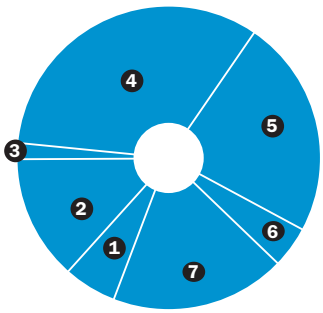
G3 Gross loans and advances to customers



€ Mn.

G4 Gross loans and advances to customers - analysis by sector 31.12.2007

1	Construction	5%
2	Real estate developers	13%
3	Agriculture, livestock and fisheries	1%
4	Services and other	35%
5	Mortgage loans to personal customers	21%
6	Other loans to personal customers	4%
7	Industry	21%

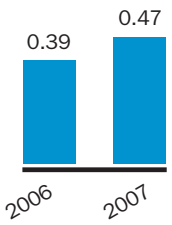


Bad and doubtful debts and provision coverage

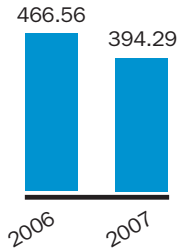
Careful management and monitoring of risk ensured that the increase in bad and doubtful debts due to new loan defaults in 2007 was restricted to 3.9%. A lower level of recoveries in 2007 than in 2006 had the effect of causing bad and doubtful debts to increase by 32.3% overall.

The loan loss ratio at the close of the year — 0.47% — was below the banking industry average. The loan loss coverage ratio was 394.29%, down from 466.56% at the close of 2006. Accumulated anti-cyclical loan loss provisions were at a high level, amounting to some 2% of gross loans and advances at the end of the year. General provisions for bad and doubtful debts totalled €1,171 million at 31 December 2007 compared with €1,071 million at the end of 2006, a rise of 9.3%.

G5 **Loan loss ratio (%)**



G6 **Loan loss coverage ratio (%)**



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	2007	2006	% 07/06
Bad and doubtful debts:			
Opening balance (1 January)	250,610	254,052	(1.4)
Increase due to new loan defaults	364,055	350,402	3.9
Recoveries	(222,753)	(303,112)	(26.5)
Loans written off	(60,239)	(50,732)	18.7
Total bad and doubtful debts	**331,673**	**250,610**	**32.3**
Gross loans and advances to customers	63,219,330	55,632,966	13.6
Contingent liabilities	7,575,190	8,218,834	(7.8)
Total credit risk	**70,794,520**	**63,851,800**	**10.9**
Provisions for bad and doubtful debts	**1,307,765**	**1.169,254**	**11.8**
Bad and doubtful debts as % of total lending	**0.47**	**0.39**	
Total provisions as % of bad and doubtful debts	**394.29**	**466.56**	

€'000

	Exposure	2007 Provision required	Exposure	2006 Provision required	% 07/06 Provision required
Doubtful debts specifically provided for	324,205	90,997	250,264	96,795	(6.0)
Doubtful debts not requiring provisions	7,468	–	346	–	–
Other specific provisions / sub-standard risks	–	46,149	–	1,290	–
Bad and doubtful debts and specific provisions	**331,673**	**137,146**	**250,610**	**98,085**	**39.8**
Negligible risk	16,182,261	–	12,283,939	–	–
Low risk	12,931,374	95,434	11,937,065	89,528	6.6
Medium-low risk	25,824,107	476,451	21,340,973	400,143	19.1
Medium risk	24,933,952	552,036	23,844,558	536,503	2.9
Medium-high risk	1,070,152	26,326	1,045,054	26,126	0.8
High risk	475,469	14,621	430,983	13,468	8.6
Risks covered by generic provisions	**81,417,315**	**1,164,868**	**70,882,572**	**1,065,768**	**9.3**
Provisions for country risk		**6,585**		**7,763**	**(15.2)**
Total provisions required		**1.308,599**		**1,171,616**	**11.7**
Other additional provisions		5,751		5,401	6.5
Provision for bad and doubtful debts		**1,314,350**		**1,177,017**	**11.7**
Provisioning surplus		**982,677**		**926,407**	**6.1**

Investment portfolio

The group's investment portfolio showed an increase of 51.9% on the year, reaching a total of €6,121.6 million.

€'000

	2007	2006	% 07/06
Government securities			
Treasury bills	22,883	69,846	(67.2)
Other government securities	1,573,096	1,135,910	38.5
Fixed-income securities	3,226,731	1,902,140	69.6
Doubtful assets	46	51	(9.8)
Total fixed-income securities	**4,822,756**	**3,107,947**	**55.2**
Shares and equity investments:			
Credit institutions	482,410	260,496	85.2
Other private sector issuers	543,947	431,289	26.1
Equity investments in unconsolidated companies	272,521	229,670	18.7
Total shares and equity investments	**1,298,878**	**921,455**	**41.0**
Total investment portfolio	**6,121,634**	**4,029,402**	**51.9**

On-balance sheet deposits and issued securities

On-balance sheet deposits (including repurchase agreements) and debt securities amounted to €65,620.9 million at the end of the year, up 10.7% from the close of 2006. Time deposits increased by a substantial 71.4% to reach a year-end total of €15,634.69 million on the back of vigorous sales drives and targeted campaigns to attract deposits.

Debt securities and other negotiable instruments were up 13.0% on 2006 as a result of new issues of straight bonds, covered bonds

and commercial paper. These included a USD 2,000 million bond issue in the United States, four issues of mortgage bonds amounting to €2,200 million, two issues of ordinary bonds for a total value of USD 1,150 million, and a securitization bond issue amounting to €1,000 transferred to a special purpose entity, GC FTPYME Sabadell 6 FTA.

A further development in relation to capital market funding was the redemption of €300 million subordinated debt in December.

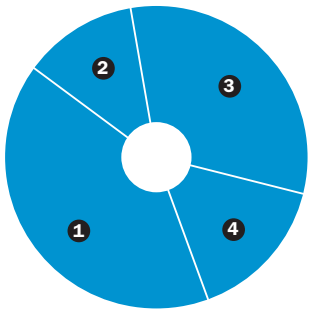
On-balance sheet deposits and issued securities

€'000

	2007	2006	% 07/06
Creditors - general government	**851,957**	**1,038,289**	**(17.9)**
Current accounts	11,427,788	13,343,354	(14.4)
Savings accounts	1,830,370	2,075,268	(11.8)
Time deposits	13,464,363	7,391,791	82.2
Repurchase agreements	2,357,356	3,265,934	(27.8)
Creditors - resident sector	**29,079,877**	**26,076,347**	**11.5**
Current accounts	1,005,934	999,171	0.7
Savings accounts	30,263	30,763	(1.6)
Time deposits	2,170,331	1,732,237	25.3
Repurchase agreements	6,938	11,758	(41.0)
Creditors - non-resident sector	**3,213,466**	**2,773,929**	**15.8**
Accrued expenses and deferred income	**110,403**	**58,482**	**88.8**
Adjustments due to hedging derivatives	**94,984**	**143,594**	**(33.9)**
Debt securities and other negotiable instruments	**27,039,762**	**23,923,137**	**13.0**
Subordinated liabilities	**1,961,978**	**2,273,068**	**(13.7)**
Liabilities under insurance contracts	**3,018,453**	**2,765,683**	**9.1**
Capital having the nature of a financial liability	**250,000**	**252,050**	**(0.8)**
Total on-balance sheet deposits and issued securities	**65,620,880**	**59,304,579**	**10.7**

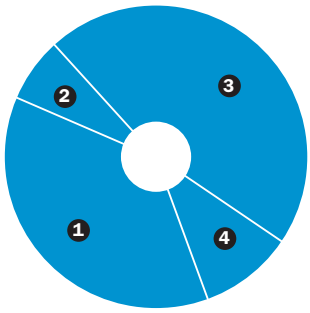
G7 Creditors - resident sector 31.12.2006

1	Current accounts	51.2%
2	Savings accounts	8.0%
3	Time deposits	28.3%
4	Repurchase agreements	12.5%



G8 Creditors - resident sector 31.12.2007

1	Current accounts	39.3%
2	Savings accounts	6.3%
3	Time deposits	46.3%
4	Repurchase agreements	8.1%

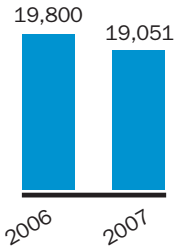


Assets in collective investment schemes and pension funds

Pension fund assets increased by 5.6% on the previous year to a total of €3,502.2 million. Group pension schemes grew strongly with a 22.8% increase in assets, while personal pension plans also did well, with assets showing an 8.7% rise. Within personal pensions an outstanding result was achieved by the BS Pentapensión product, with assets growing by 18.8% year-on-year on the back of successful promotional campaigns.

Assets held in collective investment schemes (CIS) at the end of the year totalled €15,548.5 million. This was 5.7% below the level for 2006 and clearly showed the impact of stock market upheavals in the last few months of the year.

G9 Assets under management in CIS's and pension funds (€Mn.)



€'000

	2007	2006	% 07/06
Managed collective investment schemes (CIS's)	12,515,866	14,184,318	(11.8)
Equity funds	1,425,118	1,930,697	(26.2)
Balanced funds	1,489,800	1,858,392	(19.8)
Fixed-income funds	3,628,342	3,921,966	(7.5)
Guaranteed funds	2,845,384	3,053,776	(6.8)
Real estate funds	918,807	827,523	11.0
Open-end investment companies (OEICs)	2,208,415	2,591,964	(14.8)
Investment funds and OEICs sold but not managed by the group	3,032,626	2,297,749	32.0
Collective investment schemes	**15,548,492**	**16,482,067**	**(5.7)**
Individual	2,268,461	2,087,677	8.7
Company	1,195,745	1,198,926	(0.3)
Group	37,953	30,911	22.8
Pension funds	**3,502,159**	**3,317,514**	**5.6**
Total, CIS's and pension funds	**19,050,651**	**19,799,581**	**(3.8)**

Customer deposits and assets under management

The overall volume of deposits and assets under management rose by 7.9% on the previous year to a total of €86,578.1 million (€80,247.7 million in 2006).

The breakdown of this heading is as follows:

€'000

	2007	2006	% 07/06
Creditors - general government	851,957	1,038,289	(17.9)
Creditors - resident sector	29,079,877	26,076,347	11.5
Creditors - non-resident sector	3,213,466	2,773,929	15.8
Accrued expenses and deferred income	110,403	58,482	88.8
Adjustments due to hedging derivatives	94,984	143,594	(33.9)
Debt securities and other negotiable instruments	27,039,762	23,923,137	13.0
Subordinated liabilities	1,961,978	2,273,068	(13.7)
Liabilities under insurance contracts	3,018,453	2,765,683	9.1
Capital having the nature of a financial liability	250,000	252,050	0.8)
Collective investment schemes	15,548,492	16,482,067	(5.7)
Pension funds	3,502,159	3,317,514	5.6
Wealth management	1,906,555	1,143,542	66.7
Total deposits and assets under management	**86,578,086**	**80,247,702**	**7.9**

G10 Customer deposits and assets under management (€Mn.)

G11 Own funds (€Mn.)

Equity

€'000

	2007	2006	% 07/06
Minority interests	**21,250**	**17,503**	**21.4**
Valuation adjustments	**81,871**	**136,708**	**(40.1)**
Issued capital	153,002	153,002	0.0
Reserves	3,753,530	3,096,394	21.2
Other equity instruments	0	1,557	(100.0)
Less: treasury shares	(29,320)	(1,865)	–
Net attributable profit	782,335	908,398	(13.9)
Less: dividends and similar payments	(158,164)	(116,281)	36.0
Own funds	**4,501,383**	**4,041,205**	**11.4**
Total equity	**4,604,504**	**4,195,416**	**9.8**

BIS capital ratios

€'000

	2007	2006	% 07/06
Capital	153,002	153,002	0.0
Reserves	4,157,521	3,740,618	11.1
Minority interests	19,793	17,131	15.5
Deductions	(595,779)	(490,018)	21.6
Core capital	**3,734,537**	**3,420,733**	**9.2**
Core capital ratio (%)	**6.01**	**6.02**	
Preference shares	750,000	750,000	0.0
Primary capital	**4,484,537**	**4,170,733**	**7.5**
Tier I capital ratio (%)	**7.22**	**7.33**	
Revaluation reserves	0	37,046	(100.0)
Generic provisions	737,792	654,880	12.7
Subordinated debt	1,630,000	1,660,000	(1.8)
Valuation adjustments	91,814	129,920	(29.3)
Deductions	(196,186)	(156,546)	25.3
Secondary capital	**2,263,420**	**2,325,300**	**(2.7)**
Tier II capital ratio (%)	**3.64**	**4.09**	
Capital base	**6,747,957**	**6,496,033**	**3.9**
BIS ratio (%)	**10.87**	**11.42**	
Minimum capital requirement	4,968,512	4,549,569	9.2
Capital surplus	**1,779,445**	**1,946,464**	**(8.6)**
Memorandum item:			
Risk-weighted assets (RWA)	**61,351,915**	**56,159,924**	**9.2**

Income statement

The consolidated income statement for 2007 showed good growth across all areas of ordinary activity thanks to careful management of interest spreads combined with strict measures to hold down recurring costs.

Net interest income for the year totalled €1,317.2 million, up 20.0% on the figure for 2006. This was achieved largely through sustained growth in both lending and deposit-taking and a rigorous approach to pricing. The contribution to group income from equity-accounted undertakings increased by 12.8% over the year, with better results being achieved by Centro Financiero BHD in the Dominican Republic, Dexia Sabadell and our venture capital investments generally.

Fee and commission income was up 14.5% on the year, while insurance income continued its upward path to reach €78.4 million, a 31.1% increase on the previous year's figure, with strong contributions from life policies, savings products and annuities.

Gross operating income, including net income from trading, rose to €2,196.4 million, 21.2% above the figure for 2006.

Changes in the structure of the consolidated group caused by the full integration of Banco Urquijo and the acquisition of TransAtlantic Bank, plus the early rolling out of efficiency

programmes as part of the new Optima '09 strategic plan resulted in increased operating costs of €1,025.0 million, up 12,1% on last year's figure.

Net operating income was up 30.1% on the previous year.

To anticipate future developments in a changed economic environment, Banco Sabadell took the opportunity provided by the excellent performance of the banking business and its BIDSA venture capital subsidiary to allocate €130.7 million to bring forward a programme of cost rationalization and operational improvements. This generated non-recurring costs due to staff severance payments, charging off of expenses ahead of schedule and provisions in excess of regulatory requirements.

€'000

	2007	% of av. total assets	2006	% of av. total assets	% 07/06
Interest and similar income	3,688,780	5.04	2.476.719	4,03	48.9
Interest expense and similar charges	(2,397,225)	(3.28)	(1.401.001)	(2,28)	71.1
Net interest income before returns on equity instruments	**1,291,555**	**1.77**	**1.075.718**	**1,75**	**20.1**
Returns on equity instruments	25,682	0.04	22.153	0,04	15.9
Net interest income	**1,317,237**	**1.80**	**1.097.871**	**1,79**	**20.0**
Net income from equity-accounted undertakings	20,854	0.03	18,490	0.03	12.8
Net fees and commissions	630,208	0.86	550,261	0.90	14.5
Insurance income	78,397	0.11	59,812	0.10	31.1
Income from trading (net)	93,357	0.13	36,398	0.06	156.5
Foreign exchange differences (net)	56,342	0.08	48,644	0.08	15.8
Gross operating income	**2,196,395**	**3.00**	**1,811,476**	**2.95**	**21.2**
Income from non-financial services	2,130	0.00	3,624	0.01	(41.2)
Other operating income	28,988	0.04	31,361	0.05	(7.6)
Personnel expenses	(698,893)	(0.96)	(605,682)	(0.99)	15.4
Other administrative expenses	(326,145)	(0.45)	(308,617)	(0.50)	5.7
Depreciation and amortization	(128,385)	(0.18)	(106,981)	(0.17)	20.0
Other operating expenses	(15,061)	(0.02)	(11,463)	(0.02)	31.4
Net operating income	**1,059,029**	**1.45**	**813,718**	**1.33**	**30.1**
Impairment losses (net)	(212,420)	(0.29)	(254,781)	(0.41)	(16.6)
Provisioning expense (net)	5,347	0.01	14,334	0.02	(62.7)
Finance income/expense from non-financial activities	(168)	(0.00)	(876)	(0.00)	(80.8)
Other income	173,476	0.24	88,968	0.14	95.0
Other losses	(35,424)	(0.05)	(31,582)	(0.05)	12.2
Profit before tax	**989,840**	**1.35**	**629,781**	**1.03**	**57.2**
Corporate income tax	(202,228)	(0.28)	(273,307)	(0.45)	(26.0)
Profit from ordinary activities	**787,612**	**1.08**	**356,474**	**0.58**	**120.9**
Profit from discontinued operations (net)	0		554,831		(100.0)
Consolidated profit for the year	**787,612**		**911,305**		**(13.6)**
Minority interests	5,277		2,907		81.5
Net attributable profit	**782,335**		**908,398**		**(13.9)**

The resulting pre-tax profit of €989.8 million for the Banco Sabadell group is 57.2% higher than the figure for 2006. The net attributable profit for the year is €782.3 million.

In making year-on-year comparisons it should be borne in mind that the profit for 2006 (€908.4 million) included an extraordinary gain on the sale of the Landscape real estate business. The effect of this was that the net attributable profit for 2007 was 13,9% down on the previous year. Based on the comparable net profit of €569.3 million reported for 2006 (which excludes the Landscape sale), the net attributable profit for 2007 shows an increase of 37.4%.

Average return on capital employed and average cost of funds

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	2007			2006		
	Amount	**Rate**	**Income/ expense**	**Amount**	**Rate**	**Income/ expense**
Cash, central banks and other financial institutions	4,320,766	3.96	171,124	4,309,175	3.02	130,088
Loans and advances to customers	58,360,415	5.43	3,169,886	46,823,664	4.51	2,111,716
Fixed-income investments	4,506,066	4.12	185,474	4,875,393	2.64	128,689
Equity investments	1,031,141	2.49	25,682	898,083	2.47	22,153
Tangible and intangible assets	1,675,457	–	0	1,348,006	–	0
Other assets	3,268,503	4.97	162,296	3,147,999	3.37	106,226
Total capital employed	**73,162,348**	**5.08**	**3,714,462**	**61,402,320**	**4.07**	**2,498,872**
Credit institutions	4,352,005	(3.91)	(170,366)	5,189,710	(2.74)	(142,093)
Customer deposits	27,291,511	(2.50)	(681,002)	22,851,684	(1.60)	(364,652)
Capital market	28,939,780	(4.33)	(1,252,548)	21,058,360	(3.12)	(656,114)
Repurchase agreements	2,850,735	(3.83)	(109,107)	3,136,619	(2.60)	(81,531)
Other liabilities	5,303,678	(3.47)	(184,202)	5,518,445	(2.84)	(156,611)
Own funds	4,424,639	–	0	3,647,502	–	0
Total funds	**73,162,348**	**(3.28)**	**(2,397,225)**	**61,402,320**	**(2.28)**	**(1,401,001)**
Net interest income		1.80	1,317,237		1.79	1,097,871

Average volumes of lending and customer funds increased by 19.2% overall during the year. Loans and advances to customers, in terms of average balances, were strongly up by 24.6%, while customer deposits grew somewhat less rapidly, rising by 19.4%. The interest spread of the banking business (that is, the difference between the average yield on loans and advances and the average cost of deposits) widened by two basis points, from 2.91% in 2006 to 2.93% at the end of 2007.

Fees and commissions

Net fee and commission income reached a year-end total of €630.2 million, up 14.5% on the figure for 2006. Fees and commissions related to investment funds, pension funds and insurance were up by 20.1%.

Fee and commission income from investment funds rose by 20.2%. This despite the fact that fees and commissions from this source have been subject to a high degree of volatility caused by changing market conditions and were adversely affected in the latter months of the year by the second half fall in stock markets

which impacted negatively on assets in funds managed and/or sold by the group. By the close of 2007 assets in funds managed and/or sold by the group had fallen to €15,548.5 million.

Fees and commissions on pension funds increased by 23.7%. A major factor in this growth was the continuing strong performance of the BS Pentapensión product, with assets reaching a total of €987.9 million at 31 December 2007, a 45.3% increase on the figure for 2006. Personal pension plans were boosted by the performance of the Dinámico plan, with assets amounting to €355.6 million at the end of the year, generating fee income that was up almost threefold compared with 2006.

Insurance commissions – that is, brokerage commissions on sales of general (non-life) insurance products – were up by 8,1%. Commissions on sales of motor insurance increased by 16.7%, while commissions on home insurance policies were up 9.1%.

Fees and commissions for services rose by 14.1%, with fees relating to loan syndication such as structuring and underwriting fees being a particularly dynamic component. Fee income from securities trading also showed significant growth (up 19.4%), thanks to the contribution from Banco Urquijo from the second half of 2006 onwards.

Fees and commissions on loan and guarantee risks were up by 7.5% as a result of increased fees on lending and particularly on factoring services and other types of specialized business finance.

€'000

	2007	2006	% 07/06
Lending-related fees	82,527	69,224	19.2
Avals and other guarantees	71,057	73,248	(3.0)
Paid to other banks	(2,743)	(2,111)	29.9
Fees and commissions on loans & guarantees	**150,841**	**140,361**	**7.5**
Payment cards	61,090	62,359	(2.0)
Money transfers	40,248	43,054	(6.5)
Securities	59,457	49,793	19.4
Current account charges	32,852	34,886	(5.8)
Other	51,347	24,589	108.8
Fees and commissions for services	**244,994**	**214,681**	**14.1**
Investment funds	173,672	144,503	20.2
Pension plans	46,541	37,620	23.7
Insurance	14,160	13,096	8.1
Commissions related to investment and pension funds and insurance	**234,373**	**195,219**	**20.1**
Total net fees and commissions	**630,208**	**550,261**	**14.5**

General administrative expenses

General administrative expenses for the year 2007 totalled €1,025.0 million, a rise of 12.1% (6.1% with Banco Urquijo included from January 2006 onwards). The total was inflated by a number of non-recurring items.

Substantial extraordinary gains generated by asset sales made it possible to allocate funds to bring forward a programme of cost rationalization and improvements in operational efficiency. This generated non-recurring costs amounting to €88.9 million in the year.

Personnel expenses were up by 15.4%; the increase is 8.3% if the recurring element only is taken into account and Banco Urquijo is included for the whole of 2006. The increase in the recurring element is due to a pay and bonus review under the terms of the collective agreement, the addition of Transatlantic Bank, and salary increases.

Other administrative expenses were €326.1 million, up 5.7% on the year before. The increase in this item is negative (- 1.3%) if Banco Urquijo is included from January 2006 onwards. This satisfactory result can be attributed to actions put in hand during the year to improve efficiency and bring down costs.

€'000

	2007	2006	% 07/06
Wages and salaries	(476,616)	(423,417)	12.6
Social welfare costs	(98,900)	(92,353)	7.1
Other staff-related costs	(123,377)	(89,912)	37.2
Personnel expenses	**(698,893)**	**(605,682)**	**15.4**
IT and systems	(66,881)	(71,457)	(6.4)
Communications	(23,380)	(23,150)	1.0
Advertising	(29,037)	(22,916)	26.7
Premises, fittings and equipment	(64,444)	(62,652)	2.9
Printed material and office supplies	(9,620)	(6,704)	43.5
Taxes	(47,016)	(43,866)	7.2
Other expenses	(85,767)	(77,872)	10.1
Other administrative expenses	**(326,145)**	**(308,617)**	**5.7**
Total general administrative expenses	**(1,025,038)**	**(914,299)**	**12.1**

Banco Sabadell Group companies – additional information

Banco Sabadell is at the head of Spain's fourth largest banking group. The Group offers a full range of banking and financial services through its different banks, brands, subsidiaries and associates.

In 2007 these group undertakings were accounted for by the full consolidation, the proportional consolidation or the equity method according to principles and procedures laid down in the International Financial Reporting Standards as adopted by the European Union.

A full listing of the undertakings in the Banco Sabadell group can be found in the Annex to the notes to the accounts in the "statutory information" section of this report. Undertakings are classified according to the accounting method or procedure used in the consolidation, as mentioned above.

The following information has been shown for each undertaking listed in the Annex:

- principal business
- registered office
- the parent company's proportional holding (direct or indirect) in the undertaking
- capital, reserves, trading results, any dividend paid and total assets
- the group's net investment in the undertaking
- the contribution to group reserves or the loss made by the undertaking

- the contribution of the undertaking to group results
- whether or not the undertaking is treated as consolidated for tax purposes

Balance sheet and profit and loss data for some of these undertakings are provided in the tables that follow.

Banco de Sabadell, S.A.

Balance sheet

€'000

Assets	2007	2006
Cash and deposits with central banks	1,186,821	884,539
Trading portfolio	277,184	135,045
Available-for-sale financial assets	5,528,430	3,173,455
Loans and receivables	64,991,123	63,220,374
Hedging derivatives	338,928	293,445
Non-current assets held for sale	10,352	11,690
Equity investments in unconsolidated companies	1,088,344	950,867
Insurance contracts linked to pensions	263,475	304,644
Tangible fixed assets	678,924	710,728
Intangible fixed assets	445,549	450,072
Tax assets	733,990	693,813
Prepayments and accrued income	121,452	83,666
Other assets	16,779	384,591
Total assets	**75,681,351**	**71,296,929**

Liabilities	2007	2006
Trading portfolio	281,039	138,378
Financial liabilities at amortized cost	70,058,490	65,807,213
Hedging derivatives	579,715	251,983
Provisions	397,132	492,429
Tax liabilities	94,766	353,553
Accrued expenses and deferred income	206,166	190,810
Other liabilities	9,023	265,964
Total liabilities	**71,626,331**	**67,500,330**

Equity	2007	2006
Valuation adjustments	40,642	63,682
Own funds	3,410,248	2,876,354
Profit for the year	604,130	856,563
Total equity	**4,055,020**	**3,796,599**
Total liabilities and equity	**75,681,351**	**71,296,929**

Off-balance sheet items	2007	2006
Contingent exposures	8,251,510	9,602,521
Contingent commitments	22,991,057	21,320,178
Total off-balance sheet items	**31,242,567**	**30,922,699**

Income statement

€'000

	2007	2006
Interest income	3,685,103	2,483,000
Interest expense	(2,451,661)	(1,425,460)
Net interest income	**1,233,442**	**1,057,540**
Fees and commissions (net)	486,669	442,568
Income from trading	57,815	38,418
Foreign exchange differences (net)	52,904	46,883
Gross operating income	**1,830,830**	**1,585,409**
Operating expenses	(937,125)	(859,779)
Depreciation and amortization	(63,106)	(58,405)
Net operating income	**830,599**	**667,225**
Amortization and loan loss provisions (net)	(162,742)	(238,440)
Other income/losses (net)	67,945	26,828
Profit before tax	**735,802**	**455,613**
Corporate income tax	(131,672)	(238,882)
Profit from ordinary activities	**604,130**	**216,731**
Profit from discontinued operations (net)	0	639,832
Net profit	**604,130**	**856,563**

Balance sheet

€'000

Assets	**2007**	**2006**
Cash and deposits with central banks	22,649	6,463
Trading portfolio	27,191	3,143
Available-for-sale financial assets	9,755	3,629
Loans and receivables	2,248,842	2,161,878
Hedging derivatives	9,423	23,982
Tangible fixed assets	33,430	34,505
Intangible fixed assets	99,344	103,094
Tax assets	5,580	5,021
Prepayments and accrued income	19,746	7,046
Other assets	255	1,081
Total assets	**2,476,215**	**2,349,842**

Liabilities	**2007**	**2006**
Trading portfolio	27,163	612
Financial liabilities at amortized cost	2,217,558	2,149,950
Hedging derivatives	8,823	3,254
Provisions	2,022	2,593
Tax liabilities	15,761	19,379
Accrued expenses and deferred income	11,148	2,878
Other liabilities	81	354
Total liabilities	**2,282,556**	**2,179,020**

Equity	**2007**	**2006**
Valuation adjustments	197	152
Own funds	170,670	164,167
Profit for the year	22,792	6,503
Total equity	**193,659**	**170,822**
Total liabilities and equity	**2,476,215**	**2,349,842**

Off-balance sheet items	**2007**	**2006**
Contingent exposures	181,524	199,983
Contingent commitments	411,153	458,334
Total off-balance sheet items	**592,677**	**658,317**

Income statement

€'000

	2007	2006
Interest income	104,777	37,015
Interest expense	(69,226)	(25,107)
Net interest income	**35,551**	**11,908**
Fees and commissions (net)	27,820	10,406
Income from trading	9,975	1,155
Foreign exchange differences (net)	2,413	901
Gross operating income	**75,759**	**24,370**
Operating expenses	(38,533)	(9,588)
Depreciation and amortization	(5,094)	(1,094)
Net operating income	**32,132**	**13,688**
Amortization and loan loss provisions (net)	(648)	(2,303)
Other income/losses (net)	(1,216)	(558)
Profit before tax	**30,268**	**10,827**
Corporate income tax	(7,476)	(4,324)
Profit from ordinary activities	**22,792**	**6,503**
Profit from discontinued operations (net)	0	0
Net profit	**22,792**	**6,503**

Balance sheet

€'000

Assets	2007	2006
Loans and receivables	551,241	543,918
Non-current assets held for sale	23	23
Tax assets	2,557	2,643
Prepayments and accrued income	8	8
Total assets	**553,829**	**546,592**
Liabilities	**2007**	**2006**
Financial liabilities at amortized cost	502,773	494,424
Accrued expenses and deferred income	986	935
Total liabilities	**503,759**	**495,359**
Equity	**2007**	**2006**
Own funds	51,033	51,028
Profit for the year	(963)	205
Total equity	**50,070**	**51,233**
Total liabilities and equity	**553,829**	**546,592**
Off-balance sheet items	**2007**	**2006**
Contingent commitments	7,304	7,478
Total off-balance sheet items	**7,304**	**7,478**

Income statement

€'000

	2007	2006
Interest income	18,421	15,798
Interest expense	(20,507)	(13,673)
Net interest income	**(2,086)**	**2,125**
Fees and commissions (net)	54	2
Income from trading	71	208
Gross operating income	**(1,961)**	**2,335**
Operating expenses	(451)	(345)
Net operating income	**(2,412)**	**1,990**
Amortization and loan loss provisions (net)	993	(1,238)
Other income/losses (net)	(18)	12
Profit before tax	**(1,437)**	**764**
Corporate income tax	474	(559)
Profit from ordinary activities	**(963)**	**205**
Profit from discontinued operations (net)	0	0
Net profit	**(963)**	**205**

Balance sheet

€'000

Assets	2007	2006
Intangible assets, start-up costs and deferred expenses	278	0
Investments	2,760,828	2,585,563
Investments for the account of life assurance policyholders who bear the investment risk	508,792	453,927
Reinsurers' share of technical reserves	4,942	5,064
Loans	19,441	11,925
Other assets	139,577	161,860
Prepayments and accrued income	21,225	25,945
Total assets	**3,455,083**	**3,244,284**

Liabilities	2007	2006
Capital and reserves	186,100	157,319
Deferred income	153	482
Technical reserves	2,726,400	2,591,767
Technical reserves for life insurance policies where the investment risk is borne by policyholders	508,424	453,587
Provisions for liabilities and charges	400	358
Debts	33,522	40,362
Accrued expenses and deferred income	84	409
Total liabilities	**3,455,083**	**3,244,284**

Income statement

€'000

	2007	2006
Underwriting results - non-life account	548	909
Underwriting results - life account	40,531	35,838
Investment income	1,340	983
Investment expense	(708)	(216)
Other income	774	826
Other expenses	(81)	(263)
Non-operating income	6	9
Profit before tax	**42,410**	**38,086**
Corporate income tax	(13,629)	(13,194)
Net profit	**28,781**	**24,892**

Balance sheet

€'000

Assets	2007	2006
Fixed assets	7	16
Debtors	311	470
Cash in hand and at banks	6,594	8,476
Prepayments and accrued income	88	231
Total assets	**7,000**	**9,193**

Liabilities	2007	2006
Shareholders' equity	1,840	2,726
Provisions for liabilities and charges	0	38
Liabilities to Group undertakings	669	2,146
Trade creditors	151	644
Other non-trade debts	304	193
Accrued expenses and deferred income	4,036	3,446
Total liabilities	**7,000**	**9,193**

Income statement

€'000

	2007	2006
Operating income	8,585	12,524
Personnel expenses	(1,651)	(1,609)
Sales commissions	(4,078)	(6,151)
Other operating expenses	(655)	(656)
Net operating income	**2,201**	**4,108**
Non-operating income	409	4
Non-operating expenses	0	(38)
Profit before tax	**2,610**	**4,074**
Corporate income tax	(848)	(1,426)
Net profit	**1,762**	**2,648**

Balance sheet

€'000

Assets	2007	2006
Fixed assets	9,182	11
Debtors	69	71
Cash in hand and at banks	44,740	47,058
Prepayments and accrued income	2,088	1,523
Total assets	**56,079**	**48,663**

Liabilities	2007	2006
Shareholders' equity	33,831	31,242
Liabilities to group undertakings	19,235	13,734
Trade creditors	2,909	3,335
Other non-trade debts	104	352
Total liabilities	**56,079**	**48,663**

Income statement

€'000

	2007	2006
Operating income	37,992	30,492
Personnel expenses	(812)	(714)
Administrative expenses	(22,854)	(19,433)
Net operating income	**14,326**	**10,345**
Finance income	264	0
Finance expense	(824)	0
Non-operating income	48	18
Profit before tax	**13,814**	**10,363**
Corporate income tax	(4,490)	(3,628)
Net profit	**9,324**	**6,735**

Balance sheet

€'000

Assets	2007	2006
Uncalled capital	0	5,000
Intangible assets, start-up costs and deferred expenses	96	107
Investments	2,861	0
Loans	793	0
Other assets	14,795	4,986
Prepayments and accrued income	72	0
Total assets	**18,617**	**10,093**

Liabilities	2007	2006
Capital and reserves	11,790	10,061
Debts	5,265	32
Accrued expenses and deferred income	1,562	0
Total liabilities	**18,617**	**10,093**

Income statement

€'000

	2007	2006
Investment income	334	93
Investment expense	(139)	0
Other income	5,574	0
Other expenses	(3,208)	0
Profit before tax	**2,561**	**93**
Corporate income tax	(832)	(32)
Net profit	**1,729**	**61**

Balance sheet

€'000

Assets	2007	2006
Tangible fixed assets	50	25
Long-term investments	18,589	312
Debtors	28,781	29,846
Short-term investments	117,087	110,405
Cash in hand and at banks	15,217	2,600
Total assets	**179,724**	**143,188**

Liabilities	2007	2006
Shareholders' equity	85,116	50,991
Owed to Government agencies	4,493	6,032
Credit institutions	5,595	11,044
Fees and commissions payable	83,289	74,605
Accrued expenses and other adjustments	1,231	516
Total liabilities	**179,724**	**143,188**

Income statement

€'000

	2007	2006
Operating income	142,087	112,635
Other operating income	3,280	1,685
Personnel expenses	(6,488)	(5,287)
Other operating expenses	(88,764)	(77,624)
Amortization and impairment provisions	(8)	(4)
Net operating income	**50,107**	**31,405**
Finance income	721	150
Other income	253	1
Non-operating expenses	(518)	(2)
Profit before tax	**50,563**	**31,554**
Corporate income tax	(16,438)	(11,044)
Net profit	**34,125**	**20,510**

Balance sheet

€'000

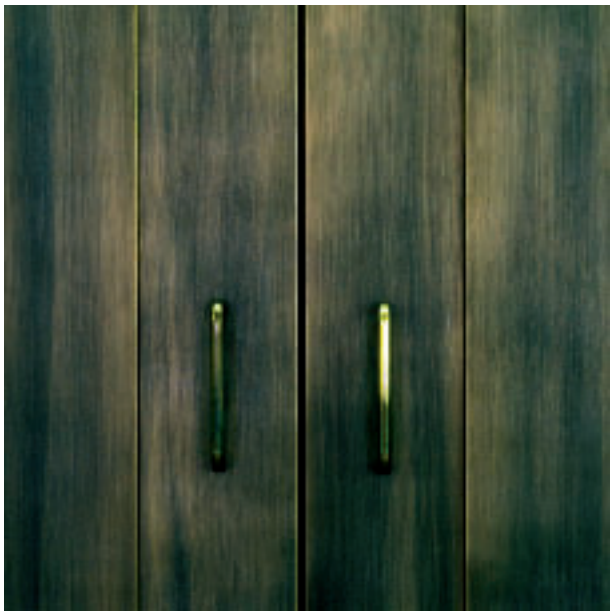
Assets	2007	2006
Tangible fixed assets	23	0
Long-term investments	2	12
Debtors	2,628	5,945
Short-term investments	25,018	18,345
Cash in hand and at banks	2,196	1,229
Total assets	**29,867**	**25,531**

Liabilities	2007	2006
Shareholders' equity	20,988	20,747
Owed to Government agencies	86	126
Credit institutions	0	1,070
Fees and commissions payable	8,362	2,512
Accrued expenses and other adjustments	431	1,076
Total liabilities	**29,867**	**25,531**

Income statement

€'000

	2007	2006
Operating income	10,002	31,218
Other operating income	767	195
Personnel expenses	(2,328)	(2,621)
Other operating expenses	(8,893)	(25,392)
Amortization and impairment provisions	(1)	(3,905)
Net operating income	**(453)**	**(505)**
Finance income	178	21
Other income	816	50
Other expenses	(280)	(120)
Profit before tax	**261**	**(554)**
Corporate income tax	(20)	(91)
Net profit	**241**	**(645)**



Group businesses

Commercial Banking

One of the key areas within the Banco Sabadell business structure is Commercial Banking. With its focus on financial products and services for individuals, small and medium-sized businesses and retailers, it has the degree of specialization necessary to ensure that customers receive personalized attention appropriate to their needs, either from knowledgeable staff at their local branch or via channels designed to enhance the customer relationship and make it easier to operate remotely.

The Commercial Banking business model, which is designed with a strong focus on customer and market segmentation, was further developed during the year. This strategic focus is realized through four brands:

- SabadellAtlántico
- Solbank
- Banco Herrero
- ActivoBank

The Bank's success in meeting the particular needs of these market segments – SMEs, individuals (with its private banking, personal banking and mass market sub-segments), non-residents and professional associations – enabled Commercial Banking to report sizeable increases in market share as well as year-on-year growth in lending and deposits, which were up by 10.5% and 5.4% respectively.

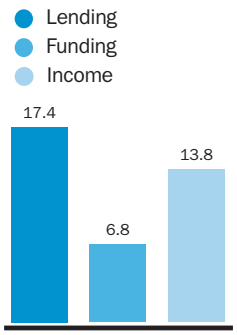
SMEs, retailers and sole proprietors

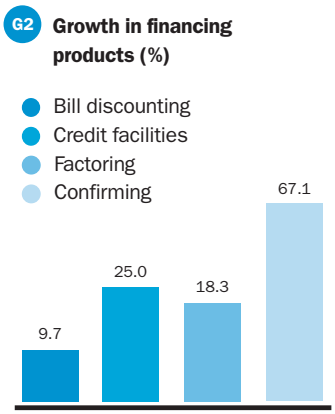
Once again, the year 2007 saw an active and intensive focus on micro-enterprises and small and medium-sized businesses (SMEs), which continued to be a prime growth area for Commercial Banking.

A particularly strong area of business development was interest rate hedging products, which produced a very good response and high levels of take-up by SMEs. This was helped by the rise in interest rates, among other things. As a result, 3,837 companies – 31.3% more than in 2006 – were able to cover borrowing against possible interest rate increases to a total of more than €2,200 million at 31 December, up 57% on the year before. Products specifically designed for the SME market include **BS Swap Creciente** which, thanks to a very strong marketing campaign, had accumulated a total of €2,193 million worth of contracts and 4,534 applications by the end of 2007.

Another success related to hedging products, this time for international trade, was a large-scale campaign to promote currency hedging derivatives with a combination of options, focusing on importers and the dollar exchange rate. Lower minimum contract amounts and more highly automated processing helped to improve sales of these products to our SME customers.

G1 Growth in 2007 – SMEs and micro-enterprises (%)





In working capital finance, there was a growing tendency for SMEs to make use of products providing specialized payment and collection solutions.

In long- and medium-term finance, the year saw growth in leasing agreements (up 15.5%) and contract equipment hire, particularly in vehicles, with agreements up 27.2% by volume and 33.1% by value.

The Bank also confirmed its key role in facilitating the provision of finance for productive investment for SMEs on preferential terms under funding programmes promoted by official credit agencies. One such scheme was a disbursement of funds by the Bank under the **ICO Pyme 2007** scheme, amounting to €663 million, an increase of 34.4% on the previous year, with Banco Sabadell taking the third largest share among banks participating in the scheme.

As part of a credit scheme at the regional level, financing of €37 million was advanced under contracts linked to the **Línea ICF Crèdit 2007** scheme funded by the Government of Catalonia, with Banco Sabadell occupying a notable first place for the third consecutive year.

Mutual guarantee societies, regulated institutions set up to provide guarantees to their members for financing and other purposes, continued to show steady growth. Banco Sabadell has entered into agreements with mutual guarantee societies in every participating Spanish autonomous region, allowing it to provide effective support for SME financing on favourable terms through the provision of loans guaranteed by the societies. Loans granted currently stand at about €100 million and Banco Sabadell is the principal banking organization in Catalonia providing guaranteed loans of this type.

The group continued to deepen relationships with its SME and retailer customers during the year through sales of business insurance policies of all kinds, which were up by 25.5%.

Products showing especially strong sales growth were **BS Protección Empresas** (up 59.0%) and **BS Protección Comercios** (up 35.0%).

In property-related lending, growth was not unaffected by the current contraction in the real estate market. Against this background, new loans to property developers totalled €1,438 million. This represents 31.8% of total properly-related lending by the Banco Sabadell group in volume terms and 65.5% in terms of the number of loans.

On 5 February a cooperation agreement was entered into with the Asociación Catalana de Municipios y Comarcas (ACM), an association of local authorities, by which the Bank agreed to offer financial products and services to ACM members on preferential terms and to offer associate banking arrangements to the employees of ACM member authorities. Banco Sabadell also bid for and won a contract to run a pension scheme for local authority workers sponsored by the Association and by two trade unions, UGT and Comisiones Obreras.

A product that continued to sell well in 2007 was **BS Comercios**, a multi-product package offering a range of financial and non-financial solutions to meet the needs of retail businesses, both for the business itself and for personal use. BS Comercios is now recognized as offering one of the best and most comprehensive ranges of business services on the market. Since its launch in 2006 a total of 37,400 retail outlets all over Spain have signed up for the programme, a sure sign of the popularity and high quality of the product.

In June **BS Autónomos** was launched, the only comprehensive package of financial and non-financial services that includes an innovative insurance product specially designed for the sole proprietor, guaranteeing continuity of income in the event of accident or illness. In the course of 2007 BS Autónomos, which offers solutions tailored to meet the needs of professional people, made a name for itself as the best product of its type in the marketplace. Another product launch in mid-2007 was **BS Microempresas**, a flat-fee account offering a range of financial and non-financial products and services to cater for the commonest needs of micro-enterprises. The package is a genuine marketplace differentiator, offering high added value at a competitive price. Since its launch, BS Microempresas has more than fulfilled the intention that it should be a star product in attracting new customers.

Banco Sabadell participated both as a co-sponsor and an exhibitor in the second EXPOPYME 07 business fair in Zaragoza for products and services aimed at SMEs, where it was one of the most active participants and attracted large audiences to its presentations.

Private customers

Promotional activities directed at different segments of the private customer market – private banking, personal banking and mass markets – were focused mainly on three aspects: attracting and retaining customers, growing on-balance sheet deposits, and enhancing the value proposition for personal and private banking customers.

New customer accounts opened in 2007 beat all records, reaching a total of 164,000. This ensured that the net growth in customer numbers was also up on the previous year.

On the funding side, a strong focus on sales promotion and new product development resulted in deposits showing year-on-year increases and reaching an overall total of €8,100 million at the end of the year.

Structured deposits were up by an impressive 75.1%, while fixed-rate deposits increased by 32.5%.

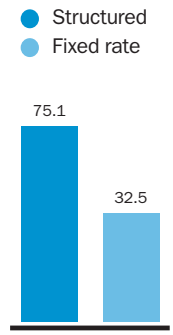
The year 2007 saw Banco Sabadell further strengthening its position as a key player in branch-based personal banking and private banking, with a threefold increase in the number of investment advisers and a doubling of the number of private banking managers. It also continued to develop a distinctive and innovative product range and to deploy its service enhancement model.

By focusing on these priorities Commercial Banking was able to grow business volumes in the personal banking segment to some €40,000 million.

Personal banking maintained its position of leadership in this market in 2007, with customer accounts rising to more than €24,000 million, up 7.5% on the year before.

Organic growth in customer numbers and the integration of some customers from the former Banco Urquijo provided an opportunity to deploy the group's personal banking service model and expand the network of qualified and experienced investment advisers with European Financial Advisor (EFA) accreditation. As a result, new professional advisers were recruited from all over Spain with the aim of ensuring continuing high standards and a positive customer service experience.

G3 Growth in deposits (%)



In keeping with the Banco Sabadell commitment to creating customer value and providing the best possible service, the year saw the start of weekly mailings of a report specially for personal banking customers, with features including an overview of financial market movements, future prospects, stock recommendations and product developments such as issues of structured deposits, unit-linked investments and a wide array of financial and brokerage services.

On the lending side, personal banking customers have since this year been given access to **Hipoteca Premium**, an exclusive mortgage product offered on special terms.

In the mass market segment, activity centred on the recruitment of new customers as an absolute priority.

For younger customers, for example, the **Cuenta Júnior** account repeated the success it enjoyed in 2006 and succeeded in adding 45,000 new customers in the under 14 age group. However, the key development this year was in the segment of customers in the 14 to 25 age group, on which the year's most spectacular sales campaign – the **Click OK** youth programme – was targeted. The campaign is based on the celebrity footballer Leo Messi and was launched in May. Sales promotion actions in the course of 2007 were responsible for a 38.4% increase in customers in that age group with respect to the previous year.

In the senior age group, a considerable part of the growth in customer numbers can be attributed to a campaign to promote payroll services supported by attractive promotional offers, and the continued development of the **Cuenta Más** and **BS Senior** packages (designed specially for customers of 55 and over), with enrolments totalling 85,000 and 113,000 by the end of the year respectively. Loyalty programmes targeting this customer group were based largely on enhancements and active management of non-financial benefits included in these two packages. Cuenta Más, for example, benefited from special campaigns and exclusive offers in travel, hotel accommodation, motoring and home improvement, while the holders of BS Senior accounts were able to enjoy ongoing development of the InfoSenior.es website.

In the area of lending, significant progress was made in improving sign-up processes and the means of gaining access to consumer benefits, with the result that 30% of transactions are now performed on channels other than the branch network, i.e. by post or telephone or online. The major development in the lending arena was undoubtedly the launch of the **Hipoteca Joven** mortgage product. With the help of an innovative media campaign on the YouTube website, this has become a pace-setting product for people aged 30 or less.

Professional associations

Initiatives targeted on professional groups and customer recruitment strategies based on agent partners and associate banking played a vital role in helping to increase business volumes and attract private customers, which are priority aims for Commercial Banking.

Banco Sabadell continued to see good progress in extending its franchise among professional associations and occupational groups throughout the country. By the end of the year a total of 753 agreements were in operation with a variety of professional groupings and associations, either through TecnoCredit, a part-owned Banco Sabadell group undertaking which targets members of legally regulated professional associations and university-educated members of other groupings, or directly by the Bank itself.

Financial services geared to professional and occupational groups generated business volumes amounting to more than €6,180 million, a 35.7% increase on the figure at the end of 2006.

The group's network of agent partners is made up of professional people who are in a position to introduce new customers and bring in new business for Banco Sabadell. A total of €2,250.98 million in new business was contributed by agent partners in 2007, an increase of 21.0% on the previous year.

The recruitment of individual customers from among the employees of Banco Sabadell's corporate customers continued to show significant growth, increasing by 296.9% over the year. Agreements were concluded with a number of major employers to allow the group to contact their employees with offers of products and services on preferential terms.

Payment Media

The framework agreement on interchange fees that went into operation in December 2005 continued to dominate the competitive environment in payment media. The gradual but steady reduction in inter-bank charges required by the framework agreement means that the card industry will have to change its business model by developing new products and adopting fresh marketing strategies with respect both to merchants and to payment card holders.

To respond to this changed competitive environment the Bank put in place an aggressive market strategy which enabled it to achieve record rates of growth in the level of card payments. This helped to further underpin the group's acknowledged position of leadership in the corporate customer segment. An intensive promotional campaign, combined with an all-out commitment to new business development, resulted in year-on-year increases of more than 9.2% in revenue from point-of-sale card transactions, with growth fairly evenly balanced across retail market sectors and corporate customer segments.

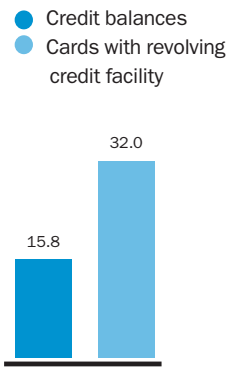
The framework agreement also impacted on the card issuance business by subjecting it to greater competitive pressure, especially from market players with smaller slices of the retailer business. The Bank responded to this pressure by boosting card issuance and encouraging more continuous card use by customers through special offers focused mainly on promoting the deferred payment option.

This included the introduction of **InstantShopping**, a trade name acting as an umbrella brand for sales initiatives to promote the use of deferred and instalment-based payment methods.

Promotional actions under the InstantShopping banner helped to bring about year-on-year increases of 15.8% in card credit balances and 32.0% in the number of cards with revolving credit facilities.

The Bank completed the process of upgrading its systems for issuing cards to the Europay MasterCard Visa (EMV) standard and

G4 InstantShopping - volume growth (%)



is now fully compliant with the Single European Payment Area (SEPA) regulations. In addition, the group is now ready to develop and launch new products so as to reap the commercial benefits of chip cards.

Banco Herrero

At the end of 2007 Banco Herrero had the largest branch network within the principality of Asturias and one of the largest within the neighbouring province of León. Banco Herrero is the brand name under which Banco Sabadell distributes products and services in the Asturias-León area. The strength of the branch network and the solid recognition and long tradition of the Herrero brand, combined with a substantial customer base ensured that Banco Herrero was able to achieve solid growth in 2007.

With its 184 Commercial Banking branches, Banco Herrero saw increases of 8.1% in lending and 7.1% in deposits in 2007.

Particularly impressive, once again, was Banco Herrero's performance within the SME sector. The various types of SME financing provided by Banco Herrero showed a year-end increase of 17.4%, while deposits were up by 9.5%.

More specialized forms of finance, including business working capital funding arrangements such as factoring and "confirming", or added value solutions to support SME investment in plant and equipment, such as leasing and contract equipment hire, were up 22.0% overall in 2007. The Banco Sabadell group's well-attested high-quality service and accumulated experience in serving the SME market was a critical factor in the strong growth in these products achieved by its Banco Herrero branches.

More traditional forms of lending such as bill discounting, credit facilities and loans were up by 17.3% on the year, exceeding the 16.0% growth in mortgage finance for the construction and sale of property developments, a business which was affected by the cooling of the property market and the strictly cautious approach taken by the Bank in the selection of projects to be given financial support.

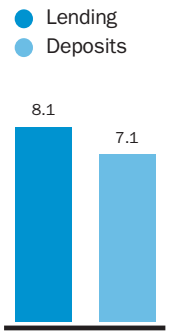
As with Commercial Banking as a whole, uncertainty over future interest rate movements combined with the sound advice provided by the Bank in this field boosted the demand for interest rate hedging instruments, with the result that the majority of variable-rate borrowing by Banco Herrero's small business customers was covered by interest rate hedges in 2007.

Banco Herrero maintained its leading position as a provider of small business finance under the **ICO Pyme 2007** scheme, taking a share of more than 17.5% of all official funding granted to Asturian small and midsize businesses under the scheme.

Services provided by Banco Herrero to support its customers' foreign trade activities had another successful year, with a 10.4% increase in revenue and particularly strong growth in import-related services.

A key development in product innovation was the launch of **Herrero Autónomos**, a package of financial and non-financial services providing customized solutions for sole proprietors, an increasingly important market in terms of the number of people involved and the rapid development shown over the last few years. At the end of the year the service had been taken up by more than 1,000 customers since it was launched in May, a sure sign of its popularity with customers.

G5 Banco Herrero - volume growth (%)



For Banco Herrero's personal customers 2007 was a year for making deposits, encouraged by high interest rates and a more favourable tax environment. Despite fierce competition, heightened by increasingly tight liquidity throughout the banking system, deposits were up by 6.8% on the previous year. Apart from good growth in traditional instant-access and fixed-term accounts, Banco Herrero was able to show outstanding performance in attracting new structured deposits, which grew strongly throughout 2007 to achieve a volume increase of 98.1% over the previous year.

The launch of the **Click OK** programme for young people was by far the year's most significant event in relation to mass-market products. This is an exciting package of financial and non-financial services and, in Asturias, is offered with the *Carné Joven* card as a result of the renewal of an agreement with the Asturias Youth Institute. The product was taken up by more than 20,000 young people in the region.

Recognition of the Banco Herrero name was promoted through a number of sponsorship and community support initiatives, thus continuing a long tradition of building up the brand within Asturias and León. Cultural events supported through the Banco Herrero Foundation, along with a variety of activities in the social and sporting arenas, were the main focus of Banco Herrero's awareness-raising activities.

Solbank

With a network of 95 branches concentrated in Spain's coastal areas, especially Valencia, Murcia, Andalucía, the Balearic Islands and the Canary Islands, Solbank seeks to meet the needs of a market segment consisting of European expatriates temporarily or permanently resident in Spain. It also serves the infrastructure of small firms and retail outlets that has grown up around what is often referred to as the 'residential tourism' market.

Faced with a maturing market, ever more intense competition and a stagnating residential property sector, Solbank continued to realize its business development plans, achieving year-on-year increases in volumes and margins and maintaining its leading position within its market segment.

Highly effective methods of drawing in and securing new customers continued to be developed and perfected, and have become a key element of the Solbank business strategy. The first of these, referrals through recommendations from existing customers, has increased in importance year after year with respect to other introduction channels, and now accounts for 34.1% of all new customers recruited, proving beyond doubt the high level of customer satisfaction at the quality of service being delivered.

A second key channel of customer referral, based on referrals from professional people associated with the property market, forms an international recruitment dimension focused on Solbank customers' countries of origin. After making a good start in 2006, this programme was expanded in 2007 and is now showing significant results. Its success has been thanks in no small measure to customer referral agreements with HypoVereinsbank in Germany; with the Professional Insurance Brokers Association of 889 member firms in Ireland; and with the UK-based

multinational property developer Taylor Woodrow, which boasts a major presence in the second home market in Spain.

To further the aim of boosting customer recruitment in countries of origin, a Single Entry Point or support centre was set up to provide an integrated mechanism for managing new customers referred to Solbank by introducers abroad. This has proved a key differentiator and helped to establish a clear competitive edge.

On the product front, in 2007 a revamp was given to the **Prestige Care Account**, the jewel in the crown of the Solbank product range. Prestige Care is an instant-access account incorporating a package of non-financial services to meet the everyday needs of a foreign person living in Spain; this has now been enhanced with the addition of financial services offered at highly attractive rates. Enhancing the product in this way helps to explain why 60% of Solbank's foreign customers were holders of the Prestige Care Account at the end of the year.

Continuous innovation and development in foreign currency products was a key factor supporting marketing efforts to attract deposits. One such product was the **Dynamic Sterling Deposit**, a structured deposit denominated in pounds sterling and a genuinely innovative development within the Spanish retail banking market.

ActivoBank

ActivoBank is the brand name of the Banco Sabadell business unit that caters for personal banking customers who prefer to operate by telephone or online, bringing them a range of innovative specialized financial services.

Revenue growth during the year was highly positive. In 2007 efforts were concentrated on securing increased funds available for lending and this resulted in a sizeable contribution to group funding, with deposits increasing by 246.8% year- on-year to a total of €134.76 million. This amount far exceeded the target set at the beginning of the year and helped ActivoBank to end the year with customer funds of €189.35 million.

Investment fund and pension plan assets amounted to €136.79 million and €45.80 million at the end of the year respectively, boosting the ActivoBank profit and loss account and increasing its assets.

Throughout the year ActivoBank was offering the most affordable mortgages on the Spanish market (EURIBOR + 0.22% at the close of the year). Mortgage loans in aggregate totalled €185.64 million at the end of the year.

ActivoBank, whose distribution channels currently include online and telephone (contact centre) communication and "Activo" centres in Madrid and Barcelona, boosted its brand profile through its participation in a number of capital market, stock market and property market events and by exhibiting at key industry fairs within Spain.

To keep pace with the expansion of its business and provide sufficient capacity to meet its objectives, in 2007 ActivoBank embarked on a renovation of its IT systems with the emphasis firmly on enhancing customer service quality and providing fast and efficient processing via the website. A key development in this area was to integrate ActivoBank's investment and equity fund processes with the Banco Sabadell group platform.

At the close of the year ActivoBank had a total of 23,161 active customers, up 23.4% on the previous year. The average account balance per customer was €28,348.

Corporate Banking

Corporate Banking is the business area through which Banco Sabadell serves the needs of domestic and foreign corporate and institutional customers with sales of €6 million or more. At the end of the year Corporate Banking had achieved results that were well in excess of the targets set in the annual business plan, and also those envisaged in the three-year plan for 2005-2007 (ViC 07).

Although the most noteworthy aspect was the division's excellent performance in terms of pre-tax profit growth – up 65.5% – it also made progress on a number of other major fronts, some of which are briefly outlined below:

Specialized branches for business customers. Three new business branches were opened in 2007, bringing the total to 66 and extending the network to almost every part of Spain. The specialized branch model is now well established, enabling the division to provide a service fully geared to meet the needs of businesses (not only in the offering of products and services, but also in the ability to arrange and advise on transactions in areas such as foreign trade or treasury management) and of proven quality.

Geographical reach. The major expansion of the branch network over the last few years is now bearing fruit, especially in those parts of the country furthest away from the Bank's traditional area of influence. In the autonomous regions of Madrid and Andalucía, for example (and these are the regions with the second and third most companies of the type targeted by Corporate Banking), average business volumes were increased in 2007 by 21% and 34% respectively.

Branches supported by special units. An expanded and strengthened branch network has now been supplemented by specialist units located in different parts of the country, ensuring that business account managers (the primary contact in the customer relationship) has close-at-hand support of the highest order; this has helped to boost sales of products, and to markets, that are regarded as critical by the division.

Closeness to the customer. Helping customers manage their working capital requirements continues to be the backbone of the Corporate Banking service and enables the division to support companies in their day-to-day operations (working capital finance up by 16%). One of the division's strengths is its ability to supply prompt and flexible solutions to facilitate companies' relationships with their customers and suppliers, whether it be through collection and payment management or by affording them flexibility to meet their cash management needs.

Business focus. Corporate Banking sets clear and simple business objectives, such as prioritising lines that make the

biggest contributions to ROE and aggressively increasing the customer base to boost growth now and ensure continued growth in the future. This has been accompanied by a strengthening of all support units, especially those that provide most synergies to the branch network in pursuing these objectives (Sabadell Corporate Finance, Treasury Management, Wealth Management).

Adaptability and responsiveness. By designing short-term campaigns and through rapid communications, combined with incentives to branches to better their performance, sales and promotional efforts can be focused according to needs as they arise. This can be seen in the way Corporate Banking gained an edge over the competition against the backdrop of a financial market credit crunch and was able to increase funds under management in on-balance sheet products by more than €1,300 million in the last four months of the year.

Constant innovation in financial solutions. Much work was done in the course of the year to develop and launch innovative products in the marketplace. This aim was achieved across all areas of business, from the more traditional forms of financing (through syndicated factoring, electronic invoicing, marine equipment leasing, etc.) and foreign trade operations (tendering and trade consultancy services, etc.), to more specialized fields such as investment banking and treasury management.

Market leading track record. The league table positions and market shares achieved by the division in 2007 clearly reflect Banco Sabadell's acknowledged position as a market leader: 46% market penetration; financial company with second most MLA transactions; sixth biggest volume in remote banking; 11.6% share of factoring plus "confirming" business; 9% share of import business; 11% share of export business, and so on.

Integrated solutions. Corporate Banking is in a position to provide financial solutions for practically any customer need. The division covers all the more usual and traditional business areas, but also has the capability to provide solutions in any field: a multiplicity of investment structures in wealth management, IPO or flotation deals, project finance, international consultancy, electronic billing, company pension and retirement plans, and more.

Lending

Lending by Corporate Banking grew 18% in 2007 to well above €30,000 million. While this growth was evenly spread across the product range, with double-digit growth in financing for working capital and for productive investment or syndicated loans or structured financing deals, outstanding performance was achieved by:

Factoring	45%
Forfaiting	41%
Confirming	15%
Structured/syndicated financing	20%
Contract vehicle/equipment hire	41%

Lending was one area where innovation in financial solutions was most in evidence, as in the case of factoring where new financing solutions included syndicated factoring solutions, medium-term financing structures or credit protection through both domestic and foreign credit insurers. Forfaiting was another area that saw major innovation, including transactions associated with the signing of players for clubs in Spain's Professional Football League.

In the field of finance for productive investment, new product launches included contract plant and equipment hire and marine leasing services and the introduction of new sales channels which will lead to further growth in the coming years.

Turning to higher level and more specialized forms of financing or Investment Banking, during the year the group's Real Estate and Investment Banking units were brought together under a single manager to benefit from high-value market and customer synergies. No less noteworthy in this context was the division's number two ranking in lead arranger mandates by number of deals, according to data from Dealogic. The figures are shown in the table:

T1 Investment Banking

€ Mn.

	Number of deals	Volume
Corporate and acquisition finance	104	1,998
Project finance	186	1,857

Funding

Once again in 2007, attracting funds was a key focus of activity at branches, working in close cooperation with the BS Patrimonios wealth management team. This was reflected in the unit's revenue performance, which showed a rise of 15.6% in volume terms and, more important, a 38% margin increase.

A synergy-producing factor was the involvement of the Business Treasury management team in achieving this aim, resulting in a wide range of product alternatives based on the development of different varieties of structured investment.

The division's success in securing increased funds in 2007 was doubly significant as it not only boosted the division's self-funding ratio but helped to increase margins on a type of product that has a very positive effect on the ROE.

The year also saw solid growth in the less liquid products that normally require a higher degree of customer loyalty and more extensive knowledge by branch personnel to be successfully sold:

Deposits	386%
Structured investments	73%
Investment funds	15%

Fees and Commissions

Fees and commissions are particularly important as they relate to the group's ability to provide the type of services most closely associated with what could be called the added value that the Bank can deliver to customers. It is therefore significant that net fee and commission income increased by 20.4% while income from trading,

which broadly corresponds to the services covered by treasury management, was up by 13.7%.

Electronic invoicing. The Banco Sabadell electronic invoicing service was the first to be launched by a Spanish financial institution and has earned a reputation as a leading-edge platform, both in the Spanish market and abroad. It is now in use by more than 150,000 companies for the circulation and safekeeping of invoices.

Payment and collection management. The major innovation here was in company credit cards. Apart from continuing to provide customers with the payment solutions they needed, a full product revamp was completed with the development of new business credit cards in partnership with MasterCard. This resulted in a number of significant enhancements. As for business growth, 2007 was a year of strengthening our position as a top-line bank: card payments were up by 77% and automated collection processes were introduced for some of our country's largest companies, thanks to our integrated advisory and solution implementation service.

Business treasury management services.The build-up of the division's treasury management capabilities continued in 2007 following the addition of a fresh contingent of specialist personnel from the former Banco Urquijo in late 2006. This helped to achieve an excellent revenue performance (up 47%) and to increase the number of product lines. These included exchange rate hedging instruments (helped by the group's strong position in foreign trade services) and private issues of structured bonds in coordination with the business account manager and the BS Patrimonios team.

Investment Banking – consolidation and performance. Investment Banking received a major boost in 2007 thanks very largely to the incorporation of personnel from Axel Urquijo. This helped the division to increase its participation in mergers and acquisitions, share ownership restructurings and specialized financial advisory services generally. Significantly, this activity included the division's first mandate as global coordinator of an IPO transaction. All this had a considerable impact on profitability and, even more important, clearly demonstrated Banco Sabadell's ability to undertake investment banking transactions with every guarantee of success.

Specialization in foreign trade. Banco Sabadell continues to be an acknowledged leader in foreign trade expertise; this is shown by its ability to maintain the high levels of market penetration that it has scored in previous years (9% in imports and 11% in exports).

During the year two new highly specialized services were launched: **International Consultancy** and **Tendering**. Another important development was the creation of a **Global Trade Finance** unit to provide corporate customers with long and medium-term financial solutions specifically designed for major exporting programmes.

Finally, Banco Sabadell continued to exercise its key role as a provider of training and information to businesses on foreign trade. Highlights in the wide variety of events organized by the Bank were the "country workshops" organized to provide briefing on vibrant markets such as China, Turkey, Morocco and Eastern Europe, or meetings to discuss compliance with new rules and practices related to the use of documentary credits (UCP 600), which came

into force in July. Another key event was a "BS International Business Day", a one-day conference held in Valencia with the theme "The Community of Valencia – a business strategy in the global marketplace'. The conference was attended by noted experts in foreign trade and eminent political and business leaders in the autonomous community of Valencia.

Wealth Management

The Commercial Banking wealth management unit continued its rapid growth thanks to the enormous advantages it derives from being totally integrated with the Bank's commercial organization. Banco Sabadell is, in fact, one of the Spanish banks with the largest number of dedicated wealth management branches, and could boast totals of 14,300 customers and €11,700 million in assets under management at the end of the year.

The unit offers customers a full and impressive portfolio of wealth management products with options ranging from structured products to private equity investment, including derivative instruments, OEICs, insurance products and hedge funds. The design of a distinctive, exclusive identity to aid communication with wealth management customers was another success scored in 2007.

No less noteworthy was the launch of **BS Sports & Entertainment**, a specialized unit within wealth management, to manage the assets of key celebrities from the worlds of sport, entertainment and the media. To lead the unit, a highly qualified wealth manager with special experience in advising top sportsmen and women and performing artists was recruited.

The Corporate Banking division's dedicated wealth management unit, **BS Patrimonios**, was set up towards the end of 2003. Since then it has succeeded in positioning itself within the highly specialized market for branch-based, personalized wealth management services to companies and business owners with substantial assets requiring an integrated, individually tailored approach.

The unit's distribution network comprises 30 wealth managers and is organized into nine geographical areas. This means that all customers can be fully and properly served wherever they may be.

At the end of the year the unit was managing funds totalling €13,119 million for Corporate Banking and had €1,941 million in assets invested in collective investment schemes. More than 7,000 visits to customers were made by the unit in the course of the year.

Our success in positioning ourselves as a key player in this market in such a short time was due to the excellent work done by our wealth management team, their total commitment to building up the business, their long experience of giving investment advice, and their ability to give each customer the attention and the quality of service demanded. It was also helped by giving customers access to the products and services most suited to their needs and constantly monitoring client portfolios to respond swiftly to changes in market conditions and to investor priorities.

Throughout the year there was excellent coordination between the wealth management team and other business units, and this enhanced the team's ability to provide prompt and accurate information to customers and keep them informed of major developments in the financial arena.

BancAssurance

The BancAssurance business unit focuses on providing savings/retirement and insurance products, including life assurance (both free-standing and endowment/cash value products), general insurance (home, motor, health and payment protection insurance and cover for businesses and retail outlets) and pension plans. Products are distributed through the branch network. The product offering is designed to meet the needs of each group business and each customer segment, whether private, business or institutional.

In 2007 BancAssurance once again showed steady growth in business volumes and income across all business lines, with endowment insurance and pensions performing particularly well.

At 31 December 2007 the total volume of savings managed by companies within the BancAssurance unit amounted to €6,634.75 million, a 5.7% increase.

The net profit of the BancAssurance business totalled €41.57 million, up 21.4% on 2006. Profits before sales commissions and taxes reached a year-end total of €112.98 million, up 29.1%. Sales commissions increased substantially, rising by 47.3%.

The Banco Sabadell group holds a strong position in the Bancassurance market. The group is a key industry player in terms of life insurance premiums (No. 3), individual pension plans (No. 6), and company pension schemes (No. 6) according to recent published data.

BanSabadell Vida

At the close of the year BanSabadell Vida could boast a portfolio of savings under management of €3,132.59 million, an increase of 5.9%. The annual increase was 6.6% for individual policies and 2.7% for company policies.

With regard to product performance, individual savings products were up by 2.8% and annuities by 18.3%. There were new issues of structured savings products during the year and these continued to find a good response among customers.

Premium income on non-cash value life insurance totalled €60.6 million. BanSabadell Vida keeps its life policies under constant review to ensure that its product offering is always aligned with market demand.

Total premium income was €1,451.1 million, up 5.6% on the year, giving BanSabadell Vida third place among Spanish life insurance offices according to recent published data.

Net profit rose to €28.78 million, 15.6% more than the year before. Profit before agent commissions and tax was €69.83 million.

BanSabadell Pensiones

BanSabadell Pensiones had a total of €3,502.16 million in funds under management at the end of the year, an increase of 5.6% on the year before. Of this total, €2,306.42 million was made up of individual and group pension plans, which increased by 8.9%. In the personal pension category, BS Pentapensión proved for another year to be highly popular with customers, with pension fund assets increasing to €987.91 million, up 18.7% compared with the previous year. Assets in employment-related pension schemes, at €1,195.75 million, showed little change from the previous year.

BanSabadell Pensiones is ranked ninth in the pensions industry as a whole, but occupies sixth place for individual pension plans and sixth place for employment-related schemes, according to data published by the fund managers' association Inverco.

At the end of the year BanSabadell Pensiones posted a net profit of €9.32 million, a 38.4% increase on the previous year. Profit before commissions and tax was €31.11 million, up 28.3% on the figure for 2006.

BanSabadell Seguros Generales and BanSabadell Correduría

BanSabadell Seguros Generales was set up on 2 May 2006 and was licensed by the Directorate-General for Insurance and Pension Funds on 22 May 2007. To make its insurance business compliant with Spain's Private Insurance Mediation Act of 19 July 2007, the group adopted the "exclusive bancassurance agent" formula under the Act to operate as a mediator in general insurance and set up BanSabadell Seguros Generales to operate as an exclusive agent from 19 July 2007 onwards. BanSabadell Seguros Generales made a net profit for the year of €1.73 million. Profit before commissions and taxes was €5.34 million.

The net profit of BanSabadell Correduría for the year was €1.76 million. Its profit before sales agents' commissions and taxes was €6.69 million.

As a result of the change in the insurance legislation, BanSabadell Correduría has now ceased to operate as a seller of general insurance through the branch network.

Brokered premium income for 2007 in respect of general insurance totalled €66.31 million, an increase of 14.9%.

BanSabadell Previsión, EPSV

BanSabadell Previsión, a voluntary social insurance society, reported a total of €50.36 million in savings under its management at the close of the year, an increase of 16.6% on the year before.

The society is highly regarded by branch personnel and by customers in the Basque Country, the regional market which it is designed to serve.

Asset management

This business unit combines asset management with the distribution and management of collective investment schemes

(CIS's); it also manages investments for other Banco Sabadell group businesses that hold portfolios of assets on behalf of customers.

Equity markets continued on an upward trend in the first half of the year on the back of high corporate earnings growth. This trend was reversed in August by the downturn in the US real estate market and this weakness began to feed through into corporate bond prices. Significant losses were reported by financial businesses with exposure to the US subprime mortgage and credit derivative markets. Corporate earnings in other business sectors also began to feel the chill as credit conditions tightened. Oil price rises and a weakening dollar did nothing to help European equity markets. Equities in emerging markets were protected from the correction by sturdy economic growth and by their high exposure to commodity prices.

The Spanish-domiciled investment fund industry ended the year with €238,699 million in assets under management, 6.1% less than at the end of the previous year. Cumulative net redemptions totalled €20,187 million, more than eight times the figure for 2006.

Within the offering of mutual funds managed by the Banco Sabadell group, the group was able to maintain a net inflow of funds into guaranteed fixed-income and treasury management funds, both of which are characterized by a conservative investment bias. Overall, however, the funds managed by our fund management arm BanSabadell Inversión saw a net outflow in 2007. This explains the fact that despite some notably high returns, assets under management in collective investment schemes were down by 11.8% on the year.

Equity funds showed positive returns on the year, but experienced larger net asset outflows than any of the other types of investment vehicle managed by the group. Assets in equity funds as a proportion of total assets in Spanish-domiciled funds under the group's management fell from 18.3% at 31 December 2006 to 15.3% at the close of 2007.

During the year the range of guaranteed funds continued to be actively sold, with capital guarantees being issued in respect of seven guaranteed funds with a total value of €592 million at 31 December 2007 (€1,070 million at 31 December 2006). Guaranteed funds as a whole accounted for €2,845.4 million of assets at the close of the year, a fall of 6.8% compared with the end of 2006. The combined value of assets in fixed-income and guaranteed funds at the end of 2007 accounted for 69.6% of total assets under management in Spanish-domiciled investment funds, compared with 65.0% at the end of 2006.

There was a positive balance of subscriptions/redemptions for real estate investment funds in 2007, a year that saw the start of a correction in the residential property market. **Sabadell BS Inmobiliario FII**, launched in early 2004, had 11,131 shareholders and increased its assets by 13.9% in the course of 2007, making this real estate fund Spain's third largest in assets under management and also the one with the highest returns, yielding 6.7% over the year to give it top position in the league table compiled by Inverco, Spain's mutual and pension fund association.

Many of Banco Sabadell's investment funds, as well as the group's fund management arm BanSabadell Inversión, once again received resounding accolades and distinctions in 2007. BanSabadell Inversión was named third best Spanish fund manager in alpha returns for the second year in a row by French business school EDHEC and specialist investment fund analysts

Europerformance. Management of a high order in 10 of our funds earned them ratings of A or higher from Standard & Poor's Investment Services. BanSabadell Inversión is fast becoming a Spanish market leader in highly-rated funds. For example, **Sabadell BS Dólar Bolsa FI** was given a top AA rating, indicating very high quality management, and Sabadell BS España Dividendo FI, Sabadell BS España Bolsa FI, InverSabadell 25 FI, InverSabadell 50 FI, InverSabadell 70 FI, Sabadell BS Renta Fija Mixta España FI, Sabadell BS Renta Variable Mixta España FI, Sabadell BS Tesorería Institucional FI and Sabadell BS Selección Activa V2 FI all obtained A ratings, signifying high quality management. Qualitative ratings are an indication of investment excellence. They reflect the quality of the investment process, including the track records of the fund managers and the quality of the modelling tools available to them. These ratings point to consistently high management performance over a minimum of three years measured against comparable funds on a Europe-wide basis. The quality rating and associated analysts' reports and opinions ensure a high degree of transparency and this is relied on to a large extent by investors when deciding on the best funds in which to invest.

An equity fund managed by BanSabadell Inversión was awarded the BME Ibex Medium & Small Cap 2007 prize by Spain's stock market operator Bolsas y Mercados Españoles (BME), for best manager of funds investing in Spanish small and medium cap stocks. Finally, four of our managed funds were picked out by Standard & Poor's and leading business daily *Expansión* for the Best Investment Fund 2007 prize within their investment classes, while BanSabadell Inversión was named this year's second best fund manager out of all Spanish and foreign investment fund managers operating in Spain.

The year's highest-returning managed fund was **Sabadell BS América Latina Bolsa FI**, which produced a cumulative return of 25.6% for 2007.

The year 2007 saw the completion of work to rationalize the fund catalogue following the incorporation of funds which had until 2006 been managed by the Banco Urquijo group. The restructuring resulted in 22 mergers, with 28 funds being absorbed by others with similar investment objectives in the best interests of fund shareholders. Another development was the launch of a treasury fund to manage cash reserves on behalf of corporate and other major clients. At the close of the year the group had 319 collective investment schemes in operation, with management split between BanSabadell Inversión S.A., S.G.I.I.C. Sociedad Unipersonal (161 funds) and Urquijo Gestión, S.A. S.G.I.I.C. (158 funds).

BS Gestión de Carteras de Fondos, the group's portfolio of funds management unit, had assets totalling €562 million under management, with close to 9,000 investor mandates. The more aggressive risk profiles catered for by the unit are those that have performed best in historical terms, with cumulative returns of 43.8% over 36 months at the most aggressive end of the spectrum.

Treasury and Capital Markets

The strategy of promoting treasury management products to customers of the Banco Sabadell group continued throughout the year. A wider and more diversified offering, combined with the

volatility suffered by financial markets this year, resulted in an increase in sales of interest rate and currency hedging products. In addition, strong growth was shown in sales of structured deposits as an alternative to traditional fixed-rate deposits, leading to a sharp increase in the inflow of funds from this source, adding to funds available for lending. There was also a sharp increase in brokered sales of structured and fixed-rate bonds, which broadened the Banco Sabadell range of investment solutions available to meet each customer's investment needs according to their risk profile.

In the area of financial management, liquidity and market risk management decisions are taken by the Banco Sabadell Group's Asset and Liability Committee and Treasury Committee. The group's lending policy has been conducted with the utmost prudence and within the exposure limits approved by the Board of Directors, with all loans being subjected to monitoring and review on an ongoing basis. The ten-day VaR (Value at Risk) at 31 December 2007 was €4.24 million at a 99% confidence level, with an average of €5.23 million and a maximum of €8.32 million for the year as a whole.

Funding

Deposits and funds obtained through the branch network continued to form the basis of Banco Sabadell's policy for funding its commercial operations, and accounted for approximately 62.8% of the total at the close of the year. In its capital market funding operations, the group continued to follow a strategy of diversifying its sources of finance and maintained issuance programmes to enable it to tap the capital markets in an efficient way.

In March a non-participating share issuance programme for a maximum of €10,000 million was filed with Spain's securities market regulator, the CNMV. The programme regulates and facilitates issues of medium- and long-term fixed-income securities, mainly mortgage bonds, straight bonds, subordinated debt, special subordinated debt and structured medium- and long-term bonds. In the same month, to meet short-term funding requirements, a facility entitled 'Banco Sabadell High Liquidity Commercial Paper Programme 2007' for a maximum of €6,500 million was filed with the CNMV. In October the commercial paper issuance limit was increased to €8,500 million.

Issues of fixed-income securities in 2007 included four issues of mortgage bonds for a total of €2,200 million (two issues of two-year bonds and two issues of ten-year bonds); and two issues of straight bonds for a combined total of €1,150 million, one with a maturity of 18 months and one with a maturity of one year. As part of its strategy of diversifying the institutional investor base, in April 2007 the group made its first issue of dollar-denominated straight bonds aimed at US institutional investors. The issue was for a total of USD 2,000 million and was conducted in two tranches with maturities of two and three years.

All the issues described above were aimed at institutional investors in the capital markets.

In addition, in the course of the year Banco Sabadell set up three special purpose vehicles, or securitization funds, as follows:

- The first fund, named **GC FTPYME SABADELL 6**, was created in June and amounted to €1,000 million. The fund was set up to hold a pool of loan receivables transferred by Banco Sabadell

in respect of loans paid to Spanish small and mid-sized businesses (SMEs) following an agreement to sponsor vehicles of this type. The agreement was entered into by the Bank with the Spanish Industry, Tourism and Trade Ministry's Directorate-General for Policy on the Small and Medium-Sized Enterprise in June 2007, with the aim of helping to make finance available to Spanish SMEs.

- The second fund, named **IM SABADELL EMPRESAS 1**, was set up in October and amounted to €1,000 million. The fund consists of a pool of loan receivables transferred to it by Banco Sabadell in respect of loans paid to Spanish business borrowers.
- The third fund, named **IM FTGENCAT SABADELL 3**, was set up in November and amounted to a total of €350 million. The fund consists of a pool of loan receivables transferred by Banco Sabadell, in respect of loans paid to small and mid-sized businesses (SMEs) in Catalonia under the terms of an agreement to sponsor vehicles of this type. The agreement was entered into by the Bank and the Catalan Government's Economics and Finance Department in November 2007, with the aim of helping to make finance available to SMEs in Catalonia.

For a number of years Banco Sabadell has been rated by highly respected rating agencies, a necessary precondition for raising funds on the domestic and global capital markets.

There were changes in the ratings for Banco Sabadell debt issues in 2007. In January Standard and Poor's increased its rating from A to A+ and in April Moody's raised its rating from A1 to Aa3. In April Fitch changed its outlook rating from 'stable' to 'positive'. These ratings are summarized in Table T2.

T2 Ratings for Banco Sabadell debt securities

Rating agency	Long-term debt	Short-term debt	Rating prospects	Other
Fitch	A+	F1	Positive	Support 3
Moody's	Aa3	Prime 1	Stable	Strength B-
Standard & Poor's	A+	A1	Stable	-

Ibersecurities

The stockbroking house Ibersecurities, a wholly-owned Banco Sabadell subsidiary, is a highly reputed organization with many years' experience of trading on the capital markets. Its two main lines of business are providing share and derivative brokerage services on the domestic and major world markets, and asset management and advisory services. The volume of brokered deals in Spanish equities in 2007 amounted to €67,160 million in 2007, up 61%; this represents a market share of 2.67%. At the close of the year, Ibersecurities was advising or managing assets worth €2,041.56 million, up from €1,591.60 million in 2006.

In addition, Ibersecurities offers its customers a high-quality, high added value financial reporting service, and supplies reports, technical analysis and advisory services to other Banco Sabadell business units.

International

At the end of the year Banco Sabadell's foreign-based operations comprised 13 representative offices, 3 banking branches, 4 jointly-owned undertakings and two subsidiaries.

The main purpose of the group's international operations is to support the group's Spanish customers as they expand their business in foreign markets. For this reason, it maintains a presence in markets where Spanish companies are likely to be operating, such as France, Italy, the United Kingdom and the USA, and is also present in emerging or other, more challenging, markets with a view to offering added value to customers operating or intending to operate in those markets.

London

The London branch continued to show excellent rates of growth in its services to the increasing number of Spanish companies launching business ventures in the UK.

This was particularly true of 2007, which saw a leap in the number of acquisitions of British companies by Spanish companies and in new subsidiaries.

The branch's role has been to support these companies and to offer them all the services available from a full branch.

Business customers benefit from the same products and services that they could get from a British bank, but with more personal attention and from people who speak their own language.

To further enhance its services, the branch has recently been working to introduce a "confirming" facility. This went into operation in January 2008. No British or Spanish financial company in the UK is yet able to offer this product.

Paris

The Paris branch continued to provide services geared to the needs of subsidiaries set up by Spanish companies all over France, as well as French companies with commercial and/or shareholding interests in Spain. In 2006 a new product line was launched with a focus on providing finance for wind farms in France; as a result, five wind farms in the Moselle region were commissioned in 2007.

The branch's commercial focus is mainly on corporate banking customers and companies with bases in France, but also supports the banking business of the Spanish branch network, thus providing added value to the customer relationship.

The result has been a steady growth in business in volume and income terms.

Miami

In 2007 the Miami office concentrated on deepening its relationships with private banking customers, extending the range of products and services and increasing the number of on-site visits. At the same time, it continued to strengthen its market penetration among businesses, based on servicing the needs of Spanish

companies doing business in the USA and involving itself in project finance deals in coordination with the Spanish branch network.

Banco Sabadell now has a prominent position in China and India; both countries are growing at a rapid pace and have become powerhouses to the world economy. The Bank was a pioneer in establishing a foothold in these countries; in China it has had a presence in Beijing since 1991, and in 2005 it added a second office in Shanghai, which is now covering Taiwan, Korea, Japan and the Philippines. In India, it remains the first and only Spanish bank with a direct presence in the country; this has given it a unique insight into local affairs which it can pass on to business customers. Banco Sabadell also has a base in Singapore from which it can cover the whole of south-east Asia, Thailand, Malaysia, Indonesia and Vietnam. It was also the first and only Spanish bank to set up an office in Algeria and Turkey, both of which offer excellent business opportunities thanks to the encouragement being given to foreign investment.

In Latin America Banco Sabadell has representative offices in Mexico, Brazil, Venezuela and Chile. It also has a significant shareholding in Banco del Bajío in Mexico and Centro Financiero BHD in the Dominican Republic. In the latter country it provides support, in particular, to investors associated with the holiday industry.

Diversification businesses

Development Capital - BIDSA, Aurica and Sinia

Banco Sabadell's development capital business is divided into two main areas: first, taking temporary shareholdings in non-financial companies; and second, taking temporary shareholdings in energy projects, particularly those based on renewable energy sources.

The first of these activities, taking temporary shareholdings in non-financial companies, seeks to contribute to the growth of companies that are solidly managed and well positioned within their markets, through the provision of capital and active assistance by the Bank.

Banco Sabadell makes its investments through Aurica XXI, S.A., a company subject to the "simplified régime" for risk capital entities. The company has been a wholly-owned subsidiary of the Bank since the purchase on 23 February 2007 of the 50% interest formerly held by Banco Pastor. Prior to that, its development capital investments were being made through another subsidiary, Banc Sabadell Inversió Desenvolupament, S.A. (BIDSA).

The year 2007 saw the start of a new cycle of development capital investment with a target of €250 million for the period 2007 to 2009. In 2007 this resulted in the taking of temporary 20% shareholdings in two companies: Intermas Nets, a group

specializing in the manufacture and sale of plastic mesh products, mainly for the garden products, construction and packing industries, and Grupo Emte, a group widely recognized as a specialist provider of integrated engineering services, electromechanical equipment, technology and renewable energy systems. These investments involved a total outlay in the region of €54 million.

2007 was also a very busy year in terms of the number of disposals of equity holdings in companies. Significant disposals included part of the holding in Fluidra after the company floated on the stock exchange (the group's holding after the flotation was down to 9.67%), a complete exit from Abantia and the part-sale of Duplico 2000.

Some of the group's key development capital investments at the end of 2007 were Fluidra, Intermas Nets, Grupo Emte, Tramvia Metropolità, Tramvia Metopolità del Besòs, Telstar, Duplico 2000 and Grafos.

With regard to investment in renewable energy, a fresh investment cycle is planned to begin in 2008 with the aim of investing €100 million in the period 2008 to 2010. The Banco Sabadell group is highly committed to renewable energy in general, especially wind farm projects, and is currently studying geographic diversification. Investments in other renewable energy sources such as thermosolar and biomass projects are also under consideration.

Disposals were the year's primary theme in the renewable energy area. Most of our wind farm investments were divested to be used as paid-in capital for two consolidation ventures in the Spanish wind farm industry, in exchange for shares in the new companies, Fersa Energías Renovables, S.A., a listed company, and Eolia Renovables de Inversiones, SCR, S.A. The year's investments included a 40% share in a wind farm development in Catalonia.

Investments in energy projects are channelled through Explotaciones Energéticas Sinia XXI, S.L. (Sinia).

Investments held by BIDSA, Aurica and Sinia together amounted to €139.13 million at the end of the year and contributed €51.41 million to the group's pre-tax profit.

Banco Urquijo

With its long-established tradition, Banco Urquijo is one of the most highly regarded banks in the Spanish financial services market. Throughout a long history going back to 1870, it has proved its ability to adapt and evolve in a changing financial environment. Today, following its acquisition by the Banco Sabadell group and integration with Sabadell Banca Privada, Banco Urquijo can boast a key position in Spain as a specialist private banking organization.

As a group subsidiary, Banco Urquijo has preserved an independent identity. Under its well known brand, it operates a business strategy centred, first, on products and services that deliver integrated solutions to customers' needs; and second, on responding to the key challenges posed by the current private banking market in Spain.

These values, combined with the qualities that distinguish the Banco Sabadell group, give Banco Urquijo a key industry position as Spain's second largest specialist private bank with the third highest number of open-ended investment companies (OEICs) under its management.

Barely a year after its successful merger and integration into the Banco Sabadell group, Banco Urquijo was named second best private bank in Spain by the highly regarded business magazine *Euromoney*, which ranked it among the world's top 25 private banks and awarded it pride of place among Spanish private banks in the following categories: best private banking service for clients with assets over USD 500,000; best bank for tax planning and services; best bank in inheritance planning and best bank in wealth management; best bank in special services for executives, business owners and persons acquiring a business or estate by succession; best advisor to corporate clients; best in hedge fund and private equity investments; best in structured products and best in foreign exchange and investment in precious materials.

These distinctions are convincing proof of Banco Urquijo's leadership and its commitment to innovation, to excellence and professionalism in service delivery, and to responding in the best way to client needs — always.

As a dedicated private banking unit within the Banco Sabadell group, Banco Urquijo currently possesses 17 branches in Spain's main business centres — Madrid, Barcelona, Bilbao, Castellón, A Coruña, Marbella, Palma de Mallorca, Pamplona, San Sebastián, Seville, Valencia, Valladolid and Zaragoza.

A 300-strong team of experts ensures that clients receive personalized attention to their needs in every department: asset management by **Urquijo Gestión**, the first fund manager to be licensed by Spain's financial market regulator, the CNMV; financial planning; wealth and tax advice; investment analysis, and treasury and capital markets. This is supported by a team that looks for opportunities for investments that have a low correlation to the markets, such as private equity, real estate or hedge funds,

to be sure of generating maximum returns for clients and for the bank, every time.

In addition, Banco Urquijo can count on the support of other specialist units in the Banco Sabadell group such as Ibersecurities, Sabadell Corporate Finance or BS Capital.

Despite the downturn in the business cycle in 2007 and the fact that this was a year of transition and consolidation in the wake of integration, Banco Urquijo reported top-line revenue of €13,379 million. Deposits and funds under management at the close of the year amounted to €11,923 million and loans and advances to customers totalled €1,456 million.

Profits grew in line with these trading figures and the company posted a net profit of €22.8 million.

In the sphere of asset management, Banco Urquijo was offering investors a total of 201 OEICs (managed by Urquijo Gestión. S.G.I.I.C.) at the end of the year.

The bank is committed to introducing new technologies and offers telephone and online banking and reporting via mobile phone and email, in addition to its specialized publications *Urquijo Diario*, *Urquijo Opinión*, and *Urquijo Notas Jurídicas* providing market and investment news and comment on legal and tax issues.

BancSabadell d'Andorra

BancSabadell d'Andorra was set up in the Principality of Andorra in the year 2000. Banco Sabadell holds a 50.9% interest, with the remaining shares divided among more than 800 Andorran private investors.

By the end of 2007 this bank had become a force to be reckoned with in Andorra's financial system and was participating actively in the country's economic development, encompassing both the private and the public sector.

As a result of banking industry consolidation BancSabadell d'Andorra is now the only bank in the country with a foreign partner and this, together with the large Andorran shareholder base, differentiates the bank from its competitors.

Balance sheet and performance ratios are now comparable with those of other Andorran banks, with an ROE of more than 20%, a cost:income ratio of 44%, and a loan loss ratio of 0.10% — the lowest in Andorra's financial system.

Results like these, achieved in just seven years of trading, have made the bank a key player in the business life of the country, based on serving small and midsize businesses, the liberal professions and customers in the high and medium income groups.

Profits, at more than €8 million, continued to grow at a high rate on the back of strong business growth.

Dexia Sabadell

Dexia Sabadell Banco Local was set up in 2001 in partnership with the Franco-Belgian financial services group Dexia. The organization specializes in providing finance to regional and local government and for large infrastructure projects and local services and amenities to improve the quality of life for local people. Banco Sabadell holds a 40% interest in the undertaking, with the remaining

60% and managerial control being in the hands of Dexia, Europe's leading provider of finance to the public sector and a highly regarded, world-renowned organization.

The opening of a Dexia Sabadell branch in Lisbon in August helped the company to extend its footprint to all parts of the Iberian peninsula.

At the close of the year Dexia Sabadell had a total of €9,877 million in lending commitments, an increase of 21.17% on 2006. Gross income was €40.3 million, up 18.18%. The net profit for the year was €15.5 million, up 19.23%.

During the year the organization continued to strengthen its position as a major player in Spanish regional and local authority finance, arranging new long-term finance totalling more than €1,713 million, up 30.10% on the year. It also played a key role in the market for bonds issued by Spain's autonomous communities.

Dexia Sabadell was also very actively involved in arranging financing for major public investments in infrastructure and facilities.

In 2007 it participated in more than 35 financings for local government agencies, including €872.1 million in new long-term finance. For example, it was mandated to lead arrange financing for 176 latest-generation carriages for the Madrid metro system (totalling €400 million). It also participated in raising finance for Spain's first irrigation project paid for by the "shadow toll" system (where the contractor is paid by the procurement authority according to usage) on the Navarra canal (€133 million). In renewable energy, Dexia Sabadell was co-mandated as lead arranger (co-MLA) for photovoltaic generation projects totalling more than €150 million. It was also co-MLA for the Extresol and Andasol 2 thermosolar power plants, the most advanced facilities of their kind in Spain (€596 million).

In Portugal, the company participated in raising finance for the "Las Azores" toll highway (€358 million).

BanSabadell Fincom

BanSabadell Fincom E.F.C., S.A. was founded in July 2004 by Banco Sabadell in a 50-50 partnership with General Electric Capital Bank, and is in the business of providing consumer loans generally.

In 2005 two businesses were launched by BanSabadell Fincom: one offers in-showroom finance for new car purchases, and the other uses direct marketing to offer personal loans to members of professional associations, trade unions and occupational groups with which Banco Sabadell has entered into partnership agreements, as well as to employees of the Bank's corporate customers.

In 2006 the company continued to develop this strategy by launching a third venture, **Consumo**. The business is geared to offering point-of-sale finance to buyers and end-users in the furniture, domestic appliance, computer and computer equipment, home improvement, travel, health and other consumer markets.

The year 2007 saw BanSabadell Fincom continue to consolidate its three lines of business, with new loans amounting to €275 million. The company's customer base at the close of the year increased to 77,700 customers, thanks to referrals from some 3,100 introducers, and its loan portfolio totalled €360 million.

In 2008 the company will be continuing to expand its existing businesses and to develop credit cards both as a means of payment and as a form of lending. The company has been successful in

extending its geographic reach within Spain and now covers Asturias, Catalonia, Valencia, Murcia, the Balearic Islands, Aragón and Madrid. Current plans are to grow its franchise in Andalucía, the Canary Islands and the Basque Country.

TransAtlantic Bank

Banco Sabadell acquired 100% of TransAtlantic Bank in early 2007.

The company currently operates a network of seven branches in Miami-Dade county and offers financial services to some 10,000 customers.

Shareholders' equity was USD 58 million. The loan portfolio was USD 430 million and deposits and customer funds totalled USD 480 million.

The main focus of activity in 2007 was working to define a value proposition and a strategy for developing a franchise in the retail banking market through a broader product offering and organic growth of the branch network.

Banco BHD

Banco Sabadell has held a 20% interest in Centro Financiero BHD, a Dominican Republic-based financial services group, since 1999. The group consists of Banco BHD (the country's third largest commercial bank, with 84 branches) and a number of subsidiaries offering financial services such as insurance, pension funds and securities. The other shareholders are Banco Popular de Puerto Rico (20%) and a group of Dominican shareholders holding interests through Grupo BHD (60%).

During the year Banco BHD completed its acquisition of Republic Bank's domestic business by purchasing its corporate customer portfolio, further strengthening its position within the Dominican Republic's financial services industry.

Banco del Bajío

Banco Sabadell has been a shareholder of this Mexican bank since 1998. Good business growth and a very strong performance in personal banking have helped Banco del Bajío to become the country's eighth largest commercial bank. With a capital base of 7,000 million pesos, a network of 139 branches, expanded head office facilities and a revamped regional organization, the bank has continued its strategy of planned growth into Mexico's principal centres of economic activity.

Banco Sabadell's holding continues unchanged at 20%.

Banco Millennium BCP

Banco Sabadell has had a partnership agreement and an equity shareholding in Banco Millennium BCP, Portugal's largest financial services group, since 2001. At the end of the year the Bank's shareholding was 4.43%.

Resources

With recent major IT systems upgrade and acquisition integration programmes now complete, the Operations Department was able to concentrate on meeting the needs of business units in a cost-effective way, ensuring that customers were delivered the high standards of quality and security that have always been hallmarks of the Bank.

The department also rationalized its procurement arrangements, first, by securing the support of such strategic partners as Telefónica, IBM and Hewlett-Packard for telecommunications management and systems infrastructure maintenance; and second, by placing greater reliance on a mature outsourcing market to subcontract low added-value tasks such as credit card fraud investigation and cash dispenser and point-of-sale terminal maintenance.

In 2007 the Operations department continued to put innovation to work for the benefit of the business through the provision of multi-channel solutions to bring the organization closer to its customers more efficiently and at a lower cost.

Furthermore, with the aim of enhancing the productivity of the branch network, a number of operational efficiency optimization programmes were put in hand at branch level in the second half of the year. These will be continued as part of the new transformation plan that will be conducted over the next two years.

Innovation

Banco Sabadell has launched a major innovation initiative designed to make its solutions available on a wide range of media or devices including mobile phones, interactive TV and the Internet. Instant Banking, as this high-priority programme is called, will make use of technology to eliminate time and distance to make banking services instantly accessible to customers.

Historically Banco Sabadell has been a pioneer in technology innovation, having developed such concepts as PC Banking in Spain in the 1980s and digital signatures for business customers in the late nineties. Today, in its determination to strive for efficiency, innovation and IT optimization, the Bank continues to lead the way by introducing electronic ID cards into transaction processing.

As part of this ongoing commitment to innovation, Banco Sabadell set up a network of alliances to maintain its role as Spanish market pace-setter in developing a banking strategy based on technological excellence. By building working relationships based on close cooperation, the Bank was able to launch a number of major projects in partnership with key multi-national technology suppliers.

As part of its “Instant Banking” initiative, the Bank is carrying out a raft of projects in cooperation with Telefónica to streamline its services to customers through the use of mobile devices and electronic signatures. New facilities introduced as part of this programme include integrated solutions using electronic

certification and natural interaction via mobile devices, and trials have been conducted on other forms of relationship enhancement such as the use of bi-dimensional code technology to enhance the user experience and increase usage of banking services.

Banco Sabadell is also the first financial services group to offer an "Instant Broker" market information service via mobile phone with a natural interaction interface.

Banco Sabadell and IBM are taking the lead in introducing Web 2.0 technology to the financial services sector. Following an agreement between the Bank and IBM, a project team was set up and is now starting to put Web 2.0 solutions into operation within the banking environment. Regular progress reports are being published and can be accessed on labs.bancosabadell.com.

The Bank was thus the first institution to set up a public blog on innovation and has also started private blogs to encourage participation by employees and customers. It has scored two other firsts by setting up an Internet television channel to broadcast multimedia content, and by providing a mashup branch location facility using Google Maps.

Banco Sabadell was involved, along with major world financial institutions (including Lloyds TSB, HSBC, Wells Fargo, ABN Amro and CitiBank) in setting up the Banking Innovation Forum, which holds quarterly meetings at which those responsible for innovation at each member institution discuss and exchange views on ways of optimizing productivity within their different spheres of operation.

Banco Sabadell's Instant Broker natural interaction solution was a finalist for several awards at the Internet Global Congress in Barcelona and the Financial Innovation Awards in London. The Bank also received the CATCert award for best private sector electronic signature initiative in Catalonia.

Infrastructure developments

The year 2007 saw the complete implementation of a contract with IBM for the provision of processing and data storage management services and for systems operation and maintenance in a CICS/DB2 mainframe environment. With the final stage of work to be carried out under the contract now complete, IBM is managing and operating the mainframe environment to the standards of usage and quality required under the service level agreements. This ensures that Banco Sabadell's processing capacity is aligned with current needs and will be updated on the basis of forecast growth over the next five years.

With regard to management information processing and production systems (Datawarehouse and Business Intelligence Tools) and other midrange environment applications, in 2007 Hewlett-Packard (HP) took charge of platform management as envisaged by a contract under which, in January 2007, HP purchased 100% of Netfocus, the Banco Sabadell IT services subsidiary which had until then been managing its IT platforms.

With these two contracts now in operation, Banco Sabadell has a technology infrastructure management model that gives it a capacity-on-demand assurance, provides services to the highest quality standards as specified in service level agreements which are kept under constant review, and includes guarantees of redundancy levels and contingency equipment specified in a Continuity Plan for

responding to catastrophic failures and other serious infrastructure contingencies.

During the year the last stage of the workstation IT upgrade programme was completed; this had been rolled out in all group bank branches in the course of 2006 and was extended to all Bank central service office buildings in 2007. As a result, the group has been equipped with a fully interoperable network based on Microsoft Windows XP Professional with remote update and distribution support, managed around a sophisticated Active Directory Single Sign On structure.

The workstation upgrade included document digitalization facilities using specialized scanners and multi-function printers in every department of the Bank. In the coming years these new facilities will play a decisive role in improving efficiency and reducing processing time in all processes which have hitherto required the handling and exchange of documents in hard copy form.

These innovations are also consistent with the Bank's "green IT" policy on environmental protection which is helping to reduce paper consumption, increase computer equipment recycling and reduce energy and climate control usage.

IT security

As part of its continuous improvement ethos, Banco Sabadell has drawn up a new IT Security Master Plan based on the international ISO 27002 standard (an updated version of the old ISO 17799). The plan went into operation in 2007 and is expected to last until 2009. It comprises 24 programmes and responds to the need for constant updating and improvement where data security is concerned.

Some key aspects of the new plan are as follows:

- Network access control and admission
- Improved security integration within development cycles
- The use of a change management database (CMDB) to manage security risks and their impacts on systems and services
- General use of strong authentication on all accesses by employees, suppliers and customers

All the above programmes were initiated during the reporting year and are expected to be completed in the course of 2008.

Customers using online banking will benefit from the following new security services:

- Security alerts by mobile text message: these are activated whenever a significant event occurs, such as a transfer of more than a certain amount, repeated failed access attempts, change in contact details, etc.
- The use of mobile phones as additional means of authentication
- Telephone support service now available 24/7

Another security enhancement has been the introduction of electronic signatures for email notifications from any Banco Sabadell group bank, and a fraud prevention system has been set up based on the analysis and detection of atypical transactions.

Business Continuity Plan

A group objective for 2007-2008 is to carry out tests on the group's continuity and recovery plans.

Because of the large number of different IT platforms and the complex interrelations between them, a series of technology tests was carried out in the course of the year according to a standalone testing strategy, allowing contingency plans to be validated without any disruption to normal daily operation.

The tests were carried out in two stages: first, running system restoration tests at the contingency centre, and second, verifying the operational availability of applications and/or services on platforms.

In 2008 infrastructure tests will be completed and a proposal will be made for a general test consisting of three main blocks: incident declaration and evacuation; relocation of personnel; system restoration and availability testing; and, finally, full operability testing of platforms.

Ongoing continuity projects resulted in the completion of deployment of business recovery services (BRS) throughout the Bank's IT infrastructure, including the Ibersecurities Treasury dealing room. In addition, implementation of a third copy backup system in the mainframe environment was completed and this will improve system security while testing or more lengthy interventions are in progress.

Key programmes in 2007

User Support Service

As part of the ongoing search for solutions to further improve Bank processes, a User Support Service (USS) was set up during the year. The main priority of USS is to raise the standard of the support service being provided to the group's branch network in dealing with queries and solving system operation and user problems.

The main benefit of USS is that it offers users a single point of contact, which can be accessed in three ways. Two channels for accessing the service are provided on the corporate intranet, Canal BS, and consist of a virtual assistant and an integrated system of forms that can be used to send queries to a group of expert troubleshooters who are there to solve operational problems and respond to branch queries by telephone. The third channel is a telephone hotline for more urgent enquiries.

The USS project includes ongoing improvement in the available content to extend the range of responses that can be accessed. This, combined with the reporting and coding of all enquiries received, ensures that maximum benefit is obtained from the replies given to branches.

International Market Integration (IMI)

The purpose of the IMI project is to expand the financial markets platform by integrating global market trading so as to cover global equity markets and funds managed by external fund managers.

Full functionality will be available for these funds and will include details of the funds' distributors in every channel, the fund administrator and the custodian, as well as all filings with official bodies and regulatory authorities.

IMI will bring benefits in the form of reduced operational risk, improved straight-through processing and improved service levels resulting from automation and the integration of processes within the system.

Integrated risk and capital management

This programme to develop and implement an advanced risk and capital management framework has three main objectives:

Firstly, to improve risk measurement through enhancements to the rating and balance sheet-based systems which have helped to ensure compliance with Bank of Spain requirements. A behavioural scoring engine has been designed and will be integrated into the new 2008 risk control model.

Second, to increase management efficiency by integrating bill discounting, factoring and confirming products into the automatic approval system and by strengthening risk vetting and approval procedures. To improve risk monitoring a new advanced alert engine has been built and this will be a key element of the new risk monitoring model.

And third, to improve information systems by setting up a repository of risk data from which reports, forecasts, statistics and models can be generated.

International compliance

SEPA (Single Euro Payments Area)

Inter-bank interchange systems are being modified to comply with new requirements under the Single Euro Payments Area regulations for transfers and debits. In addition, Banco Sabadell has made its infrastructure compliant with the new EMV European card payment security system.

MiFID (Markets in Financial Instruments Directive)

The European MiFID Directive came into force on 1 November 2007. The authority responsible for supervision in Spain is the financial market regulator, the CNMV. The main purpose of the directive is to improve investor protection and ensure competitive financial markets.

Actions being taken as part of the MiFID project are providing the Bank with the processes and systems to be fully compliant with the directive.

New general insurance company

Steady growth in the bancassurance business in the last decade has been reflected in increases in its contribution to group results year after year and has made Banco Sabadell a key player in the insurance industry.

Banco Sabadell's current strategy for Bancassurance is to look for new growth opportunities without any lowering of the high standards of operating efficiency that it has achieved in the last few years.

Against this background, the Bancassurance unit has decided to make a strong play for the general insurance market by setting up a general insurance office – BS Seguros Generales (BSSG).

New financial adviser for Personal Banking and Wealth Management

The system aims to provide automatic generation of investment proposals and planning proposals for branches, based on risk appetite and expected return variables.

Know Your Customer KYC – Customer Approval Policy (PAC)

The KYC-PAC project arose from the department's intention to provide the Bank with a tool, integrated within the group's information systems, to supervise and automate the inflow of customer data and the customer acceptance policy, with a view to minimizing the possibility of the Bank being used as a means for criminal activity.

Organization

Throughout the year the Organization department continued to play a very active and decisive role in the various value creation projects and programmes being executed within the Bank.

As the integration of Banco Urquijo progressed, action was taken to adjust staff numbers and to provide support by visiting branches, and thus consolidate the integration of the Banco Urquijo organization within the Banco Sabadell group.

As a result of the search for branch network synergies a number of mergers were carried out during the year, affecting a total of 28 branches. This involved transferring customer accounts to branches that were better suited to their needs, with accounts being transferred to Corporate Banking in some cases.

In the context of ongoing support to the branch network, work is in progress on a trial system to improve the quality of branch internal organization, with knowledge being transferred to branches by a capillary process. The system involves setting up a series of alarms which act to prevent potential organizational problems from arising, thus helping in the quest for operational efficiency.

A new working method based on protocols was introduced. Protocols provide an overview of processes that involve two or more units (transversal processes) and a sequential view of the relations between and among the units, thus giving a better understanding of the process from end to end.

Another organizational change made in the year was to centralize the Legal and Tax departments so that both are now part of a single unit.

The Process Map continued to be the basis for the Bank's process optimization programme and in 2007 steps were taken to facilitate the integration of other process maps, whether existing or to be developed in the future.

The Resources department continued to participate very actively in the key value creation projects and programmes that have been in progress for the last three years.

During the year the ViC 07 three-year master plan came to an end, all expectations having been fulfilled with the achievement of the objectives set by the plan. This involved a considerable amount of work for the department in managing and rationalizing group-wide processes and matching people's skills and abilities to their roles, thus helping to bring about the rates of business growth envisaged by the plan.

The Fita-II Programme, one of the key areas of action under the three-year plan, was launched with the aim of analyzing and reducing group overhead costs. The cost savings achieved totalled more than €27 million, a high proportion of them being recurrent. A major contributor to these cost savings was the more than 750 product and service procurement processes managed by the group's central procurement office, which secured negotiated cost reductions amounting to more than €138 million. Two areas where significant savings were achieved were the refurbishment work on 92 group branches and the cash dispenser replacement programme.

The Bank continued to give priority to suppliers with disabled employees on their staff, an indication of the Bank's continuing commitment to corporate social responsibility.

In the human resources area Banco Sabadell is noted for being one of the best employers in talent management, as certified by the independent consultancy CRF. This reputation is confirmed by the fact that the Bank receives more than 1,000 job applications a month which, in combination with its partnerships with 11 universities and business schools, clearly identifies it as a quality employer in the banking industry.

More than 2,100 job applicants were interviewed during the year, with some 1,300 new employees being recruited at all levels, 59% of them women. The job/skills match of the new employees was greater than 99%, confirming the effectiveness of our recruitment procedures.

The group's favourable attitude to internal promotion is demonstrated by the more than 450 employees promoted to higher positions during the year, a strategy which has very positive cost implications and will be further developed in the next two years as part of the Optima '09 Plan.

A 3% rate of staff replacement through voluntary retirement is below the banking industry average and puts the group in an excellent position to face fresh challenges under the new strategic plan.

In the context of the ViC 07 three-year plan, employee professional development schemes under the Avanza programme were consolidated. During the year a thorough analysis was undertaken of employee skill levels using the GDP model, which has been adopted as a key human resources management tool. This resulted in improvements to the measurement of employee potential, the creation of new skills development guidelines, and an analysis of the versatility of branch personnel.

A number of follow-up actions were taken as a result of a working atmosphere study carried out in 2006; these consisted of over 70 initiatives centred on improving communication, encouraging managers to identify with employer strategies and developing the role of supervisors as people managers.

Of the new employees, 15% took part in programmes for staff members who had been assigned to sales roles (START), or for employees identified for senior managerial roles (ACT), with 85% of participants going on to take up their new assignments.

Another action was to strengthen the role of a group of knowledgeable and experienced employees to act as mentors throughout the branch network. Their purpose is to instil the group's culture and a sense of commitment into younger employees.

The LIDD and LID Executive programmes, whose aim is to reinforce leadership skills, saw further consolidation in 2007, resulting in three newly qualified groups of executives from all business units.

Banco Sabadell has an action plan focused on promoting equality of opportunity between men and women. This has been agreed with trade union representatives and fulfils the Bank's responsibilities as set out in Spanish gender equality legislation.

All these actions were carried out in tandem with other major projects. These included a training programme on the MiFID Directive and twice-yearly sessions on anti-money laundering measures, as required by current legal requirements and new legislation soon to be enacted. Almost 7,000 employees – that is, practically all branch personnel – have undertaken one or more of these sessions.

In addition, as a result of Spain's recent Insurance Mediation Act a full set of initial and in-service training courses was developed for use by the more than 3,200 account managers who will need such training.

Account managers were also given training under the ARC programme on the use of improved working methods in sales management, and full arrangements were made for a new training module on underwriting risks.

Training was also given to help employees attain European Financial Adviser (FETA) accreditation; this was given to 150 of the Bank's more specialized account managers.

Finally, to meet the specific needs of different areas and provide special training for particular groups, more than 50 training events of different types, designed for a very wide variety of needs, were organized.

In training and skills development generally, more than 95% of the Bank's employees took part in one or other of the 57,000 courses provided by the Bank, amounting to a combined total of 230,000 study hours.

Turning to the department's activities in the field of branch network expansion, 51 Commercial Banking and three Corporate Banking branches went into operation during the year. In addition, 97 existing branches underwent major refurbishment involving a complete floor plan redesign.

One such activity in 2007 arose from work to extend the Banco Sabadell building in Sant Cugat del Vallès near Barcelona, excavations for which began in the course of the year. The building work is likely to take three years. With work on the new building complete, the enlarged facilities should improve working conditions

and communications for staff members who are now divided among different buildings and provide them with a pleasanter and more functional working environment.

To help anticipate future requirements for office space at branches, a new application known as RADAR was introduced. This will be used to manage of equipment and office space and to compile inventories and hold location information for every item of IT and communications equipment at each workstation at each branch.

A particularly noteworthy event in 2007 was the award to Banco Sabadell of certification to the ISO 14001:2004 standard for its environmental impact management system for all financial operations, products and services being managed at the central services building in Sant Cugat.

A new four-year agreement, the 21st Collective Agreement for the Banking Industry, was signed with union representatives. Elections to appoint union representatives were held at Banco Urquijo SBP and its subsidiaries in June. The year also saw the renewal of special arrangements for trade union staff being signed with the group's section representatives.

On the safety front, a workplace hazard prevention scheme was approved during the year, with Banco Sabadell being the first in the banking sector to negotiate such a plan with employee representatives through an employer/employee health and safety committee. In addition, a legal audit was conducted on the hazard management system used by Banco Sabadell and those of its subsidiaries that are covered by the group common hazard prevention scheme.

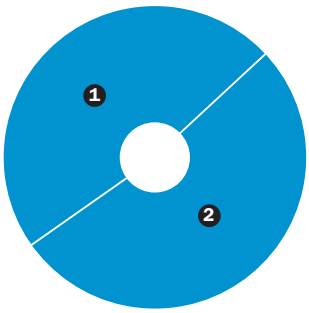
Renovation work on the group head office in Sabadell being now complete, a review was undertaken of the building's emergency plan and simulation evacuations were carried out at the Sabadell head office building and the BancSabadell Tower in Barcelona.

T1 Personnel – key data

	2007
Number of employees	10,234
Increase in 2007	168
Average age in years	41
Average length of service in years	17

G1 Personnel – gender composition

1 Women 44.5%
2 Men 55.5%



Risk management

The chief categories of risk inherent in the group's business are credit risk, market risk and operational risk.

The accurate and efficient management and control of risk is critical to realizing the aim of maximizing shareholder value while ensuring an appropriate degree of financial strength.

The management and control of risk comprises a broad framework of principles, policies, procedures and advanced evaluation methodologies, integrated within an efficient decision-making structure.

Underlying principles

Solvency

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

It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant proportion of the Bank's capital resources. For this reason, the risk variable is taken into account in decisions at every level and is quantified according to a single measure: economic capital.

Responsibility

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

Monitoring and control

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

Risk management structure

The Banco Sabadell group has a well defined structure in place for the management and control of risk, with clearly demarcated areas of responsibility. This is described in detail in the annual report on Corporate Governance.

Risk management, capital adequacy and Basel II

The Basle Committee on Banking Supervision has now completed a new capital adequacy regulatory framework for financial institutions known as the New Basel Capital Accord (NBCA), a fundamental principle of which is that a bank's regulatory capital requirements should be more closely related to risks actually incurred, based on internal risk measurement models, parameters and internal estimates which have been validated internally.

Banco Sabadell fully recognizes that having an advanced methodology in place will enable risks incurred to be reliably assessed and actively managed, and is following the guidelines provided by the NBCA in developing the components required to complete its own risk measurement systems.

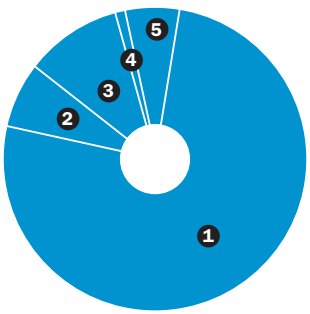
Banco Sabadell has participated actively in a number of impact studies coordinated by the Basel Committee on Banking Supervision and by the Bank of Spain at national level. In 2006 and 2007 Banco Sabadell went through a process of supervisory validation of its IRB (internal rating-based) models with the Bank of Spain for the corporate and private customer sectors, and some early advances were made in the validation of an advanced model for operational risk. New calculations of regulatory capital were made to operate simultaneously with existing floors under the "parallel running" arrangements.

Generally speaking, the implications of the new regulations for Banco Sabadell are more careful matching of capital requirements to risk levels and more efficient risk management and business processes.

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 internal unit of measurement, economic capital, the purpose of which is to determine the capital requirement on the basis of internal parameters to ensure a specified level of solvency.

G1 Map of economic capital (by type of risk)

1	Credit risk	75%
2	Structural risk	8%
3	Operational risk	11%
4	Market risk	1%
5	Other exposures	5%



A map of economic capital for the main risk categories is shown in figure G1.

The assessment of risk in terms of an assigned capital requirement means that risk can be related to return, from individual customer up to business unit level. The group has an analytical "risk-adjusted return on capital" (RaRoC) system in place which provides this evaluation and includes it as part of the transaction pricing process.

For 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 (credit rating of businesses, retailers, individuals, property developers and development projects, structured financings, financial institutions and countries). With these models, transactions can be differentiated on the basis of risk and assessments can be made of the probability of default or the degree of severity in the event of default actually occurring.

All this allows the aggregate credit risk profile for particular loan portfolios to be analysed not only for risk exposure but also, thanks to more precise metrics, for expected loss and economic capital. This is illustrated in figure G2.

G2 Credit risk profile by borrower category

Risk exposure

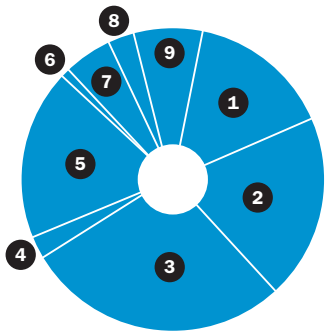
1	Large corporates	16%
2	Medium-sized businesses	23%
3	Small businesses	24%
4	Retailers & self-employed	3%
5	Mortgages	16%
6	Consumer loans	1%
7	Banks	6%
8	Sovereign debt	3%
9	Other	8%

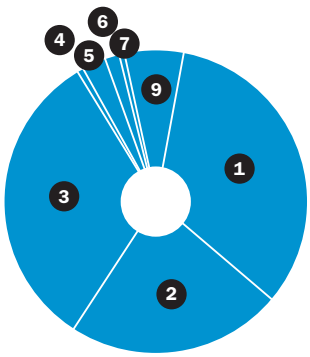
Expected loss

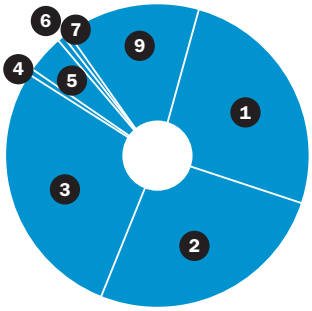
1	Large corporates	32%
2	Medium-sized businesses	24%
3	Small businesses	28%
4	Retailers & self-employed	1%
5	Mortgages	4%
6	Consumer loans	2%
7	Banks	1%
8	Sovereign debt	0%
9	Other	8%

Economic capital

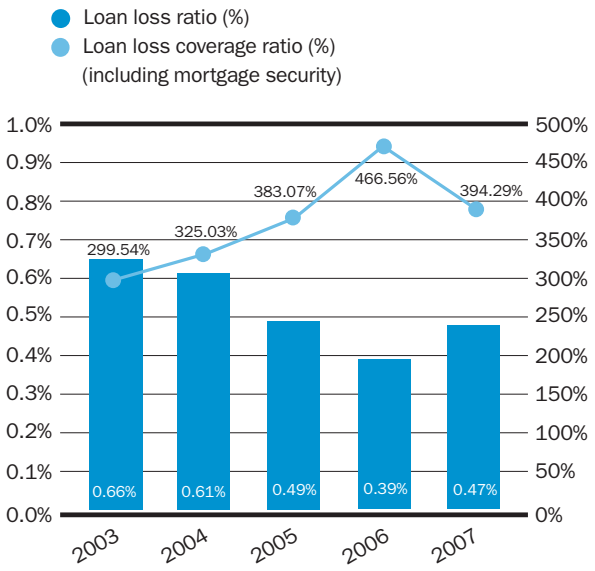
1	Large corporates	28%
2	Medium-sized businesses	25%
3	Small businesses	26%
4	Retailers & self-employed	1%
5	Mortgages	4%
6	Consumer loans	1%
7	Banks	1%
8	Sovereign debt	0%
9	Other	14%







G3 Loan loss and loan loss coverage ratios (including mortgage security)



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 which are, of course, not unrelated to business performance.

Loan loss and loan loss coverage ratios (including mortgage security) for Banco Sabadell and its group for the last three years are shown in figure G3.

Credit risk

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

Approval, monitoring and recovery

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

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

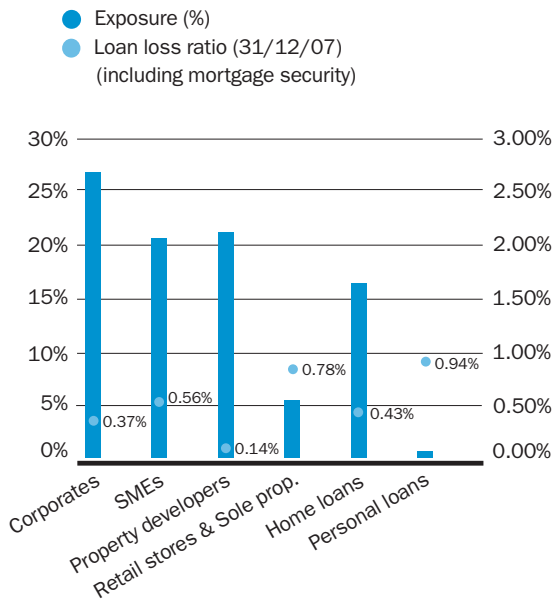
The Board of Directors delegates powers and discretions to the Risk Control Committee, which then sub-delegates authority at each level. The implementation of authority thresholds on credit approval management systems ensures that powers delegated at each level are linked to the expected loss calculated for each transaction of every business customer on the system.

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

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

The establishment of effective processes for managing existing risk exposures also benefits the process of managing past due accounts. The early identification of probable default cases ensures that proactive measures can be taken and risks transferred to recovery specialists who are better equipped to determine the most suitable type of recovery procedure in each case.

G4 Loan losses by borrower category



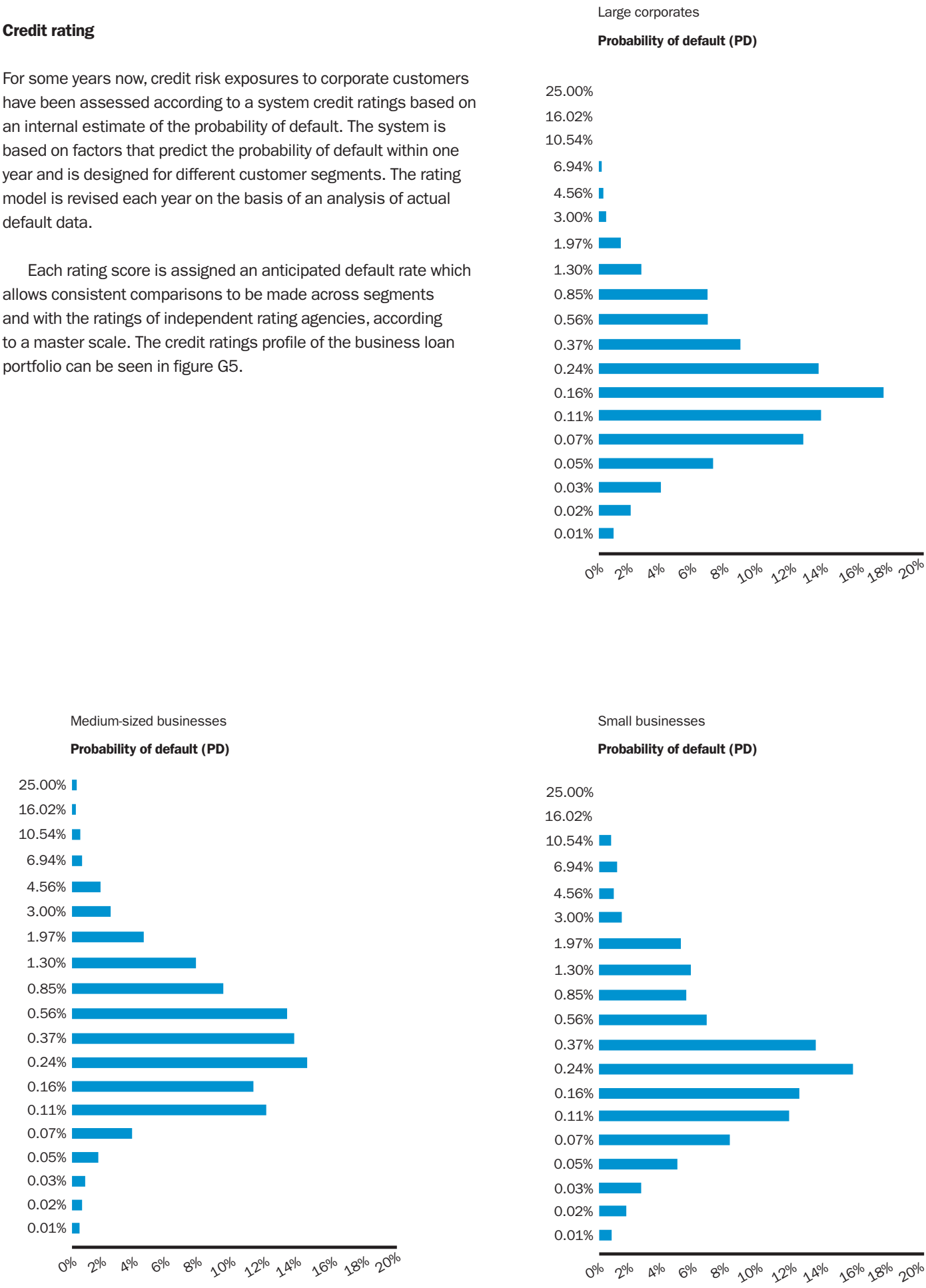
Loan loss ratios for different customer categories are shown alongside the group's exposure to each category in the figure G4.

Credit rating

For some years now, credit risk exposures to corporate customers have been assessed according to a system credit ratings based on an internal estimate of the probability of default. The system is based on factors that predict the probability of default within one year and is designed for different customer 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. The credit ratings profile of the business loan portfolio can be seen in figure G5.

G5 Business loan portfolio – credit rating profile



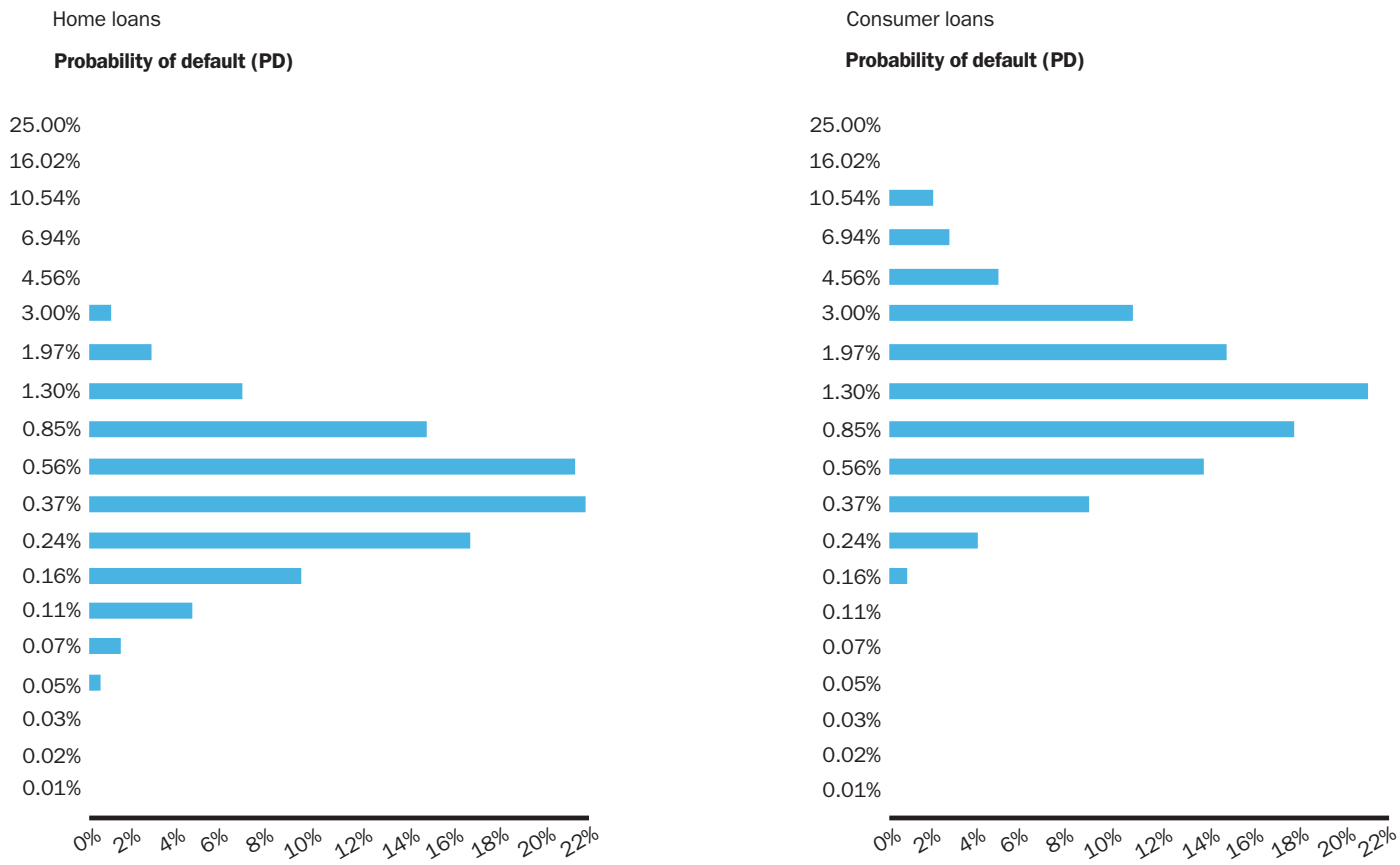
Credit scoring

Credit risk exposures to individual customers are classified by means of scoring systems which make use of quantitative modelling based on historical data to identify key predictive factors. Two types of scoring are used:

- Behavioural scoring, a system in which all customers are classified using data on their transaction history with each product. This classification provides a basis for establishing monitoring procedures and evaluating applications for products and granting provisional approval.
- Application scoring, which is used to evaluate applications for personal or mortgage loans and credit cards. When all the data of the transaction has been entered, the system generates a result based on estimates of borrowing capacity, financial position and the quality of any security or collateral.

The credit rating profile of the individual customer portfolio is shown in figure G6.

G6 Private customer loan portfolio – credit rating profile



Country risk

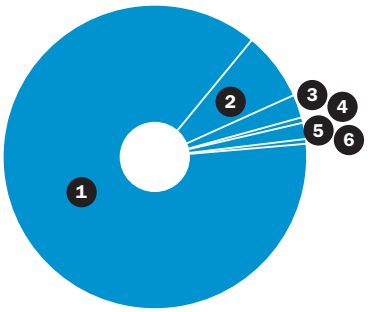
This is the risk associated with the debts of a country analysed as a class on the basis of factors other than credit risk. It manifests itself when a borrower is unable to meet his foreign currency liabilities to external creditors because the country will not allow access to, or transfers to be made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

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. The rating for each country provides an additional guide, both when setting limits and in monitoring them once they have been set.

The geographical distribution of the Group's aggregate credit risk exposure is shown in figure G7.

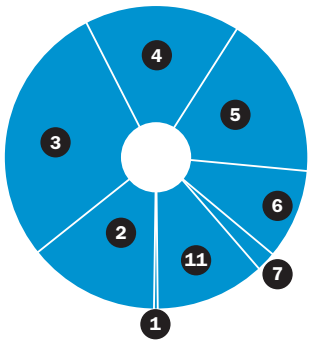
G7 Credit risk – distribution

1	Spain	90%
2	Other European Union	7%
3	USA and Canada	2%
4	Latin America	0.42%
5	Rest of the world	1%
6	Other OECD	0.23%



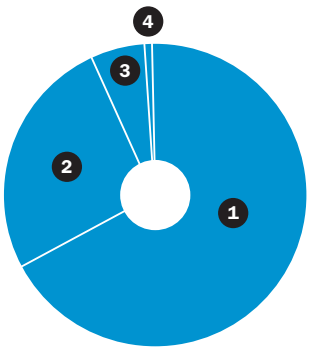
G8 Counterparty risk – distribution by credit rating

1	AAA	0.26%
2	AA+	12%
3	AA	29%
4	AA-	22%
5	A+	15%
6	A	9%
7	A-	2%
8	BBB+	0%
9	BB+	0%
10	BB	0%
11	Other ratings	11%



G9 Counterparty risk – distribution by geography

1	Euro area	67%
2	Other European	26%
3	Other USA and Canada	6%
4	US Investment banks	1%
5	Rest of the world	0.21%
6	Japan	0.11%



Credit risk due to market trading

Credit risk due to market trading, or counterparty risk, is exposure to other financial institutions arising from trading operations. These may be cash transactions, where the amount at risk is comparable to the nominal value of the transaction, or transactions in derivative instruments 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 show the potential future exposure that different positions could entail; these exposures are monitored each day on an integrated basis and reports on the exposures and on compliance with approved limits are sent to the appropriate risk control units or functions. In addition, a system for monitoring exposure limits in real time allows risks to be assessed and controlled according to different risk estimation methods, such as coefficients based on the notional value and time to maturity of an instrument, or on the replacement value plus a percentage.

To mitigate counterparty risk Banco Sabadell maintains a solid base of contracts with Credit Support Annexes (CSAs) and continues to incorporate annexes into contracts with counterparties involving higher exposures to derivative instruments. The collateral provisions of the CSAs mean that the exposure to these counterparties is significantly reduced.

The distribution of the group's counterparty risk exposure by credit rating and geography is shown in figures G8 and G9.

Market risk

Discretionary risk

Discretionary risk arises from the possibility of loss in the value of positions in financial assets due to variations in any of the factors affecting market risk (stock prices, interest rate or exchange rate movements, implied volatilities, correlations, etc.). It arises primarily from treasury and capital market operations which, as they expire or mature at a specified time, have risks which are known and can be managed or limited by using financial hedging products.

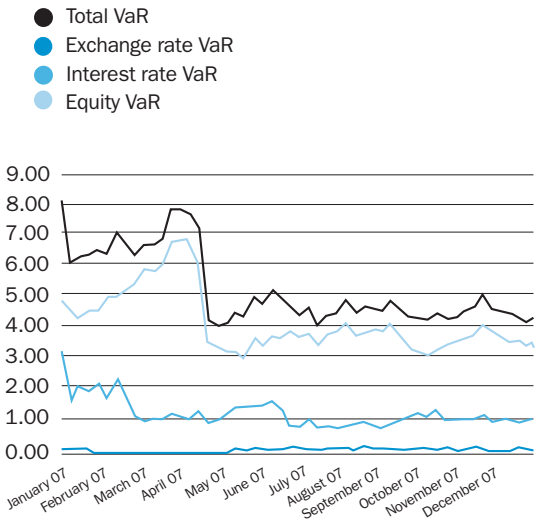
Discretionary market risk is measured by the VaR (Value at Risk) method, which allows the risks on different types of financial market transactions to be aggregated. The VaR provides an estimate of the anticipated potential maximum loss on a position that would result from an adverse, but normal, movement in any of the market risk-generating factors mentioned above. This estimate is expressed in money terms and is calculated at a specified date, to a specified confidence level and over a specified time horizon. The estimate takes account of 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 track changes in exposure levels resulting from changes in the market prices and volatilities of financial instruments.

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. Techniques of this kind are supplemented by special simulation exercises and extreme market scenarios ("stress testing"), the purpose of which is to analyse different macroeconomic scenarios and their possible impact on the trading portfolio. The following table T1 shows a stress analysis of this kind for the largest portfolio (equity securities).

Figure G10 shows the movement of the 10-day VaR for the group's market trading operations in the year 2007 at a 99% confidence level.

G10 Market risk (€ Mn.)



T1 Equity securities stress test results 2006 (€ Mn.)

	Portfolio value	Growth with no inflation	Growth with inflation	Recession and deflation
January	33.97	4.66	-6.25	-8.59
February	48.59	8.39	-7.37	-10.37
March	53.71	8.32	-8.54	-11.72
April	29.02	3.16	-6.58	-8.52
May	39.34	3.30	-8.96	-11.37
June	36.14	0.77	-7.91	-11.77
July	38.55	2.76	-8.11	-8.92
August	41.35	3.21	-5.70	-9.67
September	34.58	2.00	-5.18	-8.50
October	34.37	3.53	-7.05	-9.62
November	30.66	4.42	-5.49	-7.88
December	29.07	4.71	-3.84	-5.83

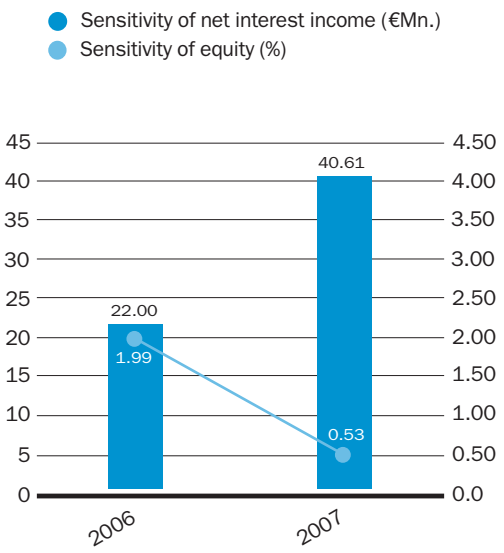
Structural risk

Structural risk arises from ongoing customer-based commercial and corporate banking operations and is divided into interest rate risk and liquidity risk. Management of structural risk seeks to ensure stability at the margin by maintaining appropriate levels of liquidity and capital strength.

Interest rate risk

Interest rate risk is caused by changes, as reflected in the position or slope of yield curves, in the interest rates to which asset, liability and off-balance sheet positions are linked. Gaps or mismatches

G11 Structural interest rate risk (interest rate sensitivity)



arise between these items because of differences in repricing and maturity dates so that rate changes affect them at different times; this in turn affects the robustness and stability of results.

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

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. In this technique volumes of asset and liability items are grouped according to their maturity date (for fixed rate instruments) or their repricing date (for floating rate instruments). This analysis provides an estimate of the effect that a change in interest rates will theoretically have on net interest income, assuming that all rates change by the same amount and in a sustained manner.

Sensitivity gap analysis is supplemented by a simulation technique which measures the effect of different interest rate movements at different maturities, i.e. 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 technique that is used is to measure the sensitivity of equity to changes in interest rates by duration gap analysis. This measures the effect of interest rate changes over a longer time horizon.

The interest rate sensitivity of both net interest income and equity is illustrated in figure G11.

Liquidity risk

This can be defined as the possibility of the Bank's being unable to meet payment commitments, even if only temporarily, due to a lack of liquid assets or of its being unable to access the markets to refinance debts at a reasonable cost.

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

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

In addition, liquidity gap analysis is used to manage foreseeable mismatches between cash inflows and outflows over a medium-term horizon. 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 long and medium term.

The group has a number of programmes in place to raise finance on the long- and medium-term capital markets. Short term commercial paper issuance programmes further diversify 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.

The Bank carries out regular liquidity stress testing to ensure that it is able to assess inflows and outflows of funds and the impact of these flows on its cash position under different scenarios. Based on this analytical framework, the Bank has a contingency plan in place to deal with unexpected scenarios that could cause an immediate funding requirement. The plan is constantly being updated and identifies the Bank's assets that are most readily convertible to cash in the short term; it also sets out action plans should it become necessary to raise additional cash.

Operational risk

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

Banco Sabadell pays particular attention to operational risk and is in the process of meeting the conditions required to opt for an advanced model for calculating a regulatory capital charge for operational risk based on the New Basel Capital Accord.

The management of operational risk is decentralized to process managers throughout the organization. All group processes are included on the corporate process map, thus facilitating the compiling of information in a way that reflects the structure of the organization. The group has a specialist central unit to manage operational risk, whose main functions are to coordinate, supervise and drive forward the identification, as well as the assessment and management, of risks by process managers in line with the process-based approach being used.

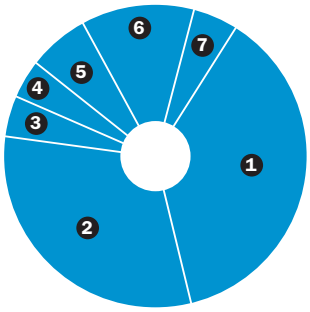
Senior managers and the Board of Directors play a direct, hands-on role in managing operational risk by approving the management framework and its implementation as proposed by an Operational Risk Committee made up of senior managers from different functional areas of the company; they also ensure that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

The management of operational risk is divided into two areas of action:

- The first is based on the detection, monitoring and management of risk through the use of key risk indicators. These trigger alerts in response to increases in exposure and help to identify the causes of that exposure and measure the effectiveness of the controls in place and any improvements that are made.
  To supplement this approach, all processes are analysed and their associated risks identified, leading to a qualitative evaluation of all risks and controls. For these tasks the

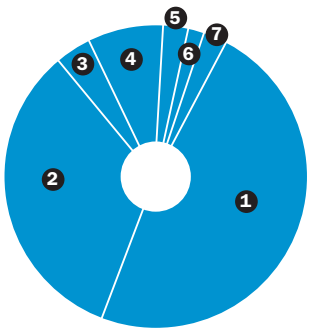
G12 Distribution of loss events due to operational risk (by amount)

1	External fraud	36%
2	Process execution, delivery and management	29%
3	Staff relations/safety issues	4%
4	Property damage	5%
5	Customers, products and business practices	7%
6	Internal fraud	15%
7	Business disruption/systems failure	4%



G13 Distribution of loss events due to operational risk (by number)

1	External fraud	47%
2	Process execution, delivery and management	33%
3	Staff relations/safety issues	6%
4	Property damage	9%
5	Customers, products and business practices	2%
6	Business disruption/systems failure	1%
7	Internal fraud	2%



process managers and the central operational risk unit are jointly responsible. This results in an assessment that allows future exposures to be recognized, tendencies to be anticipated and mitigating action to be taken in an informed way.
Where processes are outsourced the associated operational risk is analysed on the basis of service agreements, the operational and financial stability of the outsourcer and the ease with which it can be replaced if there is an interruption in service.
Care is taken to ensure that processes identified as critical are protected by specific business continuity plans in the event of a service failure.
The operational risks identified are also considered from the point of view of their reputational implications.

- The second area of action is based on experience and consists of building a database of all losses that occur in the organization. This provides a store of information of actual operational risk events for each business line and their causes, so that risks can be acted upon and minimized.

Banco Sabadell maintains a historical database of actual losses resulting from operational risk. This is integrated and reconciled with the accounts and is continually updated as information is received on losses and also on recoveries, whether resulting from the Bank's own efforts or from insurance provision.

Since early 2002 a total of 3,810 events involving a total net loss of €25.8 million have been logged on the database. The data excludes operational losses associated with credit risk.

The distribution of loss events held on the database is shown in figures G12 and G13. These show the main causes of loss due to operational risk in number and in amount, and focus on aspects such as process execution, delivery and management as well as on losses due to external fraud.

Channels

Domestic branch network

In keeping with its aim of offering a highly efficient and specialized service nationwide, at 31 December 2007 Banco Sabadell could boast a network of 1,225 branches all over Spain, with the main concentrations in areas with the highest business potential and population densities.

Banco Sabadell's business proposition is presented to the marketplace through different brands, each serving a specific type of customer or a particular geographical region. This results in a clear value proposition tailored to the specific needs of existing and potential customers through clearly differentiated branch networks.

Under the **SabadellAtlántico** name, Banco Sabadell operates a large network of 922 branches covering the entire country with the exception of Asturias and León. SabadellAtlántico addresses the needs of businesses, retailers, sole proprietors and private customers, with a specialized offering of personal banking services for the private customer segment. Sixty-two of these branches focus exclusively on the mid-sized and large companies served by the Corporate Banking business unit.

Under its **Banco Herrero** brand, with 188 branches in Asturias and León, Banco Sabadell operates a general-service branch banking service for all market segments within its area of influence. The Herrero network includes four branches that target the medium-sized and large corporate segments.

Solbank, the only bank of its kind in Spain, specializes in serving customers from other parts of Europe residing in the country on a temporary or a permanent basis. It has 95 branches concentrated in the Mediterranean coastal areas on the mainland, in the Balearic Islands and the Canary Islands.

Banco Urquijo, with a more selective focus, concentrates on private banking and high net worth clients through a small and specialized network of 17 offices.

The **ActivoBank** brand focuses on online banking, with a value proposition centred on clients who prefer to do their banking online. This is supported by three offices dedicated exclusively to sales and promotion.

Branch network expansion

A total of 51 new branches were opened during the year, as follows:

- SabadellAtlántico (Commercial Banking): 45 branches
- SabadellAtlántico (Corporate Banking): 3 branches
- Solbank (Commercial Banking): 2 branches
- ActivoBank (Commercial Bank): 1 branch

The 45 Commercial Banking branches opened during the year under the SabadellAtlántico name are located in areas showing excellent business potential and/or high rates of urban development with the aim of strengthening the Bank's presence in existing markets while extending its coverage to new ones.

New branches were opened in Catalonia (13 branches), Valencia (11), Madrid (7), Andalucía (6), Aragón (2), Navarra (2), Castile-La Mancha (1), Murcia (1), Canary Islands (1) and Galicia (1).

The three new Corporate Banking branches were opened in urban areas with well-developed business activity. These branches were opened in Madrid (2 branches) and Toledo (1 branch).

The Solbank network was expanded by two new branches in areas with large populations from other parts of Europe. Both of these branches are in the Valencian Community.

To give better support to its Internet-based customers, ActivoBank increased its branch network by opening a new office in Madrid, giving it two sales outlets in the nation's capital.

To avoid redundancy, 13 Commercial Banking branches were closed during the year (5 of them SabadellAtlántico branches, 3 Solbank and 5 Banco Herrero); the purpose of these closures was not to exit from any market but to optimize the use of branch resources.

The distribution of the group's domestic branch network by brand and autonomous region at the close of 2007 is shown in Table T3.

T1 Distribution by autonomous region

Andalucía	120
Aragón	23
Asturias	156
Balearic Islands	38
Basque Country	24
Canary Islands	28
Cantabria	6
Castile-La Mancha	16
Castile-León	56
Catalonia	403
Extremadura	3
Galicia	28
La Rioja	6
Madrid	172
Murcia	18
Navarra	13
Valencian Community	115

T2 Distribution by business and brand

Commercial Banking	1,142
SabadellAtlántico	860
Banco Herrero	184
Solbank	95
ActivoBank	3
Corporate Banking	66
SabadellAtlántico	62
Banco Herrero	4
Private Banking	17
Banco Urquijo	17

T3 Branch network in Spain

Region	Province	Sabadell Atlántico	Sabadell Atlántico Corporate	Banco Herrero	Banco Herrero Corporate	Solbank	Banco Urquijo	ActivoBank	Total
Andalucía	Almería	3	1			2			6
	Cádiz	11	1			1			13
	Córdoba	4	1						5
	Granada	5	1			2			8
	Huelva	1				1			2
	Jaén	2							2
	Málaga	30	1			30	1		62
	Seville	20	1				1		22
Total Andalucía		**76**	**6**			**36**	**2**		**120**
Aragón	Huesca	6							6
	Teruel	1							1
	Zaragoza	14	1				1		16
Total Aragón		**21**	**1**				**1**		**23**
Asturias	Asturias			153	3				156
Total Asturias				**153**	**3**				**156**
Balearic Is.	Balearic Is.	22	1			14	1		38
Total Balearic Islands		**22**	**1**			**14**	**1**		**38**
Basque Country	Álava	4	1						5
	Guipúzcoa	5	1				1		7
	Vizcaya	10	1				1		12
Total Basque Country		**19**	**3**				**2**		**24**
Canary Is.	Las Palmas	8	1			7			16
	Tenerife	4	1			7			12
Total Canary Islands		**12**	**2**			**14**			**28**
Cantabria	Cantabria	5	1						6
Total Cantabria		**5**	**1**						**6**
Castile–La Mancha	Albacete	4							4
	Ciudad Real	1							1
	Cuenca	2							2
	Guadalajara	2	1						3
	Toledo	5	1						6
Total Castile–La Mancha		**14**	**2**						**16**
Castile-León	Ávila	1							1
	Burgos	1	1						2
	León			31	1				32
	Palencia	3							3
	Salamanca	2	1						3
	Segovia	1							1
	Soria	1							1
	Valladolid	7	1				1		9
	Zamora	4							4
Total Castile-León		**20**	**3**	**31**	**1**		**1**		**56**

Region	Province	Sabadell Atlántico	Sabadell Atlántico Corporate	Banco Herrero	Banco Herrero Corporate	Solbank	Banco Urquijo	Activobank	Total
Catalonia	Barcelona	288	14				2	1	305
	Girona	45	1			4			50
	Lleida	21	1						22
	Tarragona	25	1						26
Total Catalonia		**379**	**17**			**4**	**2**	**1**	**403**
Extremadura	Badajoz	2							2
	Cáceres	1							1
Total Extremadura		**3**							**3**
Galicia	A Coruña	7	2				1		10
	Lugo	6							6
	Ourense	3							3
	Pontevedra	8	1						9
Total Galicia		**24**	**3**				**1**		**28**
La Rioja	La Rioja	5	1						6
Total La Rioja		**5**	**1**						**6**
Madrid	Madrid	152	14				4	2	172
Total Madrid		**152**	**14**				**4**	**2**	**172**
Murcia	Murcia	15	1			2			18
Total Murcia		**15**	**1**			**2**			**18**
Navarra	Navarra	11	1				1		13
Total Navarra		**11**	**1**				**1**		**13**
Valencian Community	Alicante	21	2			24			47
	Castellón	15	1				1		17
	Valencia	46	3			1	1		51
Total Valencian Community		**82**	**6**			**25**	**2**		**115**
Total Spanish branches		**860**	**62**	**184**	**4**	**95**	**17**	**3**	**1,225**

International network

At the end of 2007 the Bank's international operations in foreign countries comprised 13 representative offices, 3 full branches, 4 banking associates and 2 subsidiaries.

T4 International network

Country	Branch	Representative office	Banking associate	Subsidiary
Europe				
Andorra			1	
France	1			
Italy		1		
Portugal			1	
United Kingdom	1			
Turkey		1		
Americas				
Brazil		1		
Chile		1		
Dominican Republic			1	
Mexico		1	1	
USA	1			1
Venezuela		1		
Asia				
China		2		
Hong Kong				1
India		1		
Iran		1		
Lebanon		1		
Singapore		1		
Africa				
Algeria		1		
Total	**3**	**13**	**4**	**2**

ATM network

At the end of 2007 the group's network of self-service cash machines consisted of 1,474 ATMs, up from 1,421 in 2006.

ATM numbers increased in line with the number of branches, the objective of equipping all branches with ATMs having been achieved.

A total of 21.2 million transactions were carried out on the group's ATMs in the course of the year. Cash withdrawals from ATMs totalled €2,081 million. Banco Sabadell is one of the foremost member organizations of the ServiRed network in terms of ATM numbers. Its service strategy is based on the speed, convenience and availability afforded by ATMs.

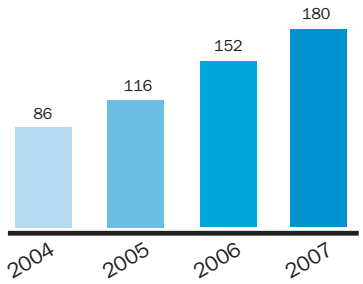
Remote-access channels

The emergence of new channels of banking service delivery (such as mobile devices and interactive TV) has presented new opportunities to offer new services to customers and broaden the range of services available via remote-access channels.

One example of the services being developed is Instant Banking– a new concept which will determine how banking develops in the future. This lets users do their banking instantly wherever they happen to be and drastically reduces the time required for bank transactions.

Such developments are part of the inexorable rise of remote access banking, something that Banco Sabadell, ever a pioneer, has been actively promoting for more than 20 years.

G1 Internet-based account enquiries and transactions



(Mn. transactions)

BS Online

With the arrival of new functionality, greater ease of use and 24/7 availability on the BS Online service, customer usage continued to increase.

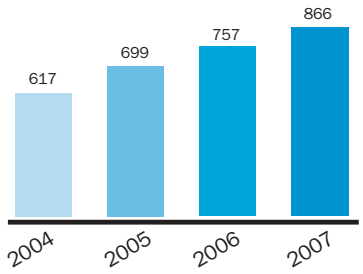
A total of 180 million online transactions were done in the course of the year, a very considerable increase on the year before.

At the present time more than 700,000 individual customers are using the BS Online service for personal customers and more than 166,000 business customers are signed up for the BS Online Empresa service for businesses.

New functions and services were being added to the group's websites throughout the year.

These included a mobile phone top-up service, a facility to view accounts held with other European banks, a subscription service

G2 BS Online sign-ups ('000)



for public share offerings, confirmation of officially assessed tax returns, an option to specify different limits for single-signature and dual-signature payments on BS Empresa, and access to global bond markets via Urquijo Online.

Although users of group internet services are assured of standards of security among the highest in the world, customers can now ask to have PIN number confirmation requests sent to their mobile phone by text message, considerably increasing security for remote transactions.

A further development in 2007 was the launch of a website for younger users, BSClickOk. The site can be used to access a wide variety of products designed for this customer segment.

BS Móvil

Banco Sabadell continued to develop its SMS messaging services in 2007 by launching a new online banking security alert system to provide greater protection against internet fraud.

2007 was the year when the mobile phone channel finally took off, reaching totals of 190,000 active BS Móvil customers and 3.19 million SMS notifications, a rise of 287.3% on the year before.

The group's messaging platform has thus established itself as a banking channel alongside others; moreover it is now operating in tandem with the Internet to provide greater security for transfers executed online when the text message PIN confirmation request function is activated.

Contact centre

The telephone continues to be a vital support channel for the group's commercial operations.

It can be used to make enquiries, carry out banking transactions and sign up for financial services via the telephone banking facility. It is also a channel for providing customer support and for resolving any doubts or queries arising from transactions performed on the group's online services.

In 2007 more than 761,000 customer calls were handled and more than 100,000 emails were received by the centre.

Customer ratings of the quality of service at the centre, given during the call itself, were positive in 90% of cases and helped to identify, in real time, the kinds of service improvements that will lead to the attainment of excellence.

The telephone channel played a vital role in managing the customer relationship. More than 170,000 proactive calls to customers were made for the purpose of making offers and signing up new customers for financial products. Telesales campaigns for payment cards and investment funds were particularly successful, as were calls reminding card holders to activate their cards.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Excellence

Excellence, by which we mean the highest standards of quality in managing a business and the ability to create value that earns the respect of stakeholders for whom it is intended, is the fundamental principle that underlies all Banco Sabadell activities and all its decisions, whether for the long term or the short term.

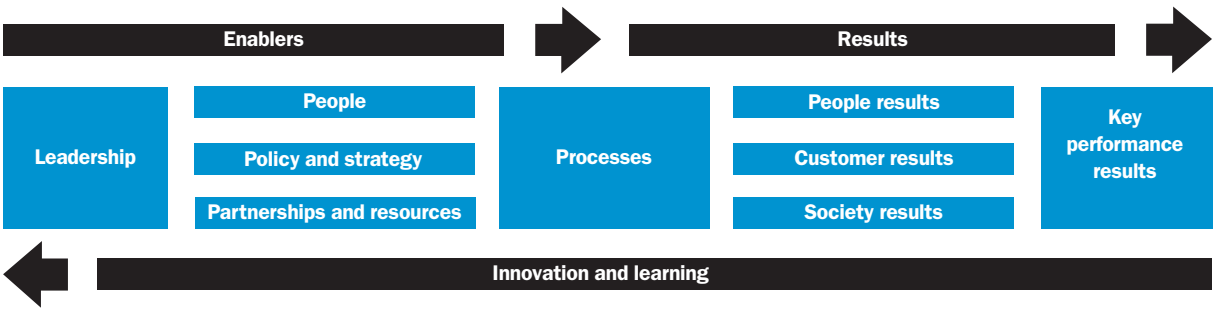
In 2002 Banco Sabadell adopted the Europe-wide Excellence Model developed by the European Foundation for Quality Management (EFQM) as a benchmark for assessing quality standards and a tool to design programmes for continuous improvement. The result was the launch of two Quality Plans (for 2002-2005 and 2005-2007), each consisting of a set of actions with a dual purpose: to incorporate quality management throughout the organization as a normal part of managerial responsibilities, and to reinforce a quality-driven culture as a shared value for all persons forming part of the Banco Sabadell group.

These efforts resulted in the Bank being awarded the EFQM Seal of Excellence (500+ points) in 2006, a year earlier than expected, making Banco Sabadell the only Spanish bank and the first IBEX 35 financial company to have received the award.

The EFQM model provides a management philosophy – fully endorsed by Banco Sabadell – in which management practices or "enablers" are considered alongside business performance; this is supported by a process of continuous innovation and learning that ensures that performance remains sustainable over time. The model is illustrated in diagram G1 below.

The way in which the Bank is managed and how it performed in every sphere in 2007 are fully described in the different sections of this Annual Report and the accompanying Report on Corporate Social Responsibility. This section therefore discusses only the most salient aspects of the 2005-2007 quality plan and the results achieved in terms of the quality of service delivered to customers, a key objective of the plan.

G1 EFQM Model



Quality plan 2005-2007

Although the plan's main objective – winning the EFQM Seal of Excellence – was achieved a year earlier than expected, the Bank continued to build on this achievement by making improvements to its quality management system and to boost its performance at the same time.

A special quality plan was also prepared for Banco Urquijo. The first actions under this plan included employee surveys and group sessions in which employees from different backgrounds, locations and functional areas were asked to think about which values, in addition to the group's own, should shape the Banco Urquijo mission and vision. This resulted in a customer relationship protocol whose aim was to share best internal practices and create an individual style that would be recognized in the private banking sector.

ISO 9001:2000 certification

During the year the group's quality management certificate was renewed. This extends to all financial services companies in the group and, for the first time, the branches taken over from Banco Urquijo.

Banco Sabadell continues to be the only Spanish financial company to have gained organization-wide certification in this way.

Gold Seal for European Excellence

The Gold Seal awarded to Banco Sabadell by the Club Excelencia en Gestión and the EFQM in 2006 is valid for two years.

In preparation for renewal of the certificate, an internal assessment was carried out during the year with three aims:

- To determine the extent to which management and quality improvement practices are being implemented
- To identify new opportunities for improvement
- To gather the information required to prepare an EFQM report as the basis for the 2008 external audit.

The internal assessment showed that there had been further development since the last exercise in 2006 and served as a basis for new initiatives that will help to improve on the score in that year.

Qualis prizes for excellence

Established in 2002, the Qualis prizes for excellence are to distinguish people and groups who have been particularly noted for excellence in their performance at work.

This year prizes for achievement in 2006 were awarded and presented to the winners. Of particular significance, in terms of group achievement, were the prizes for best bank branch, and the Qualis Prize, Gold Category, which is given in recognition of a person's past career.

The branches selected for the best branch award were Vegadeo (Banco Herrero), Toro (SabadellAtlántico) and Gran Alacant (Solbank) for Commercial Banking, and Oviedo-Fruela for Corporate Banking.

The Gold Category Qualis Prize went to Francisco Vallejo, the present chairman of Banco Urquijo.

Quality of Service

A cornerstone of the Banco Sabadell strategy and culture is quality of service to customers.

For this reason Banco Sabadell is continually reviewing the quality of the service provided to customers and the findings of these reviews are circulated within the group so that follow-up and improvement action can be taken within each unit's area of responsibility. All branches have their own balanced score cards for quality control and these are used as a basis for action in areas where performance is dependent on front-line staff.

The main indicators and information sources used in these assessments are:

- Objective quality audits
- Industry objective quality benchmarking
- Customer perceived quality surveys
- Customer complaints

Objective quality audits

Audits are conducted at all branches using the mystery shopper technique and cover both physical aspects (clean, tidy, well-kept premises, etc.) and personal aspects (professional attitude, knowledgeable staff, clear explanations, courtesy, etc.).

Ratings obtained in 2007 averaged 6.05 on a scale from 1 to 7, exceeding the target score by 0.07 points.

Industry benchmarking

Every year an industry quality survey known as EQUOS is carried out by STIGA, an independent consultancy, using a similar mystery shopper technique to survey the 100 or so financial services companies operating in Spain. The fieldwork for the survey involves more than 5,000 visits to bank branches all through the year.

According to survey data for 2007, Banco Sabadell again achieved the excellent scores awarded in previous years, with ratings averaging 7.82 on a scale from 1 to 10 (up 0.17 points on 2006), compared with 7.24 (up 0.15 points on 2006) for the financial services industry as a whole, further increasing its lead over the competition.

Perceived quality customer surveys

These surveys are carried out continually throughout the year. The fieldwork involves collecting opinions from more than 30,000 customers in every customer segment.

In 2007 customers rated their overall satisfaction with their branch at 6.00 points on a scale from 1 to 7, an improvement of 0.03 on the previous year.

Customer claims and complaints

In 2007 a total of 1,809 claims and complaints were received by the group's customer and user protection services (the Customer Service Department and the Customer Ombudsman), an increase of 12.5% on the previous year.

This performance can be regarded as highly satisfactory bearing in mind that the Bank underwent considerable expansion during the period and was in the process of integrating Banco Urquijo.

According to the last annual report published by the Bank of Spain's complaints department, Banco Sabadell was the bank with the lowest ratio of claims to gross revenue, a position that it continued to occupy according to quarterly reports published by the complaints department in 2007.

Further information about quality can be found in the Annual Report on Corporate Social Responsibility, published as an annex to this report on the accompanying CD.

Management team

Board of Directors

Chairman
José Oliu Creus

Deputy Chairman
Joan Llonch Andreu

Managing Director
Jaime Guardiola Romojaro

Directors
Isak Andic Ermay
Miguel Bósser Rovira
Francesc Casas Selvas
Héctor María Colonques Moreno
Joaquín Folch-Rusiñol Corachán
María Teresa Garcia-Milà Lloveras
José Manuel Lara Bosch
José Permanyer Cunillera

Secretary to the Board
Miquel Roca i Junyent

Assistant Deputy Secretary
José Luis Negro Rodríguez

Honorary Directors
Juan Corominas Vila (*)
Domingo Fatjó Sanmiquel
Antonio Ferrer Sabater

* Honorary Chairman

Executive Committee

Chairman
José Oliu Creus

Managing Director
Jaime Guardiola Romojaro

Executive Director
José Permanyer Cunillera

Secretary
José Luis Negro Rodríguez

Managing Director
Jaime Guardiola Romojaro*

Comptroller-General
José Luis Negro Rodríguez*

Business Units
Commercial Banking
Jaume Puig Balsells*
Corporate Banking
and Global Operations
Enric Rovira Masachs*
BancAssurance
Ignacio Camí Casellas*
Asset Management
Cirus Andreu Cabot*
Treasury and
Capital Markets
Rafael García Nauffal*
Americas
Fernando Pérez-Hickman*

Central Services Units
Finance
Tomás Varela Muiña*
Corporate Development
Joan M. Grumé Sierra*
Operations
Miquel Montes Güell*
Resources
Juan-Cruz Alcalde Merino*
Credit
José Tarrés Busquets*

Legal
María José García Beato
Internal Audit
Nuria Lázaro Rubio
Compliance and Quality
Gonzalo Barettino Coloma
Chairman Support and
Communication Office
Ramón Rovira Pol

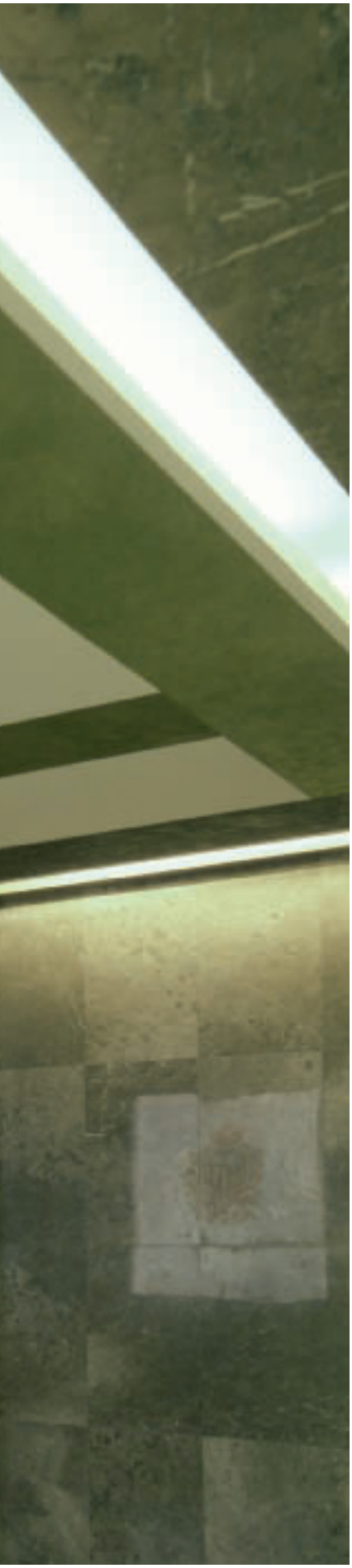
*Member of the Management Committee

Regional divisions
Commercial Banking
Andalucía
Juan Krauel Alonso
Barcelona
Antonio Sabaté Boza
Catalonia
José Canalias Puig
Northern Spain
José Manuel Candela Barreiro
Valencia, Murcia
& Balearic Islands
Jaime Matas Vallverdú
Madrid and Canary Islands
Javier Vela Hernández
Banco Herrero
Pablo Junceda Moreno
Solbank
Aleix Masachs Fatjó

Corporate Banking
Andalucía
Rafael Herrador Martínez
Aragón-La Rioja
Domingo Jarabo de la Torre
Canary Islands
Juan José Rivero Pérez
Castile and Galicia
Iñigo Subrá Alfonso
Catalonia
Luis Buil Vall
Valencia, Murcia
& Balearic Islands
Cristóbal Andrés Peña Fores
Madrid
Blanca Montero Corominas
Basque Country,
Navarra and Cantabria
Pedro E. Sánchez Sologaistua
Banco Herrero
Luis Alberto Requejo Bayón

Banking and other subsidiaries and associates
Banco Urquijo
Manuel San Salvador
Caballero
BancSabadell d'Andorra
Miquel Alabern Comas
BS Capital
Carlos Ventura Santamans
BanSabadell Fincom
Miguel Costa Sampere
Ibersecurities
Juan Bastos-Mendes
Rezende

Corporate Governance



Overview of governance structure

As required by existing regulations, Banco Sabadell publishes a highly detailed annual report on its corporate governance arrangements. The report sets out to give shareholders and investors a clear and transparent account of all aspects related to the governance of the organization.

The report on Corporate Governance is published, together with the report on Corporate Social Responsibility, as a supplement to this 2007annual report. For full details on these aspects the reader is asked to refer to the supplement. Corporate governance issues are of interest to stakeholders and are therefore an important part of a company's social responsibility.

The Banco Sabadell corporate governance system is summarized in the following diagram.

G1 Governance structure

The statutes, rules and regulations that form Banco Sabadell's governance system, together with brief resumés and life histories of the Directors, can be found on the group website, www.bancosabadell.com.

- Banco Sabadell Articles of Association
- Rules of procedure for General Meetings
- Rules of procedure of the Board of Directors
- Internal regulations in relation to the stock market
- Code of Conduct

Ownership structure

Share capital

Date of last change	Share capital (€)	Number of shares	Overall number of votes
29 March 2007	153,001,710.00	1,224,013,680	1,530,017

Details of direct and indirect holders, other than Directors, of significant interests in the Company at the end of the year:

Name or company name of shareholder	Number of directly held shares	Number of indirectly held shares	Proportional holding (%)
Inversiones Hemisferio, S. L.		78,874.00	5.155
Fenynton, S. L.	58,612.00		3.830
Famol Participaciones, S. L.	76,501.00		5.000
Fundo de Pensoes do Grupo BCP	76,027.00		4.969
Unicredito Italiano, S. P. A.	61,201.00		4.000

Members of the Board of Directors with voting rights in the Company:

Name or company name of Director	Number of direct voting rights	Number of indirect voting rights	Proportional holding (%)
José Oliu Creus	1,000.00	4,000.00	0.327
Joan Llonch Andreu	1,350.77	0.00	0.088
Jaime Guardiola Romojaro	83.75	83.75	0.011
Isak Andic Ermay	10.00	84,011.36	5.492
Miguel Bósser Rovira	238.58	561.12	0.052
Francesc Casas Selvas	1,070.64	0.00	0.070
Héctor María Colonques Moreno	52.92	468.44	0.034
Maria Teresa Garcia-Milà Lloveras	11.25	0.00	0.001
Joaquín Folch-Rusiñol Corachán	15,300.18	0.00	1.000
Jorge Manuel Jardim Gonçalves	62.50	0.00	0.004
José Manuel Lara Bosch	150.09	0.00	0.010
José Permanyer Cunillera	870.00	770.00	0.107
Total proportion of share capital held by members of the Board of Directors (%)			**7.196**

Company's holdings of its own shares at the end of the year:

Number of shares held directly	Number of shares held indirectly (*)	Proportion of total share capital (%)
3,814,496	0	0.312

Company management structure

Board of Directors

Maximum and minimum number of Directors under the Articles of Association:

Maximum number of directors	13
Minimum number of directors	11

Members of the Board of Directors

Name of Director	Office held	Status	Date first appointed	Date last appointed	Method of appointed
José Oliu Creus Chairman	Chairman	Executive	29/03/1990	21/04/2005	General Meeting
Joan Llonch Andreu	Deputy Chairman	Non-executive (independent)	28/11/1996	29/03/2007	General Meeting
Jaime Guardiola Romojaro	Managing Director	Executive	27/09/2007	27/09/2007	Co-opted by the Board of Directors
Isak Andic Ermay	Director	Non-executive (shareholder)	22/12/2005	27/04/2006	General Meeting
Miguel Bósser Rovira	Director	Non-executive (shareholder)	29/03/1990	21/04/2005	General Meeting
Francesc Casas Selvas	Director	Non-executive (independent)	20/11/1997	24/04/2003	General Meeting
Héctor María Colonques Moreno	Director	Non-executive (independent)	31/10/2001	29/03/2007	General Meeting
Joaquín Folch-Rusiñol Corachán	Director	Non-executive (independent)	16/03/2000	21/04/2005	General Meeting
Maria Teresa Garcia-Milà Lloveras	Director	Non-executive (independent)	29/03/2007	29/03/2007	General Meeting
Jorge Manuel Jardim Gonçalves	Director	Non-executive (shareholder)	13/04/2000	21/04/2005	General Meeting
José Manuel Lara Bosch	Director	Non-executive (independent)	24/04/2003	24/04/2003	General Meeting
José Permanyer Cunillera	Director	Executive	21/03/2002	29/03/2007	General Meeting
Total Board of Directors					**12**

Distribution of Directors by status category

Status of Director	Percentage of Board membership
Executive Directors	25.00%
Non-executive (shareholder) Directors	16.67%
Non-executive (independent) Directors	58.33%
Other non-executive Directors	0.00%

Age limit for Directors under the Articles of Association

Chairman of the Board	75
Managing Director	75
Other Director	75

Number of meetings held by the Board of Directors and Board committees in 2007

	Number of meetings
Board of Directors	12
Board of Directors with Chairman absent	0
Executive Committee or sub-committee	34
Audit and Control Committee	7
Nomination and Remuneration Committee	10
Risk Control Committee	51
Strategy Committee	2
Absences of Directors from Meetings in 2007	5
Absences of Directors as % of total number of votes taken in 2007	3.50

Consolidated annual accounts certified by:

José Oliu Creus	Chairman
Jaime Guardiola Romojaro	Managing Director
Tomás Varela Muiña	Deputy General Manager - Financial Director

Total remuneration accruing to Directors during the year

For serving on the Board of Directors of the Company:

Type of remuneration	Amount (€'000)
Fixed compensation	1,393
Variable compensation	3,618
Expense allowances	0
Directors' fees under the Articles of Association	1,880
Options on shares and/or other financial instruments	0
Other	751
Total	**7,642**

Other benefits	Amount (€'000)
Advances	0
Credit facilities	14,407
Pension funds and plans: contributions	4,029
Pension funds and plans: commitments	0
Life insurance premiums	0
Guarantees provided to Directors by the Company	650

Directors' remuneration by status category

Other benefits	**of the Company**	**of group undertakings**
Executive Directors	6,284	0
Non-executive (shareholder) Directors	260	0
Non-executive (independent) Directors	1,057	0
Other non-executive Directors	41	0
Total	**7,642**	**0**

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

Total remuneration accruing to Directors (€'000)	7,642
Total remuneration accruing to Directors / attributable profit of parent company (%)	1.26

Members of the Senior Management Group who are not Executive Directors, and total remuneration accruing to them during the year:

Name or company name	Position held
José Luis Negro Rodríguez	Deputy Secretary to the Board, Comptroller General
Juan Cruz Alcalde Merino	Deputy General Manager
Miquel Montes Güell	Deputy General Manager
Fernando Pérez-Hickman Muñoz	Deputy General Manager
Jaume Puig Balsells	Deputy General Manager
José Tarrés Busquets	Deputy General Manager
Tomás Varela Muiña	Deputy General Manager
Cirus Andreu Cabot	Assistant General Manager
Ignacio Camí Casellas	Assistant General Manager
Rafael-José García Nauffal	Assistant General Manager
Joan Mateu Grumé Sierra	Assistant General Manager
Enric Rovira Masachs	Assistant General Manager
Total remuneration paid to Senior Management Group	**4,001**

Committees of the Board of Directors

Committee	Number of members	Function
Executive Committee	4	Coordination
Audit and Control Committee	4	Financial control
Nomination and Remuneration Committee	4	Appointments and remuneration
Risk Control Committee	5	Risk
Strategy Committee	6	Strategy

Membership of Board committees

Position/status	Executive Committee	Audit and Control Committee	Nomination & Remuneration Committee	Risk Control Committee	Strategy
Chairman	José Oliu Creus	María Teresa Garcia-Milà Lloveras	Héctor María Colonques Moreno	José Permanyer Cunillera	José Oliu Creus
Member	Jaime Guardiola Romojaro	Francesc Casas Selvas	Isak Andic Ermay	Jaime Guardiola Romojaro	Jaime Guardiola Romojaro
Member	José Permanyer Cunillera	Joan Llonch Andreu	Joaquín Folch-Rusiñol Corachán	Miguel Bósser Rovira	Isak Andic Ermay
Member	–	–	José Manuel Lara Bosch	Francesc Casas Selvas	José Manuel Lara Bosch
Member	–	–	–	Joan Llonch Andreu	Joaquín Folch-Rusiñol Corachán
Secretary	José Luis Negro Rodríguez	Miquel Roca i Junyent	–	–	Miquel Roca i Junyent

General Meeting

Significant resolutions adopted by the General Meeting during the year and voting proportions in which resolutions were adopted

Details of attendance at General Meetings during the year:

Date of General Meeting	% present in person	% present by proxy	% of share capital
29/03/2007	9.87	64.86	74.73

Resolutions adopted at the Annual General Meeting of the Company on 29 March 2007

The resolutions adopted at the Annual General Meeting of the Company on 27 March 2007 are summarized below. Full details of these resolutions can be found in the report on Corporate Governance and on the Group website (www.bancosabadell.com).

- It was resolved to approve the annual accounts and the report of the Directors of Banco Sabadell and its consolidated group for the year 2007 (including a report on Directors' remuneration policy), and the Directors' stewardship of the company. It was further resolved to approve the proposed appropriation of profits for the year, with profits being allocated as follows:

To voluntary reserves	€602,579,713.48
To dividends	€253,982,838.60
Interim dividend paid	€0.38 per share
Final divided payable as from 2/4/07	€0.45 per share

- Following a recommendation from the Nomination and Remuneration Committee, the following motion was put to the Meeting:

a) to appoint María Teresa Garcia-Milà Lloveras to the Board of Directors for five years as an independent Director;

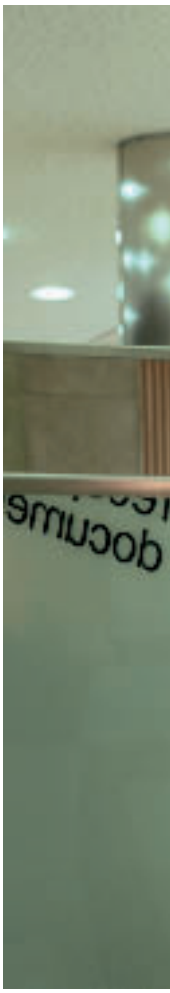
b) to reappoint Joan Llonch Andreu to the Board of Directors for a further period of five years as an independent Director;

c) to reappoint Juan María Nin Génova to the Board of Directors for a further period of five years as an independent Director;

d) to reappoint Héctor María Colonques Moreno to the Board of Directors for a further period of five years as an independent Director; and

e) to reappoint José Permanyer Cunillera to the Board of Directors for a further period of five years as an executive Director.

- Subject to any mandatory legal or regulatory approval being granted, to amend articles 39, 43, 46, 51 and 74 of the Articles of Association and to amend articles 8 and 10 of the Rules of Procedure for General Meetings.
- To ask the General Meeting to take note of amendments to articles 5, 10, 13, 14 and 22 of the rules of procedure of the Board of Directors and the addition of a new article 16 bis providing for a new Committee of the Board to be known as the Strategy Committee, made at a meeting of the Board on 22 February 2007.
- To approve a share-based incentive scheme for group executives of Banco Sabadell, S.A.
- Subject to any mandatory legal or regulatory approval being granted, to amend article 81 of the Articles of Association.
- To execute a split in the total number of shares forming the share capital of the Bank by reducing the nominal value of shares from €0.50 per share to €0.125 per share so that each shareholder is allotted four shares with a nominal value of €0.125 each for every €0.50 share previously held by him and so that the split does not result in any change in the amount of the Bank's share capital.
- Subject to any mandatory legal or regulatory approval being granted, to amend article 7 of the Articles of Association.
- It was resolved that the Board of Directors be authorized:
  a) to increase the capital of the Company one or more times and by such amount, on such date or dates and on such terms and otherwise as the Board of Directors shall determine, subject to the limits as to amount and time imposed by the Act;
  b) to effect one or more issues, subordinated or otherwise, of non-convertible bonds, preference shares, treasury or other similar bonds, mortgage bonds or any other fixed-income securities; and
  c) to carry out a programme of issues of bank bills, to be known as bank bills or by any other name, in one or more stages for a period of three years from today's date.
- It was resolved that the Company be authorized to make purchases of its own shares, whether directly or through any group undertaking, in accordance with article 75 of the SA Companies Act [*Ley de Sociedades Anónimas*]. Such authority shall extend to all or any purchases of shares made in connection with the incentive scheme approved by this General Meeting.
- It was resolved to reappoint PricewaterhouseCoopers Auditores, S.L. as the Company's auditors for a further period of one year.



Report of the Audit and Control Committee

Introduction

This report on the activities of the Audit and Control Committee for 2007 is addressed to shareholders of Banco de Sabadell S.A. and was prepared by the Audit and Control Committee at its meeting of 21 January 2008 and approved by the Board of Directors of Banco de Sabadell S.A. at a meeting held on 24 January 2008.

The Committee is regulated by Article 59 bis of the Articles of Association and Article 13 of the Regulations of the Board of Directors of Banco de Sabadell S.A.; it also has its own rules of organization and procedure which are published on the Group website, www.bancosabadell.com.

This regulatory structure ensures that the Audit and Control Committee complies with the reporting requirements laid down by Law 44/2002 of 22 November on Measures to Reform the Financial System, and incorporates the main recommendations on the working of Audit Committees contained in the Unified Code on Corporate Governance approved by the CNMV in 2006.

As required by Bank's articles and other regulations, the Committee consists of three independent Directors appointed by the Board, one of whom is appointed by the Board to chair the Committee. The Chairman may continue to perform that office for a maximum of four years and cannot be re-appointed for at least one year after the end of his four-year term.

The Board also appoints a Secretary to the Committee, who must not be a Director. The Secretary takes minutes of every meeting and these are approved at the end of the meeting itself or at the next following meeting. A report of each meeting of the Committee is read out at the immediately following meeting of the Board of Directors.

As of 31 December 2007 the Banco Sabadell Audit and Control Committee comprised the following members:

Chair
María Teresa García-Milà Lloveras

Committee members
Joan Llonch i Andreu
Francesc Casas Selvas

Secretary
Miquel Roca i Junyent

There were changes in the composition of the Audit and Control Committee in 2007; María Teresa Garcia-Milà Lloveras was appointed a member of the Committee by the Board of Directors at its meeting of 29 March, in replacement of Manuel Desvalls who retired on the expiry of his appointment to the Board of Directors of the Bank as required by the Articles of Association. Later this year, at its meeting of 28 June, the Board of Directors decided to appoint María Teresa García-Milà Lloveras Chair of the Committee, replacing Joan Llonch i Andreu who had served in the post for the maximum period of four years permitted by Law 44/2002 on Measures to Reform the Financial System, and who continues to sit as a member of the Committee.

The Audit and Control Committee meets as often as necessary and in any event not less than every three months. The Committee may request the attendance at its meetings of such executives, including Directors, as it sees fit. It may also seek assistance from independent advisors in carrying out its duties.

This report summarizes the range of activities carried out by the Audit and Control Committee in the course of the seven meetings that it held during the year 2007, from which it can be seen that the Committee has discharged the duties assigned to it in its rules of procedure by the Board of Directors of Banco de Sabadell, within its main areas of responsibility.

Together with the publication of an annual report on Corporate Governance and the information available on the Group website, the distribution of this report at the Annual General Meeting shows once again Banco Sabadell's commitment to providing shareholders and investors with the tools and resources they need to keep themselves fully informed of the Company's performance and to ensure that it is transparent in everything that it does.

Terms of reference

The Audit and Control Committee is responsible for:

1. Reporting to the General Meeting on all issues raised by shareholders that are within its remit.
2. Making recommendations to the Board of Directors, for submission to the General Meeting, regarding the appointment of external auditors and their terms of engagement, the scope of their professional mandate and, if appropriate, the termination or non-renewal of their engagement; reviewing performance of the auditing agreement and ensuring that the opinion on the annual accounts and the main findings of the auditors' report are expressed in a clear and precise way.
3. Reporting on the annual accounts and the quarterly and half-yearly financial statements and any prospectuses required to be filed with the regulatory or supervisory authorities; monitoring regulatory compliance and ensuring

that accounting principles and standards have been correctly applied.

4. Supervising the work of the Internal Audit function and reviewing appointments and replacements of key Internal Audit personnel.
5. Keeping up to date with the company's financial reporting process and internal control systems.
6. Meeting with the External Auditors to receive reports on any issues that could compromise their independence or other matters related to the process of auditing accounts, and any other reports required by the legislation, rules or professional standards applicable to External Audit.
7. Reporting on any issues referred to the Committee by the Board of Directors that are within its terms of reference.
8. Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations introduced under the Articles or the recommendations on Corporate Governance.

Regulatory structure

As required by the Law on Measures to Reform the Financial System, on 9 July 2003 the regulations of the Board of Directors were amended by deed and new rules on the composition and working of the Audit Committee were added. These changes were made having regard to amendments to certain articles of the Bank's Articles of Association that had been adopted by a resolution of the Ordinary General Meeting on 24 April 2003.

By another deed executed on 9 July 2003 the Audit and Control Committee was set up to replace the existing Audit and Budget Control Committees, whose respective remits had been merged following amendments to the Bank's Articles of Association and to the Regulations of the Board of Directors.

On 20 October 2003 the Committee agreed new Rules setting out the principles that would govern the work of the Audit and Control Committee of Banco de Sabadell S.A. and basic rules on organization and procedure, within the framework of the Articles of Association and the Regulations of the Board of Directors. The rules were approved and confirmed by the Board of Directors at a meeting on 30 October 2003 and were filed with the public register following the execution of a deed on 18 November 2003 before a notary in Sabadell, Javier Micó Giner.

Seven meetings were held by the Audit and Control Committee in 2007 in accordance with the regulatory structure described above. Four of these meetings were ordinary or routine in character, while the other three were ad hoc meetings to discuss matters of special interest. Meetings were regularly attended by the Comptroller General and the head of Internal Audit. Meetings were also attended by the Group Financial Director when the business on the agenda included pre-publication reviews of quarterly and half-yearly trading and financial reports, and by other group senior executives when their presence was required by the business of the meeting.

The Committee also maintained regular contacts with the External Auditors to keep itself informed of progress in the auditing of accounts.

These contacts and attendances ensured that the Committee was able to obtain all the information it required to perform the tasks delegated to it by the Board of Directors within its main areas of responsibility, as follows:

Functions related to financial reporting and internal control

The Committee carried out a review to verify that banking or accounting best practice was being applied at all levels of the organization. On the basis of External Audit or Internal Audit reports and reports from the Comptroller General, the Committee satisfied itself that suitable steps were being taken at General Manager level and by other senior executive functions to ensure that the group's main risks were being appropriately identified, measured and controlled.

As part of this supervisory duty the Committee paid particular attention to overseeing the system of internal controls over the group's offshore operations. This was in response to the Bank of Spain's "Banking Supervision Memorandum" for 2003 which contained recommendations on the policies of banks and other lenders on the use of offshore locations to expand their overseas operations. In carrying out this responsibility the Committee reviewed the findings of audits carried out by official regulators, audit reports prepared by Group Internal Audit, the results of audits carried out by units with local internal audit functions and auditors' reports prepared during the year 2006 on the accounts of subsidiaries with offshore operations. A report on this area of the Committee's supervisory duties was submitted to the Board of Directors on 26 April 2007.

Functions related to auditing

The Committee's functions in relation to the auditing of accounts include making recommendations to the Board regarding the appointment of auditors and reviewing their terms of engagement. At its meeting of 22 January 2007 the Committee reviewed the policy on the engagement of auditors and, on the basis of this review, recommended to the Board that the firm of PricewaterhouseCoopers Auditores, S.L. be re-appointed as auditors of the Bank's individual and consolidated accounts for the year. The Board of Directors resolved to submit the Committee's recommendation to the Annual General Meeting of 29 March 2007 and it was duly approved by the Meeting.

With regard to auditor remuneration, the Committee reviewed and approved the auditor's fees for 2007. Details of fees paid to auditors can be found in the annual accounts for the year.

The Committee held a number of meetings with the Auditor at different times during the year to be informed by him of any significant accounting or financial reporting issues arising in the course of his work.

In addition, to comply with independent audit requirements, the Audit and Control Committee reviewed the main non-auditing services provided by PricewaterhouseCoopers in 2007. These services related to the production of half-yearly reports required by the Bank of Spain as part of the process of bringing the group into line with the new Basel II capital requirements and other reports arising in the course of the work to make the group fully compliant with the recent MiFID Directive. These tasks were undertaken pursuant to the independence requirements of Law 44/2002 on Measures to Reform the Financial System and do not include any activities that would be incompatible with the Committee's role as an auditing body.

To verify group compliance with statutory limits on concentrations of auditing business, the Committee reviewed the proportional share of the fees paid to PricewaterhouseCoopers by the group in the firm's total annual revenue. The share was less than 0.01% of the total for the worldwide PricewaterhouseCoopers Organization, and less than 0.6% of the total for its Spanish organization. The Committee also examined details of the tools and procedures used by the firm to ensure compliance with the independence requirements, as supplied to the partner responsible for auditing the Bank's accounts. As a result of its examination the Committee was able to satisfy itself that the work for which the auditor was employed was in compliance with the independence requirements of Law 19/1988 of 12 July on the Auditing of Accounts, and to Law 44/2002 of 22 November on Measures to Reform the Financial System, as amended.

The Committee discharged its responsibility for overseeing the performance of the auditing contract when, at a meeting of the Committee on 21 January 2008, the auditors submitted to the Committee the results of their audit of the accounts of Banco de Sabadell and its subsidiary and associated undertakings for the year 2007. As in previous years, the opinion expressed by the auditors on the individual and consolidated annual accounts for the year 2007 was that the accounts presented a true and fair view, in all material respects, of the consolidated financial position of the Bank and its subsidiaries and the results of its operations,

the changes in equity and cash flows for the year, and contained all financial information necessary for their interpretation and comprehension.

Functions related to trading and financial reports

In the course of the year the Committee paid particular attention to reviewing the Company's quarterly and half-yearly trading and financial reports, including its Share Prospectus, before they were released for publication.

In undertaking this work the Committee obtained supporting documents and held meetings with the Comptroller General, the Finance Director and the auditor to satisfy itself that all reports had been prepared in accordance with applicable accounting principles. On the basis of its review, the Committee was able to report favourably to the Board of Directors on the annual accounts, the Share Prospectus and the quarterly and half-yearly trading and financial reports.

Functions related to the work of Internal Audit

One of the Committee's tasks is to approve the plans and methodologies of the Internal Audit department and assess the extent to which the department's plans are being followed and its recommendations are being implemented. This responsibility was met largely through the approval and oversight of the Internal Audit Year Plan. The practical implementation of the Plan resulted in the production of over 400 audit reports and the main findings of these reports, along with replies from senior management to the recommendations contained in the reports, were evaluated by the Committee.

For the purposes of its work related to Internal Audit, all meetings of the Committee were attended by the Comptroller General and the head of Internal Audit. The following reports were presented:

- A report on the main Internal Audit results for the fourth quarter of 2006, at the meeting of 31 January 2007.
- A report on the Internal Audit memorandum of activities for 2006 and its proposed plan of activities for 2007, at the meeting of 31 January 2007.
- A report on the main Internal Audit results for the first quarter of 2007, at the meeting of 24 April 2007.
- A report on the main Internal Audit results for the second quarter of 2007, at the meeting of 24 July 2007.
- A report on the main Internal Audit results for the third quarter of 2007, at the meeting of 23 October 2007.

The Committee kept itself informed of the implementation of recommendations in previous audit reports and each meeting included the presentation of a report on the Audit Department's monitoring of an “instrument panel” of key quality indicators.

As part of the process of adopting the provisions of the new Basel II accord throughout the group, the Committee kept itself informed of the group's progress in developing an Integrated Risk

and Capital Management System. This was done by scrutinizing audits, carried out according to instructions from the Bank of Spain's Directorate-General for Banking Supervision, of risk management models in which an internal ratings-based (IRB) approach was used to estimate minimal capital requirements to cover credit risk exposures. The audits were carried out according to reporting guidelines provided by the Bank of Spain in an information dossier for financial institutions and are required to be updated at six-monthly intervals until the approach submitted by the institution has been approved by the Bank of Spain or, in any event, until the new framework is in force.

Also received by the Committee in 2006 were the first half-yearly audit reports required by the Bank of Spain as part of the process of validating its advanced framework for the management and measurement of operational risk. These reports, like the audits relating to credit risk, were prepared according to Bank of Spain guidelines.

Functions related to compliance with legal and regulatory requirements on Corporate Governance

One aspect of the Committee's work in the area of corporate governance was to review reports prepared by the Comptroller General and Internal Audit on compliance with applicable laws, Company rules and procedures and regulatory requirements. As part of its work in this area the Committee recommended, at its meeting of 22 January 2007, that the Board of Directors give its approval to a report on the structure and practice of Corporate Governance at Banco Sabadell that had been submitted to it by the Executive Committee in 2006.

At a meeting on 22 February 2007 the Committee reviewed proposed amendments to articles 5, 10, 13, 14 and 22 of the Regulations of the Board of Directors and the addition of a new article 16 bis. A decision was made to recommend the amendments as being in line with the Unified Code on Corporate Governance in Listed Companies as approved and published by the CNMV in 2006.

The Committee also examined half-yearly reports from the group's Corporate Ethics Committee on activities undertaken to ensure compliance with the Banco Sabadell Group Code of Conduct on stock market trading, the general group Code of Conduct, and actions undertaken in the area of Corporate Social Responsibility and in other key areas.

In fulfilment of Corporate Governance guidelines, the members of the Audit and Control Committee carried out a self-evaluation and submitted a report with an assessment of the Committee's performance to the Board of Directors for consideration at its meeting of 20 December. The report found that the Committee had fully and properly discharged the responsibilities entrusted to it in its rules of procedure by the Board of Directors of the Bank.

At various time during the year the Committee was briefed on the recommendations made in reports put out by the supervisory authorities, and was able to establish that suitable improvements had been made in the light of those recommendations.

Conclusion

The activities described in this report ensured that the Audit and Control Committee was able to fully discharge the duties assigned to it in its rules of procedure by the Board of Directors of Banco de Sabadell, within its area of responsibility.

As a result of these activities the Committee was able to give an assurance that the Annual Accounts to be signed off by the Board of Directors provide a true and fair view of the asset and financial position of Banco Sabadell, S.A. and the results of its operations, and contain all information necessary for their comprehension.

The Committee has, in addition, verified that all business, financial and legal risks to which Banco de Sabadell S.A. and its subsidiary and associated undertakings may be exposed are clearly and straightforwardly explained in the Annual Accounts and the Report of the Directors. Finally, it has reviewed the contents of the auditor's report to ensure that the opinion on the Annual Accounts and the main findings of the auditor's report are expressed in a clear and precise way.

This report on the activities of the Audit and Control Committee in the year 2007 was signed by the members of the Committee on 21 January 2008 for submission to the General Meeting.

Report on Directors' remuneration

Report of the Board of Directors of Banco de Sabadell, S.A. following a recommendation from the Nomination and Remuneration Committee on policy relating to the remuneration of Directors

Introduction

This report on policy relating to the remuneration of members of the Board of Directors was drawn up pursuant to Article 14.3.c of the rules of procedure of the Board, which charges the Nomination and Remuneration Committee with reporting to the Board on policy for compensation of Board members.

The policy on compensation of members of the Board of Directors of Banco Sabadell has been developed in line with the Articles of Association and the rules of procedure of the Board of Directors.

The policy also complies with the recommendations of the Unified Code on Corporate Governance for Listed Companies approved by the Council of the National Stock Market Commission on 22 May 2006, and specifically with recommendations 8 and 35-39 of the Code.

Article 130 of the SA Companies Act [*Ley de Sociedades Anónimas*] provides basic rules for the remuneration of directors and states specifically that remuneration should be fixed by the Articles of Association.

Article 81 of the Articles of Association of Banco Sabadell requires that a Director's compensation should consist of a share not exceeding 3% of the Bank's net profit, and that the Directors have discretion within that limit to fix their annual remuneration and to distribute it among the members of the Board. Under the same article, Directors carrying out executive functions may, with the authority of a resolution of the General Meeting, additionally participate in incentive schemes for senior executives of the Bank, consisting of remuneration in the form of shares, options over the shares or compensation linked to the value of the shares.

In line with the foregoing provisions, Article 22 of the Rules of Procedure of the Board of Directors provides that Directors are entitled to compensation as fixed by the Board of Directors in accordance with the Articles of Association and with any recommendations of the Nomination and Remuneration Committee.

Policy on the remuneration of members of the Board of Directors of Banco de Sabadell S.A.

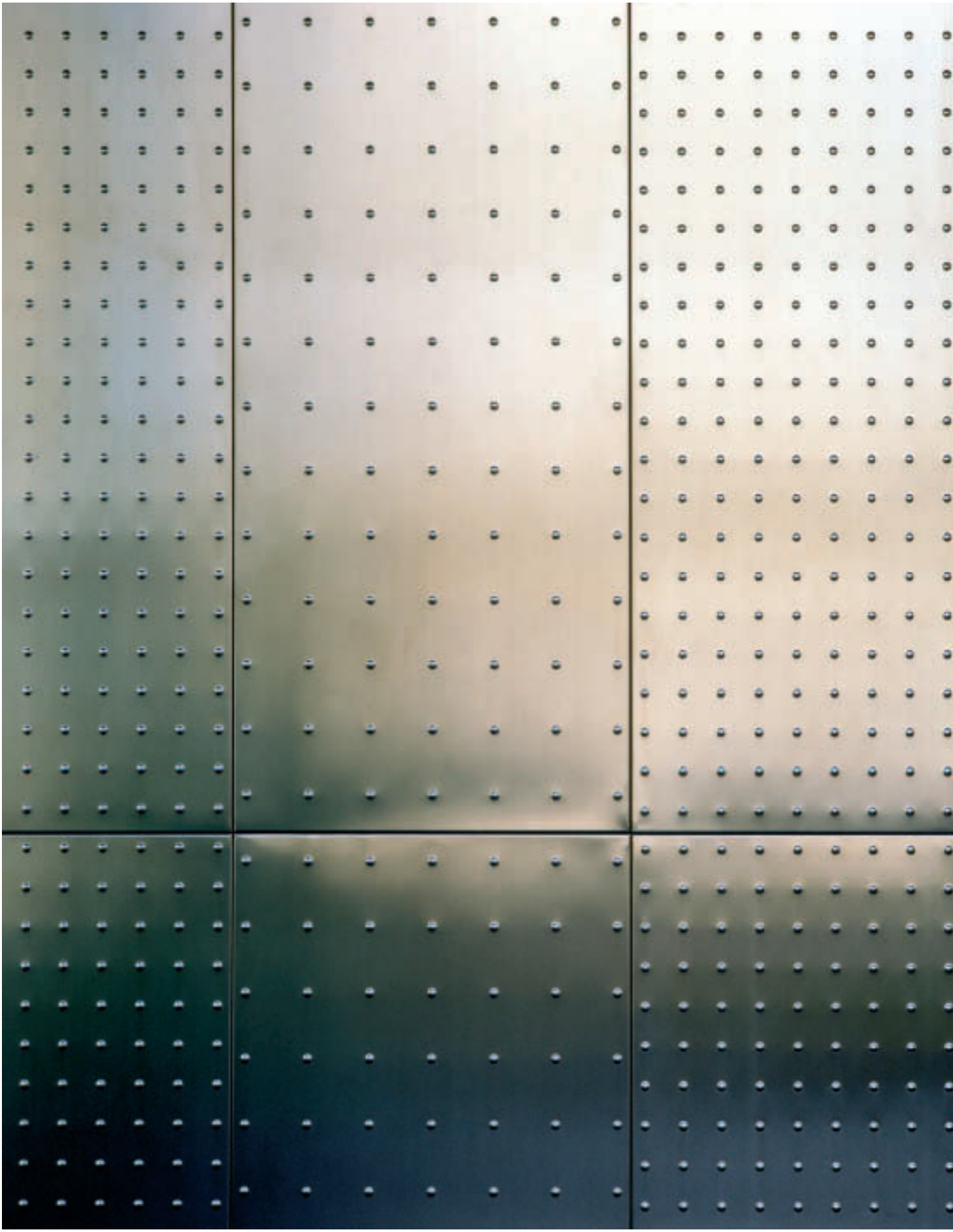
- The remuneration of all Directors has been fixed having regard to their time commitment, experience and responsibilities, and so that the amount of such remuneration does not in any way compromise their independence of action.
- Remuneration criteria have been validated by the Nomination and Remuneration Committee with guidance, where necessary, from internal sources within the group and having regard to

prevailing conditions in the compensation market, where the market means comparable companies.

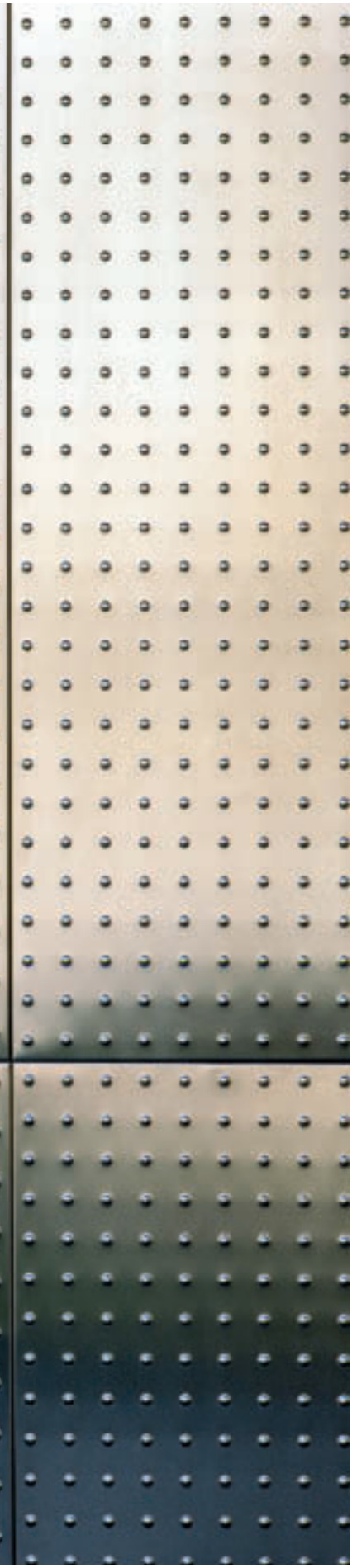
- Remuneration for all Directors was fixed by the Board of Directors following a recommendation from the Nomination and Remuneration Committee in accordance with the rules and within the limits specified in Article 81 of the Articles of Association.
- No Director received any expense allowance for attendance at, or any compensation for membership of, any board of directors and/or other senior management board of any group undertaking based in Spain.
- Compensation for Directors carrying out executive functions within the Company is arrived at on the basis of the following additional considerations:

    - Additional fixed and variable compensation according to the specific post or function they occupy.
    - Performance and achievement metrics used to determine fixed and variable compensation are the same as for Senior Executives of the Company and are designed to ensure an overall package that is competitive with comparable positions and companies within the marketplace and in which the performance-related element is a significant part.
    - Variable compensation has been set on the basis of a number of factors, particularly executive performance, rather than simply being determined by the general performance of the Company's markets or areas of activity or similar circumstances.
    - In drawing up executive Directors' contracts, all the conditions that normally govern relations of this kind have been taken into consideration, with contract terms being set in accordance with prevailing market practice.
    - Compensation packages are supplemented by the Banco Sabadell Executive Incentive Scheme, detailed terms and conditions of which were approved by the General Meeting on 29 March 2007.

- Individual payments for the performance of duties under the Articles of Association and payable to Executive Directors are set out in the relevant sections of the Notes to the Annual Accounts for the year and the Report on Corporate Governance.
- The funding of pension commitments in respect of persons serving as Directors is set out in the relevant sections of the Notes to the Annual Accounts and the Report on Corporate Governance, and has been provided for by policies of insurance.



Corporate Social Responsibility



Report on Corporate Social Responsibility for 2007 – summary

Corporate social responsibility – a commitment and an opportunity

Banco Sabadell sees corporate social responsibility as being expressed through the normal activities of the business itself.

Thus, the design and distribution of financial products and services that give added value to the community, transactions that generate returns for all stakeholders, ethical standards in the way we work, showing respect for our people and supporting them in their personal development; these are key aspects that lie at the heart of Banco Sabadell's activities in the field of corporate social responsibility (CSR).

This means that we see CSR not so much as something distinct from the company's basic *raison d'être*, but rather as a way of improving the outcomes of its activities with a much broader management perspective and over a much longer time horizon in pursuit of a sustainable vision for society.

For Banco Sabadell social responsibility is a challenge, a commitment, and at the same time an opportunity to continue to develop all of its capabilities. This is why its organizational structure includes a Quality Management, CSR and Corporate Governance Unit whose purpose is to promote, develop and coordinate a full range of initiatives based on policies approved by the Board of Directors for the pursuit of our social responsibility goals, and thus ensure that real progress is made on a wide variety of fronts.

To give suitable publicity to Banco Sabadell's CSR activities in 2007, a special report has been prepared on the basis of the Global Reporting Initiative G3 guidelines approved in October 2006. This has been verified by external auditors.

In the light of comments from our stakeholders and the Global Reporting Initiative's own recommendations, this year we continued the work we started last year to improve the design of the CSR report and make it more user-friendly, more accessible and more relevant to the reader. With the help of digital technology, the report makes extensive use of graphics and images to communicate its message, resulting in greater clarity in the presentation of numerical data while at the same time achieving a considerable saving in paper, in keeping with the Bank's sensitivity to environmental issues.

The following is a brief summary of the Banco Sabadell report on Corporate Social Responsibility for 2007. It covers, firstly, the social dimension, which deals with aspects related to the Bank's stakeholders; and secondly, the many ways in which the Bank has sought to minimize the environmental impacts associated with its operations.

Banco Sabadell and its stakeholders

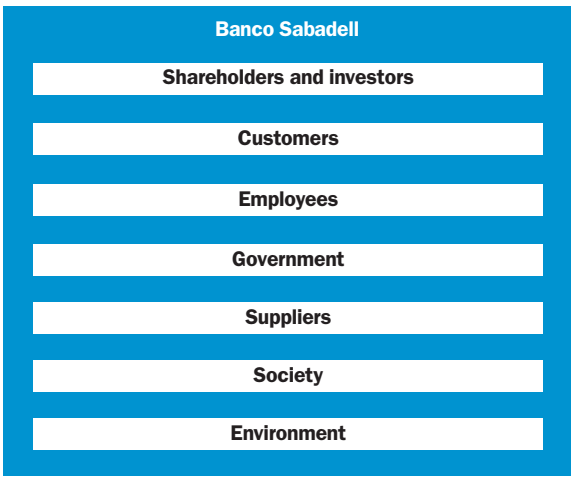
As part of the Bank's strategic planning, in January 2003 a consultation process was initiated involving employees and managers from different parts of the country and from different areas and levels of the organization, to identify the company's mission, its vision, its chief stakeholders and the values that should form the basis of the Bank's corporate culture in relation to each stakeholder group.

The results of these working sessions were presented, discussed and validated in that same year during the annual conference of senior group executives. They subsequently formed the basis of a series of initiatives in which stakeholders' interests were explicitly addressed throughout the development phase and in the resulting documents:

- Group Code of Conduct
- Specific policies for each stakeholder group, approved by the Board of Directors
- A business strategy for the Bank
- A master plan for the period 2005-2007: ViC 07
- Allocation of specific responsibilities for CSR
- A Master Plan for 2008-2009: Optima '09

Stakeholders are any persons, groups or institutions that are in some way affected by or involved in the Bank's operations and are able, at the same time, to affect the way in which the Bank operates and evolves.

It is hence a vital element of Banco Sabadell's business strategy that the Bank should build and maintain working relations with stakeholders as key partners in integrating social and environmental values into the management of the company.



The chief stakeholders in Banco Sabadell are: shareholders and investors, customers, employees, government agencies and regulatory authorities, suppliers and the wider community, including the physical environment. It is vital that the Bank should have a detailed knowledge of the people in each of these groups, and of what they expect from the company, the things that are important to them, and their perceptions, opinions and aspirations. Banco Sabadell needs to have a better understanding of how it and each stakeholder group affect each other, and how this impacts on the goals of either party. From a position of familiarity with these different viewpoints, the Bank can then activate processes and systems to enhance its value proposition.

In 2007 there were some notable advances within Banco Sabadell in its relations with each stakeholder group. Chief among these were improvements in communication, in the product and service offering, and in the Bank's commitment to society and the environment. Further details of these achievements can be found in the Annual CSR Report; at the end of each chapter is a summary showing the degree to which the Bank met the targets that it set itself for the year.

T1 Our corporate values and how they relate to stakeholders

	Shareholders and investors	Customers	Employees	Government	Suppliers	Society	Environment
1 Desire to Serve		■				■	■
2 Closeness		■				■	■
3 Adaptability		■				■	■
4 Business focus		■				■	■
5 Innovation	■	■	■		■	■	■
6 Professionalism	■	■	■	■	■	■	■
7 Ethics and social responsibility	■	■	■	■	■	■	■
8 Austerity	■		■		■		
9 Prudence	■		■			■	■
10 Working together			■				

Shareholders and Investors

Values > Innovation, professionalism, ethnics and social responsibility, austerity, prudence.

A priority aim of Banco Sabadell is to repay the trust deposited in it by its shareholders by delivering good returns on their investment, assured solvency, a transparent and balanced system of governance, and prudent management of the endogenous and exogenous risks associated with its business and the operating environment.

The Bank provides shareholder information through a number of channels including the shareholder and investor pages of the main group website, quarterly bulletins containing financial and shareholder information, the Annual Report and other publications. It is committed to constantly working to make the reporting process better and more effective, whether through channels available to the general public or through contact with the Bank's Shareholder and Investor Relations departments.

These shareholder and investor contact services can be used to make enquiries or suggestions, comments or requests for further information, and can be accessed by sending an email to:

- accionista@bancsabadell.com
- InvestorRelations@bancsabadell.com

or by telephone on the following numbers:

- (+34) 937 288 882 (shareholders)
- (+34) 937 281 200 (investors)

Customers

Values > Desire to serve, closeness, adaptability, business focus, innovation, professionalism, ethical and social responsibility.

Banco Sabadell's aim is to build long-term relationships with its customers. It does this by continuously striving to learn about and understand their needs to ensure that its business relationships are for the mutual benefit of both parties.

Banco Sabadell's relations with its customers are based on honesty, responsibility, confidentiality, privacy and keeping promises, as required by its Code of Conduct. This means that customers can see the Bank as an ally that can provide them with financial and non-financial solutions appropriate to their needs. The Bank supplies products and services to individuals, small and medium-sized firms or large corporations, to the highest standards of quality in every case, enabling them to benefit from a dynamic business culture that drives initiatives at both the business and the personal level.

Banco Sabadell has drawn up a Customer Relations Protocol and this, together with its group Code of Conduct, lays down principles of ethical conduct governing relations with customers. These ethical principles range from fundamental human rights (for example, not discriminating against people on grounds of race, sex, religion, social status or background and removing, so far as reasonably possible, all physical and language barriers), to rules on how customers should be served (for example, using clear, precise language when speaking and in writing, honesty, confidentiality, transparency and honouring commitments).

In addition to this sensitivity to the needs of each customer which is always apparent in the service offered by Banco Sabadell personnel, the Bank offers a Customer Service Department and a Customer Ombudsman to handle queries or disputes arising in any relationship with the Bank.

Customer satisfaction surveys are carried out on a regular basis and this helps to fine-tune the Bank's service and internal standards to conform to changing customer expectations.

T2 Customer satisfaction surveys

(on a scale from 1 to 7)	**2007**	**2006**	**2005**
General customer satisfaction with Banco Sabadell	5.82	5.87	5.85
General customer satisfaction with account manager	6.01	5.97	6.04
General customer satisfaction with branch	6.00	5.97	6.09

Rating key - scale from 1 to 7:

Unsatisfactory	**Acceptable**	**Satisfactory**
1 Highly	4 Acceptable	5 Slightly
2 Fairly		6 Fairly
3 Slightly		7 Highly

Employees

Values > Innovation, professionalism, ethics and social responsibility, austerity, prudence, working together.

Banco Sabadell understands that people are critical to the achievement of its goals. For this reason, human resource management policies are geared to attracting, motivating and retaining a team of competent people who are thoroughly professional in their approach. In 2007 Banco Sabadell had more than 10,000 people in its employ.

The Bank continues to strive for improved communication and dialogue with its employees; this helps to provide an agreeable workplace atmosphere and involves all employees in the group's common purpose.

A number of channels have been set up to achieve this aim. These channels are made available to employees as a means of facilitating communication.

Systems are also in place to encourage the men and women we employ to be involved in the continuous improvement of the organization, and also for channelling complaints and demands. These include working atmosphere surveys, the different communication channels available, and interviews with all employees as part of the Bank's performance management system.

In 2007 a consensus was reached with staff representatives on a Workplace Hazard Prevention Plan which now forms the preventive side of the group's general safety management system has resulted in a formal, established policy in preventive safety.

In 2007 Banco Sabadell entered for the Best Workplaces Study carried out by the Great Place to Work Institute, a US-based research and management consultancy recognized as an authority in research and analysis of organizational cultures. The Best Workplaces Study is a benchmarking exercise carried out in

29 countries and consists of a detailed analysis of participating companies. Assessments are made on the basis of opinions expressed by employees, which form two-thirds of a company's overall score. The remaining third is based on a corporate culture audit focusing on human resources practices and policies.

Employees participating in the study are selected at random by the Great Place to Work Institute and their replies are received by the Institute directly over the Internet, thus guaranteeing total confidentiality. The report is currently being prepared and will produce a series of indicators to give an overview of the working environment and a better understanding of where the organization's strengths lie and where improvement is needed.

T3 Employees

Number of employees	2007	2006	2005
Andalucía	739	736	675
Aragón	124	125	115
Asturias	800	857	848
Balearic Islands	194	202	195
Basque Country	164	171	132
Canary Islands	183	169	158
Cantabria	35	40	31
Castile-La Mancha	72	52	45
Castile-León	260	263	248
Catalonia	4,827	4,792	4,609
Extremadura	17	20	20
Galicia	162	163	150
La Rioja	33	36	30
Madrid	1,451	1,452	1,141
Murcia	96	84	60
Navarra	58	51	42
Valencian Community	751	720	674
Total Spain	**9,966**	**9,933**	**9,173**
International	268	133	270
Total	**10,234**	**10,066**	**9,443**

Government and regulatory authorities

Values > Professionalism, ethics and social responsibility.

Banco Sabadell's relations with governmental agencies and authorities (local, regional, national and international) and regulatory bodies (Bank of Spain, National Stock Exchange Commission, CNMV, Directorate-General for Insurance, etc.) are guided by respect for their official status and scrupulous compliance with their directions. The Bank's characteristic principles of good governance and transparent reporting are present in all its relations with government agencies.

Official communications received by the Bank from government offices are registered and distributed to the departments or functions concerned, according to their areas of responsibility. Separate control procedures are in place to ensure that suitable action is taken in a prompt and timely manner.

In all relations with government officials care is taken to ensure that no conduct is engaged in that could be wrongly interpreted as an attempt to secure unfair advantage and thus put Banco Sabadell's reputation at risk.

Suppliers

Values > Innovation, professionalism, ethics and social responsibility, austerity.

Banco Sabadell sees suppliers as partners and seeks to build relationships with them based on cooperation. The Bank regards systems of effective communication as vital to achieve this aim. In this way it seeks to ensure that problems are solved and mutual needs are met as they arise, and to foster truthful information and keep track of all commitments entered into.

Banco Sabadell's relations with suppliers are organized within a procurement and supplier management system based on well-defined procedures and a clearly established model for supplier relationships. The system also lays down guidelines for supplier selection and evaluation.

To support its approach based on mutual cooperation, Banco Sabadell has a procurement website on which it provides information likely to be of interest to this stakeholder group, thus helping to encourage communication and foster a spirit of cooperation.

Society

Values > Desire to serve, closeness, adaptability, business focus, innovation, professionalism, ethics and social responsibility, prudence.

In the words of the Banco Sabadell Code of Conduct: to serve is, essentially, to help others achieve their goals.

For this reason, the Bank's first priority is to focus its efforts on developing responsible financial solutions that will meet the needs of the different interest groups that make up the social environment in which it operates. Further details on this aspect can be found in the Annual Report on Corporate Social Responsibility that accompanies this volume.

As part of its commitment to society, Banco Sabadell engages in a variety of community sponsorship and support activities to strengthen its links with these different groups, and involves itself in a wide array of civic, cultural and sporting activities organized by public and private bodies, cultural foundations or non-governmental social welfare organizations. Its relations with organizations of this kind, all of them well respected in their fields, are conducted through the Sponsorship and Support Committee, the Banco Sabadell Foundation and the Banco Herrero Foundation.

Banco Sabadell also maintains links with other groups and organizations which help to disseminate information about the group (actions, values and commitments) and raise awareness of our sensitivity to social and environmental issues and spread this sensitivity to other people and institutions. Organizations of this kind include the media — TV, radio and the press, both specialist and general-interest — opinion formers and CSR analysis and other organizations, all of which supplement the Bank's own channels for the dissemination of information (websites, publications, etc.).

The Bank's Communication department is responsible for distributing information, raising awareness of Banco Sabadell in as many media as possible and for attending to enquiries, requests for information, suggestions or other matters raised by people or organizations from the media.

The environment

Values > Desire to serve, closeness, adaptability, business focus, innovation, professionalism, ethics and social responsibility, prudence.

Banco Sabadell seeks to contribute to environmental sustainability by working to minimize possible environmental impacts due to processes, facilities, products and services.

The Bank has had a well-established policy on the environment since the year 2004. This is approved by the Board of Directors. In 2006 it started a process of progressively introducing an environmental management system at its central services buildings. At the time of writing, the central services building in Sant Cugat has been certified to the ISO 14001 environmental standard and the Bank is in the process of obtaining certification for the Torre BancSabadell building in Barcelona and the head office building in Plaza Sant Roc, Sabadell, in all of which the environmental management system is in operation. In 2006 an Environmental Committee was set up; it meets every three months and is tasked with verifying that the environmental system is being properly implemented.

The Bank also continued to drive forward its policy of providing direct and indirect financing for renewable energy projects, particularly in wind farms which are, in our estimation, currently the most mature and efficient form of renewable energy; the Bank is now an established leader in promoting wind generation projects.


BS
Sabadell


BS

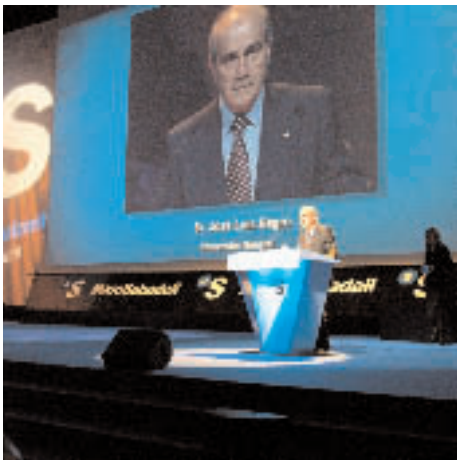

Excelencia

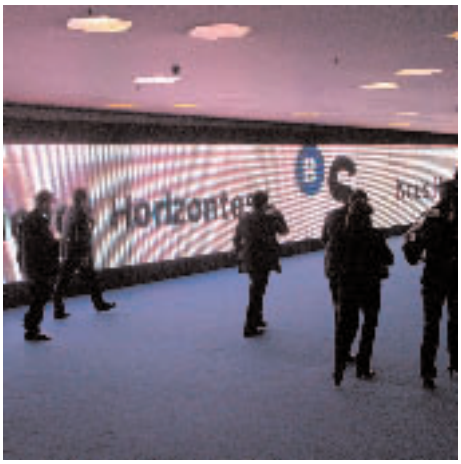

Optima
BancoSabadell


43%
Mercado
de capitales
7%
Sabade

Business convention 2007

New Horizons. Value and Excellence
The Auditorium, Barcelona Forum, 22 November 2007





Statutory information

The statutory information set out on the following pages comprises:

Directors' statement of responsibility
Auditor's Report
Consolidated Annual Accounts
Consolidated Report of the Directors

The Consolidated Annual Accounts and Report of the Directors have been prepared by all the Directors of the Company, whose signatures appear on the original statements.

BancoSabadell

The undersigned, MIQUEL ROCA I JUNYENT, Secretary to the Board of Directors of BANCO DE SABADELL, S.A., with registered offices in Sabadell, Plaça de Sant Roc, 20, and VAT number A08000143

DOES HEREBY CERTIFY THAT

In the Board of Directors meeting held today duly called in writing on January 17th 2008 and with the personal attendance of Mr. José Oliu Creus, Mr. Joan Llonch Andreu, Mr. Jaime Guardiola Romojaro, Mr. Miguel Bósser Rovira, Mr. Francesc Casas Selvas, Mr. Joaquín Folch-Rusiñol Corachán, Mr. Héctor María Colonques Moreno, Mr. José Permanyer Cunillera, Mr. José Manuel Lara Bosch, Mr. Isak Andic Ermay and Ms. María Teresa García-Milá Lloveras, chaired by Mr. Oliu and the undersigned acting as Secretary and Mr. José Luís Negro Rodríguez, as Vice-secretary, the following, amongst other items was unanimously agreed:

> The members of the Board of Directors hereby declare that, to the best of their knowledge, the individual and consolidated annual accounts for the year 2007, approved by them today and prepared in accordance with applicable accounting principles, give a true and fair view of the assets, liabilities, financial position and profit or loss of Banco de Sabadell, S.A. and the enterprises included in the consolidation taken as a whole, and that the management reports respectively approved by them include a fair review of the development and performance of the business and the position of Banco Sabadell, S.A. and the enterprises included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Express mention is hereby made of the reading of the minutes of the aforesaid meeting of the Board in which the above resolutions were unanimously agreed upon and the approval of such minutes when the meeting was adjourned by both the Secretary's signature and chairman's approval.

In witness whereof, I issue this certificate with the approval of the Chairman and the signature of the Secretary of Banco de Sabadell, SA, in Barcelona on this January 24th in the year two thousand and eight.

APPROVED BY

The Chairman

M-14487 X/04 Banco de Sabadell S.A. con domicilio social en Sabadell, Pl. de Sant Roc, 20, 08201 Sabadell. Inscrito en el R.M. de Barcelona, tomo 20093, folio 1, hoja B-1561. NIF A08000143

PRICEWATERHOUSECOOPERS

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Free translation of the auditor's report originally issued in Spanish on the consolidated annual accounts for the second financial year prepared in accordance with International Financial Reporting Standards as adopted by the European Union. In the event of a discrepancy, the Spanish language version prevails.

AUDITOR'S REPORT ON THE CONSOLIDATED ANNUAL ACCOUNTS

To the Shareholders of Banco de Sabadell, S.A. and its consolidated Group

We have audited the consolidated annual accounts of Banco de Sabadell, S.A. and its consolidated Group consisting of the consolidated balance sheets at 31 December 2007 and 2006, the related consolidated income statements, the consolidated cash flow statements, the consolidated statements of changes in net equity and the related notes of the consolidated annual accounts corresponding to the years then ended, the preparation of which is the responsibility of the Directors of the parent company. Our responsibility is to express an opinion on the consolidated annual accounts as a whole, based on our audit work performed in accordance with auditing standards generally accepted in Spain, which require examining, on a test basis, evidence supporting the consolidated annual accounts and an evaluation of their overall presentation, the accounting principles applied and the estimates made.

In our opinion, the accompanying consolidated annual accounts for the years 2007 and 2006 present fairly, in all material respects, the consolidated financial position of Banco de Sabadell, S.A. and its subsidiaries as at 31 December 2007 and 2006 and the consolidated results of their operations, changes in consolidated net equity and consolidated cash flows for the years then ended and contain all the information necessary for their interpretation and comprehension in accordance with International Financial Reporting Standards adopted by the European Union applied on a consistent basis.

The accompanying consolidated Directors' Report for 2007 contains the information that the Directors of the parent Company consider relevant to Banco de Sabadell, S.A. and its consolidated Group, the development of its business and other matters and does not form an integral part of the consolidated annual accounts. We have verified that the accounting information contained in the aforementioned Directors' report agrees with that of the consolidated annual accounts for 2007. Our work as auditors is limited to checking the consolidated Directors' Report within the scope already mentioned in this paragraph and it does not include a review of information other than that obtained from Banco de Sabadell, S.A. and its consolidated Group's audited accounting records.

PricewaterhouseCoopers Auditores, S.L.

Manuel Valls Morató
Partner

31 January 2008

PricewaterhouseCoopers Auditores, S.L. - R. M. Madrid, hoja 87.250-1, folio 75, tomo 9.267, libro 8.054, sección 3ª
Inscrita en el R.O.A.C. con el número S0242 - CIF: B-79 031290

Consolidated Annual Accounts of the Banco Sabadell group for 2007 - Contents

Consolidated balance sheet of the Banco Sabadell group

As at 31 December 2007 and 31 December 2006

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Assets	2007	2006
Cash and deposits with central banks	**1,220,763**	**904,751**
Financial assets held for trading	270,659	112,161
Loans and advances to credit institutions	0	0
Money market operations through counterparties	0	0
Loans and advances to other debtors	0	0
Debt securities (note 5)	1,013	4,784
Other equity instruments (note 6)	8,122	0
Trading derivatives (note 7)	261,524	107,377
Memorandum item: Loaned or advanced as collateral	*0*	*0*
Other financial assets at fair value through profit or loss	**419,386**	**295,580**
Loans and advances to credit institutions	0	0
Money market operations through counterparties	0	0
Loans and advances to other debtors	0	0
Debt securities (note 5)	143,292	39,689
Other equity instruments (note 6)	276,094	255,891
Memorandum item: Loaned or advanced as collateral	*0*	*0*
Available-for-sale financial assets	**5,420,592**	**3,499,367**
Debt securities (note 5)	4,678,451	3,063,473
Other equity instruments (note 6)	742,141	435,894
Memorandum item: Loaned or advanced as collateral	*1,545,919*	*1,673,304*
Loans and receivables	**66,163,819**	**64,575,570**
Loans and advances to credit institutions (note 4)	3,574,102	6,928,116
Money market operations through counterparties	0	0
Loans and advances to other debtors (note 8)	61,999,362	54,557,292
Debt securities (note 5)	0	1
Other financial assets (note 10)	590,355	3,090,161
Memorandum item: Loaned or advanced as collateral	*1,503,929*	*2,414,723*
Held-to-maturity investments	**0**	**0**
Memorandum item: Loaned or advanced as collateral	*0*	*0*
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**0**	**0**
Hedging derivatives (note 11)	**345,951**	**317,591**
Non-current assets held for sale (note 12)	**10,615**	**12,426**
Loans and advances to credit institutions	0	2,221
Loans and advances to other debtors	0	292
Debt securities	0	0
Equity instruments	0	0
Tangible assets	10,615	9,901
Other assets	0	12
Investments (note 13)	**272,521**	**229,670**
Associates	272,521	229,670
Jointly controlled entities	0	0
Group entities	0	0
Insurance contracts linked to pensions	**0**	**0**
Reinsurance assets	**4,944**	**4,971**
Tangible assets (note 14)	**980,465**	**982,078**
For own use	878,300	903,230
Investment property	8,641	6,005
Other assets leased out under operating leases	93,524	72,843
Memorandum item: Acquired under finance leases	*0*	*0*
Intangible assets (note 15)	**715,792**	**627,296**
Goodwill	570,454	481,268
Other intangible assets	145,338	146,028
Tax assets	**826,740**	**763,264**
Current	119,270	52,531
Deferred (note 34)	707,470	710,733
Prepayments and accrued income	**101,048**	**65,782**
Other assets (note 16)	**22,707**	**389,326**
Inventories	2,522	2,844
Other	20,185	386,482
Total assets	**76,776,002**	**72,779,833**

€'000

Liabilities	2007	2006
Financial liabilities held for trading	**272,445**	**119,845**
Deposits from credit institutions	0	0
Money market operations through counterparties	0	0
Deposits from other creditors	0	0
Debt certificates including bonds	0	0
Trading derivatives (note 7)	267,872	115,657
Short positions	4,573	4,188
Other financial liabilities at fair value through profit or loss	**0**	**0**
Deposits from credit institutions	0	0
Deposits from other creditors	0	0
Debt certificates including bonds	0	0
Financial liabilities at fair value through equity	**0**	**0**
Deposits from credit institutions	0	0
Deposits from other creditors	0	0
Debt certificates including bonds	0	0
Financial liabilities at amortized cost	**67,184,369**	**63,775,738**
Deposits from central banks	426,145	300,499
Deposits from credit institutions (note 17)	3,528,357	4,112,937
Money market operations through counterparties	0	0
Deposits from other creditors (note 18)	33,350,687	30,090,641
Debt certificates including bonds (note 19)	27,039,762	23,923,137
Subordinated liabilities (note 20)	1,961,978	2,273,068
Other financial liabilities (note 21)	877,440	3,075,456
Changes in the fair value of hedged items in portfolio hedges of interest rate risk	**0**	**0**
Hedging derivatives (note 11)	**590,779**	**253,543**
Liabilities associated with non-current assets held for sale (note 12)	**0**	**1,161**
Deposits from central banks	0	0
Deposits from credit institutions	0	201
Deposits from other creditors	0	704
Debt certificates including bonds	0	0
Other liabilities	0	256
Liabilities under insurance contracts (note 22)	**3,018,453**	**2,765,683**
Provisions (note 23)	**424,146**	**499,873**
Provisions for pensions and similar obligations	262,386	298,488
Provisions for taxes	2,830	2,830
Provisions for contingent exposures and commitments	89,020	94,569
Other provisions	69,910	103,986
Tax liabilities (note 34)	**182,313**	**432,300**
Current	60,632	268,024
Deferred	121,681	164,276
Accrued expenses and deferred income	**237,152**	**214,674**
Other liabilities	**11,841**	**269,550**
Capital having the nature of a financial liability (note 24)	**250,000**	**252,050**
Total liabilities	**72,171,498**	**68,584,417**

€'000

Equity	2007	2006
Minority interests (note 27)	**21,250**	**17,503**
Valuation adjustments (note 28)	**81,871**	**136,708**
Available-for-sale financial assets	96,770	137,542
Financial liabilities measured at fair value through equity	0	0
Cash flow hedges	(4,956)	(363)
Hedges of net investments in foreign operations	0	0
Exchange differences	(9,943)	(471)
Non-current assets held for sale	0	0
Own funds (note 29)	**4,501,383**	**4,041,205**
Capital or endowment fund	153,002	153,002
Issued	153,002	153,002
Unpaid and uncalled (-)	0	0
Share premium	1,373,270	1,373,270
Reserves	2,380,260	1,723,124
Accumulated reserves (losses)	2,358,800	1,700,645
Retained earnings	0	0
Reserves (losses) of entities accounted for by the equity method	21,460	22,479
Associates	21,460	22,479
Jointly controlled entities	0	0
Other equity instruments	0	1,557
Equity component of compound financial instruments	0	0
Other	0	1,557
Less: Treasury shares	*(29,320)*	*(1,865)*
Non-voting equity units and associated funds (savings banks)	0	0
Non-voting equity units	0	0
Reserves of holders of non-voting equity units	0	0
Stabilization fund	0	0
Profit or loss attributable to the group	782,335	908,398
Less: Dividends and remuneration	*(158,164)*	*(116,281)*
Total equity	**4,604,504**	**4,195,416**
Total liabilities and equity	**76,776,002**	**72,779,833**
Memorandum items		
Contingent exposures (note 30)	**7,575,190**	**8,218,834**
Financial guarantees	7,574,590	8,218,834
Assets earmarked for third-party obligations	0	0
Other contingent exposures	600	0
Contingent commitments (note 31)	**23,291,982**	**21,703,635**
Drawable by third parties	21,570,213	19,626,656
Other commitments	1,721,769	2,076,979

Consolidated income statement of the Banco Sabadell Group

For the years ended on 31 December 2007 and 2006

€'000

	2007	2006
Interest and similar income (note 33.a)	**3,688,780**	**2,476,719**
Interest expense and similar charges (note 33.a)	**(2,397,225)**	**(1,401,001)**
Remuneration of capital having the nature of a financial liability	(10,105)	(7,730)
Other	(2,387,120)	(1,393,271)
Return on equity instruments (note 33.a)	**25,682**	**22,153**
Net interest income	**1,317,237**	**1,097,871**
Share of profit or loss of entities accounted for by the equity method	**20,854**	**18,490**
Associates	20,854	18,490
Jointly controlled entities	0	0
Fee and commission income (note 33.b)	**685,969**	**600,378**
Fee and commission expenses (note 33.b)	**(55,761)**	**(50,117)**
Insurance activity (note 33.c)	**78,397**	**59,812**
Insurance and reinsurance premium income	1,491,218	1,371,645
Reinsurance premiums paid	(602)	0
Benefits paid and other insurance-related expenses	(1,339,831)	(984,350)
Reinsurance income	0	0
Net provisions for liabilities under insurance contracts	(207,625)	(457,453)
Finance income	194,785	132,895
Finance expense	(59,548)	(2,925)
Gains or losses on financial assets and liabilities (net) (note 33.d)	**93,357**	**36,398**
Held for trading	34,895	20,776
Other financial instruments at fair value through profit or loss	0	0
Available-for-sale financial assets	57,370	24,856
Loans and receivables	100	(629)
Other	992	(8,605)
Exchange differences (net)	**56,342**	**48,644**
Gross income	**2,196,395**	**1,811,476**
Sales and income from the provision of non-financial services (note 33.e)	**17,690**	**20,400**
Cost of sales (note 33.e)	**(15,560)**	**(16,776)**
Other operating income	**28,988**	**31,361**
Personnel expenses (note 33.f)	**(698,893)**	**(605,682)**
Other administrative expenses (note 33.g)	**(326,145)**	**(308,617)**
Depreciation and amortization	**(128,385)**	**(106,981)**
Tangible assets	(89,905)	(83,200)
Intangible assets	(38,480)	(23,781)
Other operating expenses (note 33.h)	**(15,061)**	**(11,463)**
Net operating income	**1,059,029**	**813,718**

€'000

	2007	2006
Impairment losses (net) (note 33.i)	**(212,420)**	**(254,781)**
Available-for-sale financial assets	(1,531)	(2,467)
Loans and receivables	(189,741)	(241,777)
Held-to-maturity investments	0	0
Non-current assets held for sale	(1,455)	(68)
Investments	(6,749)	0
Tangible assets	(3,320)	(444)
Goodwill	0	(8,268)
Other intangible assets	(9,624)	(1,757)
Other assets	0	0
Provisioning expense (net)	**5,347**	**14,334**
Finance income from non-financial activities	**19**	**7**
Finance expenses of non-financial activities	**(187)**	**(883)**
Other gains	**173,476**	**88,968**
Gains on disposal of tangible assets	51,876	15,200
Gains on disposal of investments	103,290	30,939
Other	18,310	42,829
Other losses	**(35,424)**	**(31,582)**
Losses on disposal of tangible assets	(3,985)	(7,753)
Losses on disposal of investments	(10,351)	(2,367)
Other	(21,088)	(21,462)
Profit or loss before tax	**989,840**	**629,781**
Income tax (note 34)	**(202,228)**	**(273,307)**
Mandatory transfer to welfare funds	**0**	**0**
Profit or loss from ordinary activities	**787,612**	**356,474**
Profit or loss from discontinued operations (net) (note 33.j)	**0**	**554,831**
Consolidated profit or loss for the period	**787,612**	**911,305**
Profit or loss attributable to minority interests (note 27)	**5,277**	**2,907**
Profit or loss attributable to the group	**782,335**	**908,398**
Basic earnings per share (€) (*)	*0.64*	*0.74*

(*) Adjusted for the 4-for-1 share split in May 2007 (see note 3).

Consolidated statement of changes in equity for the Banco Sabadell group

As at 31 December 2007 and 31 December 2006

€'000

	2007	2006
Net income recognized directly in equity	**(55,723)**	**19,073**
Available-for-sale financial assets	(41,658)	19,534
Revaluation gains/losses	(78)	56,292
Amounts transferred to income statement	(41,604)	(19,411)
Income tax	24	(17,347)
Reclassifications	0	0
Other financial liabilities at fair value	0	0
Revaluation gains/losses	0	0
Amounts transferred to income statement	0	0
Income tax	0	0
Cash flow hedges	(4,593)	230
Revaluation gains/losses	(6,579)	(2,638)
Amounts transferred to income statement	0	1,930
Amounts transferred to initial carrying amount of hedged items	0	0
Income tax	1,986	938
Hedges of net investments in foreign operations	0	0
Revaluation gains/losses	0	0
Amounts transferred to income statement	0	0
Income tax	0	0
Exchange differences	(9,472)	(666)
Translation gains/losses	(13,507)	(1,016)
Amounts transferred to income statement	(17)	(3)
Income tax	4,052	353
Non-current assets held for sale	0	(25)
Revaluation gains	0	0
Amounts transferred to income statement	0	(25)
Income tax	0	0
Reclassifications	0	0
Consolidated profit or loss for the period	**787,612**	**911,305**
Published consolidated profit or loss for the period	787,612	911,305
Adjustments due to changes in accounting policies	0	0
Adjustments made to correct errors	0	0
Total income and expenses for the period	**731,889**	**930,378**
Parent	727,499	928,024
Minority interests	4,390	2,354
Memorandum item: Equity adjustments allocable to prior periods	**0**	**0**
Due to changes in accounting policies	0	0
Own funds	0	0
Valuation adjustments	0	0
Minority interests	0	0
Due to errors	0	0
Own funds	0	0
Valuation adjustments	0	0
Minority interests	0	0

Consolidated cash flow statement for the Banco Sabadell group

As at 31 December 2007 and 31 December 2006

€'000

	2007	2006
Consolidated profit or loss for the period	**787,612**	**911,305**
Adjustment to profit or loss	593,731	488,434
Depreciation of tangible assets (+)	89,905	83,200
Amortization of intangible assets (+)	38,480	23,781
Impairment losses (net) (+/-)	212,420	254,781
Net provisions for liabilities under insurance contracts (+/-)	207,625	457,453
Provisioning expense (net) (+/-)	(5,347)	(14,334)
Gains/losses on disposal of tangible assets (+/-)	(47,892)	(7,447)
Gains/losses on disposal of investments (+/-)	(92,939)	(28,572)
Share of profit or loss of entities accounted for by the equity method (net of dividends) (+/-)	(20,854)	(18,490)
Taxes (+/-)	202,228	273,307
Other non-monetary items (+/-)	10,105	(535,245)
Adjusted profit or loss	**1,381,343**	**1,399,739**
Net increase/decrease in operating assets	**5,518,330**	**20,238,355**
Financial assets held for trading	134,516	27,583
Loans and advances to credit institutions	0	0
Money market operations through counterparties	0	0
Loans and advances to other debtors	0	0
Debt securities	(3,771)	632
Other equity instruments	8,122	0
Trading derivatives	130,165	26,951
Other financial assets at fair value through profit or loss	123,806	34,446
Loans and advances to credit institutions	0	0
Money market operations through counterparties	0	0
Loans and advances to other debtors	0	0
Debt securities	103,603	39,689
Other equity instruments	20,203	(5,243)
Available-for-sale financial assets	1,802,795	419,402
Debt securities	1,527,604	353,334
Other equity instruments	275,191	66,068
Loans and receivables	3,729,705	19,228,113
Loans and advances to credit institutions	(3,261,340)	4,086,873
Money market operations through counterparties	0	0
Loans and advances to other debtors	7,315,391	13,970,638
Debt securities	(1)	(53)
Other financial assets	(324,345)	1,170,655
Other operating assets	(272,492)	528,811
Net increase/decrease in operating liabilities	**4,392,865**	**19,083,792**
Financial liabilities held for trading	152,600	40,466
Deposits from credit institutions	0	(1,203)
Money market operations through counterparties	0	0
Deposits from other creditors	0	0
Debt certificates including bonds	0	0
Trading derivatives	152,215	40,509
Short positions	385	1,160
Other financial liabilities at fair value through profit or loss	0	0
Deposits from credit institutions	0	0
Deposits from other creditors	0	0
Debt certificates including bonds	0	0
Financial liabilities at fair value through equity	0	0
Deposits from credit institutions	0	0
Deposits from other creditors	0	0
Debt certificates including bonds	0	0
Financial liabilities measured at amortized cost	4,856,293	18,695,828
Deposits from central banks	125,646	(507,812)
Deposits from credit institutions	(987,269)	636,490
Money market operations through counterparties	0	0
Deposits from other creditors	3,347,452	7,067,451
Debt certificates including bonds	3,319,076	8,829,814
Other financial liabilities	(948,612)	2,669,885
Other operating liabilities	(616,028)	347,498
Total net cash flows from operating activities	**255,878**	**245,176**

€'000

	2007	2006
Investments (-)	**472,023**	**1,122,535**
Group entities, jointly controlled entities and associates	229,853	54,205
Tangible assets	182,569	451,789
Intangible assets	59,601	616,541
Held-to-maturity investments	0	0
Other financial assets	0	0
Other assets	0	0
Divestments (+)	**1,211,768**	**206,008**
Group entities, jointly controlled entities and associates	1,053,824	150,995
Tangible assets	140,205	48,988
Intangible assets	17,739	6,025
Held-to-maturity investments	0	0
Other financial assets	0	0
Other assets	0	0
Total net cash flows from investing activities	**739,745**	**(916,527)**
Issuance/Redemption of capital or endowment fund (+/-)	0	0
Acquisition of own equity instruments (-)	507,089	141,206
Disposal of own equity instruments (+)	479,634	139,341
Issuance/Redemption of non-voting equity units (+/-)	0	0
Issuance/Redemption of other equity instruments (+/-)	(1,557)	1,280
Issuance/Redemption of capital having the nature of a financial liability (+/-)	0	2,050
Issuance/Redemption of subordinated liabilities (+/-)	(313,140)	1,232,121
Issuance/Redemption of other long-term liabilities (+/-)	0	0
Increase/Decrease in minority interests (+/-)	3,737	1,498
Dividends/Interest paid (-)	295,866	229,502
Other items relating to financing activities (+/-)	(43,123)	17,737
Total net cash flows from financing activities	**(677,404)**	**1,023,319**
Effect of exchange rate changes on cash or cash equivalents	**(2,207)**	**(666)**
Net increase/decrease in cash or cash equivalents	**316,012**	**351,302**
Cash or cash equivalents at beginning of period	**904,751**	**553,449**
Cash or cash equivalents at end of period	**1,220,763**	**904,751**

For the years ended on 31 December 2007 and 31 December 2006.

Note 1. Principal business and accounting policies and practices

Principal business

The corporate object of Banco de Sabadell, S.A. whose registered office is at Plaza de Sant Roc, 20, Sabadell, Spain (also referred to as "Banco Sabadell" or the "Bank") is to carry on business as a provider of banking services. As such, it is subject to the laws and regulations applicable to all banks operating in Spain.

The Bank is the dominant company in a group of financial services undertakings (see the Annex) whose activities it controls directly or indirectly and which, together with the Bank, make up the Banco Sabadell group (the "group" or the "Banco Sabadell group").

Basis of presentation

On 1 January 2005, under Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July, it became mandatory for companies to prepare their consolidated annual accounts in accordance with the International Financial Reporting Standards adopted by the European Union ("IFRS-EU") if, at their balance sheet date, their securities were admitted to trading on a regulated market of any Member State.

This was followed by the publication of the Bank of Spain's Circular 4/2004 of 22 December (which annulled the earlier Circular 4/1991), with the English title of “Credit Institutions - Public and Confidential Financial Reporting Rules and Formats”. The circular changed the accounting rules applicable to banks to bring them into line with IFRS-EU.

The consolidated annual accounts of the group for the year 2007 have been prepared in accordance with IFRS-EU to give a true and fair view of the consolidated equity and financial position of the group and of the consolidated results of its operations, the changes in consolidated equity and the consolidated cash flows. These consolidated annual accounts do not show any significant differences with respect to the accounts as they would have been if they had been prepared in accordance with Bank of Spain Circular 4/2004. There is no obligatory accounting principle, standard or valuation policy having a material effect that has not been applied in preparing the accounts. A summary of the most significant accounting principles, standards and valuation procedures that have been applied in these consolidated annual accounts is provided in this note.

The information provided in these consolidated annual accounts is the responsibility of the directors of the parent company of the group. The consolidated annual accounts for the year 2007 were signed off by the directors of Banco Sabadell at a meeting of the Board on 24 January 2008 and will be submitted to the Annual General Meeting for approval. It is expected that the Meeting will approve the accounts without significant changes.

Unless otherwise indicated, these consolidated annual accounts are expressed in euros and all figures are rounded to the nearest thousand euros (€'000).

Accounting principles and policies applied

The most significant principles, accounting standards and valuation policies that have been applied in preparing these consolidated annual accounts are as follows:

(a) Consolidation principles

In the consolidation process three types of entity are distinguished: subsidiaries, jointly controlled entities and associates.

Subsidiaries are entities over which the Bank is able to exercise control and which therefore constitute, together with the Bank, a decision-making unit. The ability to exercise control is generally, but not exclusively, manifested through the direct or indirect holding of an interest giving the holder more than 50% of the voting rights in the subsidiary. Control means the power to determine the financial and operating policies of the subsidiary so as to obtain a profit from its activities, and may be exercised even when a majority interest is not held.

The group therefore includes all subsidiary undertakings that constitute a decision-making unit together with the Bank. These undertakings have been consolidated by the full consolidation method. Interests held by third parties in group shareholders' equity are shown in the balance sheet under minority interests and the share of the profit or loss for the year attributable to these shareholders is shown in the income statement under profit or loss attributable to minority shareholders.

Profits or losses generated by entities acquired by the group during the year are consolidated solely on the basis of the profits or losses generated in the period between the date of acquisition and the end of the year. Similarly, profits or losses generated by entities disposed of by the group during the year are consolidated solely on the basis of the profits or losses generated in the period between the beginning of the year and the date of disposal.

Jointly controlled entities are those which are controlled jointly by the group and one or more other entities not related to the group. Entities of this kind undertake operations and maintain assets in such a way that any strategic decision of a financial or operational nature concerning the entity requires the unanimous consent of all interest holders. Jointly controlled entities have been consolidated by the proportional consolidation method.

Associates are entities over which the group is able to exercise a significant influence which is generally, but not exclusively, manifested through a direct or indirect interest that gives the group 20% or more of the voting rights. In the consolidated accounts associates are accounted for by the equity method, that is, according to the fraction of the equity represented by the Group's shareholding, after taking account of any dividends received from the associate and other eliminations.

In the consolidation process all significant balances and transactions between group undertakings have been eliminated in such proportion as may be appropriate, depending on the consolidation method applied.

Details of the most significant acquisitions and disposals made by the group during the year are provided in note 2.

(b) Accrual principle

These annual accounts (with the exception of certain items of the consolidated cash flow statements) have been prepared based on real movements of goods and services, regardless of the date on which payment was made or received.

(c) Use of judgements and estimates in preparing the financial statements

The preparation of the consolidated annual accounts requires that certain estimates be made. It also requires the exercise of judgement by senior managers in applying the group's accounting policies. Such estimates may affect the carrying value of assets and liabilities and the classification of contingent assets and liabilities at the date of the annual accounts, as well as income and expenditure items in the period covered by the accounts. Key estimates relate to the following:

- Impairment losses on certain financial assets (notes 1(e), 4, 5, 6, 8 and 13).
- Assumptions used in actuarial estimates of liabilities and commitments in respect of post-employment benefits, and in estimates of liabilities under insurance contracts (notes 1(q), 1(s), 22 and 23).
- The useful lives of tangible and intangible assets (notes 1(j), 1(m), 14 and 15).
- The valuation of goodwill on consolidation (notes 1(m) and 15).
- The fair values of financial assets for which market prices are not available (notes 1(d), 5 and 6).

Although estimates are based on the best information available to senior managers on present and foreseeable circumstances, final results may be at variance with these estimates.

(d) Valuation and recording of financial instruments

As a general rule, regular way sales and purchases of financial assets are recognized using settlement date accounting.

Financial instruments are divided into the following categories according to the valuation method that is applied to them:

• Held for trading

Financial assets/liabilities are classified as held for trading if they have been acquired or issued to be sold or repurchased in the near term, or form part of a portfolio of financial instruments that are managed together and in which there has been recent action for short-term profit taking, or are derivatives not designated as hedging instruments for accounting purposes, or have arisen from the outright sale of financial assets purchased under reverse repurchase agreements or borrowed.

Financial instruments of this type are recorded at fair value. The fair value of a financial asset on a given date is defined as the amount for which the asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The best evidence of the fair value of an asset is the price being quoted for the asset on an actively traded market where the market is organized, transparent and of sufficient depth.

Where there is no market price for a particular financial asset, the fair value can be estimated from the values established for similar assets in recent transactions or, failing that, by using suitably tested valuation models. Any peculiarities specific to the financial asset being valued are also taken into account, particularly the different types of risk that may be associated with it. However, the limitations inherent in the valuation models that have been developed and

possible inaccuracies in the assumptions required by these models may result in the estimated fair value of a financial asset not precisely matching the price at which the asset could be bought or sold as of the valuation date.

Changes in fair value are taken directly to profit or loss. For non-derivative instruments, the share of gain or loss attributable to the returns accruing on the instrument is treated differently from the other gains or losses, with the former being recorded as interest or dividends as appropriate, and the latter as gains or losses on financial assets and liabilities.

• Other financial assets and liabilities at fair value through profit or loss

This category includes financial instruments not held for trading that are treated as hybrid financial instruments and are valued entirely on a fair value basis. It also includes financial assets which are managed together with liabilities under insurance contracts measured at fair value or with financial derivatives which have the purpose and effect of significantly reducing exposure to changes in fair value, or which are managed in combination with financial liabilities and derivatives for the purpose of significantly reducing overall exposure to interest rate risk. These are valued and recorded in the same way as for financial assets/liabilities held for trading.

• Available-for-sale financial assets

This category includes debt securities and equity instruments that are not designated as held-to-maturity investments or financial assets at fair value through profit or loss, loans and receivables, or financial assets/liabilities held for trading or of entities that are not subsidiaries or associates of, or jointly controlled by, the group.

Available-for-sale financial assets are measured at their fair value. Changes in value are temporarily recorded, net of tax, under valuation adjustments in consolidated equity, unless they are due to exchange differences arising from monetary financial assets. Amounts recorded as valuation adjustments continue to be included in consolidated equity until the asset from which they have originated is derecognized on the balance sheet, when they are charged or credited to profit or loss.

• Loans and receivables

Loans and receivables are financial assets not traded on an active market or required to be designated as at fair value, the cash flows on which are of a fixed or determinable amount and whose cost to the group will be recovered in full, except for reasons related to borrower solvency. This category includes investments associated with normal bank lending and amounts loaned to customers and not yet repaid; deposits placed with other financial institutions, regardless of the legal arrangements under which the funds were provided; unquoted debt securities; and any debt incurred by the purchasers of goods or services forming part of the group's business.

Loans and receivables are recorded at their amortized cost, where "amortized cost" means the acquisition cost of a financial asset less any repayments of principal and the cumulative amortization (as shown in the income statement using the effective interest rate method) of any difference between the initial cost and the repayment amount, less any reduction in value due to impairment, whether recognized directly as a write-down of the asset or through a provisioning account. Where loans and receivables are covered by fair value hedges, any change in their fair value is recorded where the change is associated with the risk or risks covered by the hedge.

The effective interest rate is the discount rate that exactly equates the value of a financial instrument to the estimated cash flows over the remaining life of the instrument, based on the contract terms of the instrument including any early repayment option, but disregarding future losses due to credit risk. For a fixed-rate instrument the effective interest rate is the same as the contract interest rate agreed at the time the instrument was acquired plus any fees or commissions that qualify for treatment as interest. In the case of a variable-rate instrument the effective interest rate is the same as the rate of return in respect of interest and fees on the instrument, until the first date on which the base rate is due to be reviewed.

Interest is determined by the effective interest rate method and recorded in the income statement under interest and similar income.

• Financial liabilities measured at amortized cost

This category comprises those financial liabilities that cannot be classified under any other balance sheet heading and are associated with the normal deposit-taking activity of a financial institution, regardless of the term and other arrangements under which the deposit is set up.

Also included in this category is capital having the nature of a financial liability. This reflects the value of financial instruments issued by the group which, although treated as capital for legal purposes, do not qualify for classification as equity. These instruments consist mainly of issued shares that do not carry voting rights and on which a dividend is paid based on a fixed or variable rate of interest.

(e) Impairment of financial assets

In general, adjustments to the carrying value of financial assets are recognized in the income statement where there is objective evidence that an impairment loss has occurred. In the case of debt instruments, that is, loans and debt securities, an impairment loss is considered to have occurred when, after initial recognition of the instrument, a single event or a combination of events causes a negative impact on its future cash flows. In the case of equity instruments, an impairment loss is deemed to have occurred when, after initial recognition, a single event or a combination of events makes it likely that the carrying value of the instrument will not be recovered.

• Financial assets carried at amortized cost

Portfolios of debt instruments, contingent exposures and contingent commitments, regardless of the borrower, the contractual arrangements or the security/collateral, are analysed to determine the credit risk to which the group is exposed and to estimate the impairment provision required. In preparing the consolidated financial statements the group classifies its lending transactions on the basis of credit risk, with customer insolvency risk being analysed separately from any country risk to which transactions may be exposed.

Objective evidence of impairment is determined individually for all debt instruments that are individually significant, and individually or collectively for groups of debt instruments that are not individually significant. When an instrument cannot be included in any group of assets with similar credit risk features, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate the impairment loss.

Instruments are classified into the following categories, on the basis of the insolvency risk attributable to the customer or to the transaction: standard, sub-standard, doubtful due to customer arrears, doubtful for reasons other than customer arrears, and write-off. For debt instruments not classified as standard risks, the required provisions for impairment are estimated having regard to the age of past-due accounts, the collateral or other security provided and the financial situation of the customer and the guarantors. These estimates are made on the basis of default schedules drawn up by the Bank of Spain from its knowledge and experience of the Spanish banking industry.

Similar estimates are also made to determine the credit risk on these instruments that is attributable to country risk. Country risk means the risk associated with customers resident in a specific country that arises from circumstances other than normal commercial risk.

In addition to these specific provisions, the group makes provision for latent losses in debt instruments classified as standard risks by providing for impairment loss on a collective basis. The collective provision is made from historical impairment experience and other circumstances known at the time of the risk assessment, and covers latent losses incurred at the balance sheet date, calculated using statistical procedures, but not identified with specific transactions.

Since the group's own historical and statistical data are not sufficient for this purpose, when making these provisions it relies on parameters set by the Bank of Spain. This method of determining provisions for latent loss due to impairment of debt instruments involves the use of percentages which vary according how debt instruments classified as standard risk are assessed. The sub-categories into which standard risk instruments are classified are: negligible risk, low risk, medium-low risk, medium risk, medium-high risk and high risk.

Interest recorded at contractual rates ceases to be recognized in the income statement for all debt instruments that have been individually classified as impaired or for which impairment losses have been collectively calculated as a result of there being accounts more than three months in arrears.

• Available-for-sale financial assets

Impairment losses on debt securities and equity instruments classified as available-for-sale financial assets are equal to the positive difference between their acquisition cost net of any repayment of principal, and their fair value less any impairment loss previously recognized in the consolidated income statement.

Where there is objective evidence that a diminution in the fair value of an asset is due to impairment, the unrealized losses recognized directly in equity as valuation adjustments are recorded immediately in the income statement. If all or part of the impairment losses are subsequently recovered, the amount is recognized, in the case of debt securities, in the income statement for the period in which the recovery occurs; in the case of equity instruments, the recovery is recognized in equity as a valuation adjustment.

• Other equity instruments

Impairment losses on equity instruments carried at acquisition cost are accounted for as the difference between the carrying amount and the present value of the expected future cash flows discounted at the market rate of return for similar securities. These impairment losses are recognized in the income statement for the period in which they occur, as a direct write-down in the value of the instrument; this cannot be subsequently reversed other than through the sale of the asset.

In the case of investments in subsidiaries, jointly controlled entities and associates, the group estimates impairment loss by comparing the amount recoverable with the carrying value of the investments. Losses are recognized in the

income statement for the period in which they occur; subsequent reversals of previously recognized impairment losses are recognized in the income statement for the period in which recovery takes place.

(f) Transfer and derecognition of financial instruments

Financial assets are only derecognized on the balance sheet when the rights to cash flows generated by the assets have expired or when substantially all of their risks and rewards have been transferred. Similarly, financial liabilities are derecognized only when the obligations generated by the liabilities have expired or are acquired for settlement or resale.

Details of asset transfers that were in effect at the close of the years 2007 and 2006, including those that did not result in assets being derecognized from the balance sheet, are given in note 9.

(g) Derivatives

Derivatives are instruments which, in addition to providing a gain or a loss, may under certain conditions offset all or part of the credit and/or market risk associated with balances or transactions. The underlyings used in derivatives may be interest rates, specified indices, the prices of specified securities, cross-currency exchange rates or similar benchmarks. The group uses derivatives traded on organized markets or traded bilaterally with counterparties on the over-the-counter (OTC) market.

Derivatives may be used as part of the service to customers when they so require, or to manage risks associated with the group's own exposures (hedging derivatives), or to realize gains as a result of price movements. Financial derivatives that do not qualify for designation as hedging instruments are classified as trading derivatives. To be designated as a hedging instrument, a financial derivative must satisfy the following conditions:

- It must cover exposure to changes in the values of assets and liabilities caused by interest rate and/or exchange rate movements (fair value hedge); exposure to changes in the estimated cash flows from financial assets and liabilities and from commitments and transactions forecast as highly probable (cash flow hedge); or the exposure associated with net investments in foreign operations (hedge of the net investment in a foreign operation).
- It must effectively eliminate a significant portion of the risk inherent in the hedged item or position over the expected term of the hedge. This means that the derivative must be effective both prospectively, at the date on which it is entered into under normal circumstances, and retrospectively, based on reasonable evidence that the hedge will remain effective throughout the life of the item or position to be hedged.
- Suitable documentation must be available to show that the financial derivative has been entered into specifically to provide a hedge for certain balances or transactions and to show how effective coverage is to be achieved and assessed (such assessment necessarily being consistent with the group's management of its own exposures).

The effectiveness of the coverage provided by derivatives designated as hedging instruments is documented by effectiveness testing. This is used to verify that divergences due to changes in the fair value of the hedged item and the hedging instrument remain within reasonable limits over the life of the transaction and that the intended effect of the derivative contract at inception has been fulfilled. If at any time this condition is not met, all associated transactions in the hedging group are reclassified as held-for-trading and recognized accordingly in the balance sheet.

A hedge is considered to be highly effective if, at inception of the hedge and during its life, it is anticipated prospectively that any changes in the fair value or cash flows of the hedged item that are attributable to the hedged risk are almost entirely offset by changes in the fair value or cash flows of the hedging instrument. A hedge is deemed retrospectively to have been highly effective if the gains or losses on the hedging instrument are within a range of 80% to 125% of the gains or losses on the hedged item.

Derivatives embedded in other financial instruments or other primary contracts are recorded separately as derivatives where the risk and other characteristics of the derivative are not closely related to those of the primary contract and provided that the primary contract is not classified as held for trading or as other financial assets or liabilities at fair value through profit or loss.

• Valuation

The fair value of a financial derivative quoted on an active market is determined from the daily market price. If, exceptionally, the price of a derivative cannot be determined on a particular date, similar valuation methods are used as for OTC financial derivatives.

The fair value of OTC derivatives is obtained by means of a discounted cash flow or option valuation model according to procedures recognized by financial markets.

• Hedge accounting

For financial instruments designated as hedged items or as hedging instruments, gains or losses in value are accounted for according to the following criteria:

- For fair value hedges any gains or losses, whether in the hedging instrument or the hedged item, to the extent that they relate to the type of risk being hedged, are recognized directly in the income statement.
- Gains or losses in value on the ineffective portion of cash flow hedging instruments are recognized directly in the income statement.
- In cash flow hedging, valuation differences in the effective portion of hedging instruments are temporarily recorded in equity under valuation adjustments. Gains or losses in value are not recognized in profit or loss until the gains or losses of the hedged item have been taken to the income statement or until the hedged item reaches maturity.
- Hedges of net investments in foreign operations are accounted for as follows:

1. Any gain or loss attributable to that part of the hedging instrument that qualifies as an effective hedge is recognized directly in a valuation adjustment account in equity via the statement of changes in equity. Any other portion of the gain or loss on the instrument is taken immediately to the income statement.
2. Gains or losses on hedging instruments recognized directly in the valuation adjustment account in equity remain in the account until the instruments are sold or otherwise removed from the balance sheet, at which time they are taken to profit or loss.

The group did not enter into any fair value or cash flow interest rate hedging contracts in respect of a portfolio of financial instruments (macro-hedges) in either 2007 or 2006.

(h) Non-current assets held for sale and liabilities associated with non-current assets held for sale

The "non-current assets held for sale" heading of the balance sheet comprises the carrying values of assets – stated individually or combined in a disposal group, or as part of a business unit that the Group intends to sell (discontinued operations) – which will very probably be disposed of in their current state within one year of the date of the consolidated annual accounts. Investments in jointly controlled entities or associates that meet these criteria also qualify as non-current assets held for sale.

It can therefore be assumed that the carrying value of an asset of this kind, which may be of a financial or non-financial nature, will be recovered through the disposal of the item concerned rather than from its continued use.

Real estate or other non-current assets received by the group in full or part settlement of borrowers' payment obligations to the group are treated as non-current assets held for sale, unless the group has decided to make use of the assets on a continuous basis.

The "liabilities associated with non-current assets held for sale" caption includes amounts payable that are associated with disposal groups or discontinued operations.

Assets classified as non-current assets held for sale are generally valued at the lesser of their carrying value at the time they are so classified and their fair value net of their estimated costs to sell. Tangible and intangible assets that would otherwise be subject to depreciation and amortization are not depreciated or amortized while they remain in the category of non-current assets held for sale.

If the carrying value of an asset exceeds the fair value net of the costs to sell, the group adjusts the carrying value of the asset by the amount of such excess, with a corresponding adjustment being made to impairment losses in the consolidated income statement. In the event of one or more subsequent increases in the fair value of the asset any previously recorded losses will be reversed and the carrying value will be increased, subject to its not exceeding the carrying value prior to the loss, and a corresponding adjustment made to impairment losses in the consolidated income statement.

(i) Discontinued operations

Gains or losses arising in the year on group operations classified as discontinued operations are recognized net of tax under profit or loss on discontinued operations in the consolidated income statement, whether the operation has been derecognized or remains on the balance sheet at the end of the year.

A discontinued operation or activity is a component of the group that has been sold or otherwise disposed of or is classified as a non-current asset held for sale and, in addition, meets any of the following conditions:

1. It represents a separate major line of business or geographical area of operations.
2. It is part of a single coordinated plan to sell or otherwise dispose of a separate major line of business or geographical area of operations.
3. It is a subsidiary acquired exclusively with a view to resale.

A component of an entity is defined as operations and cash flows, such as a subsidiary, business segment or geographical area of operations, that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the entity.

(j) Tangible assets

Tangible assets comprise land and buildings for continuous use by the group, the net values of land, buildings and other structures held to be leased out or for the realization of capital gains on disposal, and assets to be leased to customers under operating leases. These assets are valued at cost less accumulated depreciation and less any impairment loss identified from a comparison of the net value of each item with its recoverable amount.

Tangible assets are depreciated systematically by the straight-line method over their estimated useful lives, taking the depreciable amount as the acquisition cost of each item less its residual value. Land on which buildings and other structures have been erected is treated as having an unlimited life and is not depreciated. Annual depreciation charges on tangible assets are taken to the income statement and are calculated on the basis of the following average estimated useful lives:

	Useful life in years
Buildings	25 - 50
Fixtures and fittings	4.2 - 12.5
Office furniture and equipment	3.3 - 10
Vehicles	3.1 - 6.25
Cash dispensers, computers and computer equipment	2.3 - 4

At the close of each accounting period the group carries out a review to determine whether there are indications that the net value of any asset item exceeds its recoverable amount. If the net value of an asset is found to be in excess of its recoverable amount, the group writes down the asset to its recoverable amount and adjusts future depreciation charges in proportion to its restated carrying value and, if required, its adjusted estimated useful life. Where there are indications that the value of an asset has been recovered, the group records the reversal of the impairment loss recognized in previous periods and adjusts future depreciation charges accordingly. The reversal of an impairment loss on an asset will in no circumstances result in an increase in its carrying value above the value that the asset would have had if impairment losses in previous periods had not been recognized.

No less frequently than at the end of each reporting year, the group carries out a review of the estimated useful lives of all tangible assets for its own use to determine whether there have been any material changes in their estimated useful lives. If material changes are identified, an adjustment is made by correcting the depreciation charge for the asset in the income statement on the basis of the adjusted estimated useful life.

Maintenance and repair costs for own-use tangible assets are recorded in the income statement for the year in which they are incurred.

Tangible assets classified as investment property are composed of the net values of land, buildings and other structures held by the group to be leased out or for the realization of capital gains on disposal as a result of future increases in market prices.

The criteria used by the group in stating the acquisition costs of assets leased out under operating leases, for purposes of depreciation, useful life estimation and impairment loss recognition are the same as for tangible assets for the group's own use.

(k) Leases

Leasing contracts are presented on the basis of the economic substance of the lease regardless of its legal form, and are classified from inception as finance or operating leases.

• Finance leases

A lease is treated as a finance lease if substantially all of the risks and rewards of ownership of the asset are transferred.

Where the group is the lessor of an asset, the sum of the present values of payments receivable from the lessee plus the guaranteed residual value –normally the exercise price of the purchase option exercisable by the lessee at the end of the lease– is recorded as financing provided to a third party and is therefore included in the balance sheet under loans and receivables according to the type of lessee.

Where the Group is the lessee of the asset, the cost of the leased asset is recorded in the balance sheet according to the nature of the asset and simultaneously as a liability for the same amount. This liability is the lesser of the fair value of the leased asset and the sum of the present values of payments to the lessor plus the exercise price of the purchase option, if applicable. The asset is depreciated using procedures similar to those applicable to property for the group's own use.

Finance income and expense arising from leasing agreements are credited or charged to the income statement so that the return remains constant throughout the term of the lease.

• Operating leases

Leases other than finance leases are classified as operating leases.

When the Group is the lessor of the asset, the acquisition cost of the leased item is recorded in tangible assets. The assets are depreciated by the same procedure as for own-use property of a similar type and the payments on the leases are recognized in the income statement on a straight-line basis.

Where the group is the lessee of the asset the costs of the lease, including any incentives offered by the lessor, are recorded in the income statement on a straight-line basis.

(l) Business combinations

A business combination is the bringing together of two or more separate entities or economic units into one single entity or group of entities, where the acquirer acquires control of the other entity or entities.

On the date of acquisition the acquirer incorporates into its financial statements the assets, liabilities and contingent liabilities of the acquiree, including any intangible assets not recognised by the acquiree.

Positive differences arising between the cost of holdings in subsidiary, jointly controlled or associated undertakings and the net fair values of the acquired assets adjusted on the date on which they were consolidated for the first time, are accounted for as follows:

1. If the differences can be assigned to specific assets of the acquiree, they are accounted for by increasing the value of any assets or reducing the value of any liabilities whose market values are above or below, respectively, the net fair values at which they were recorded on the acquiree's balance sheet, provided that their accounting treatment has been similar to the treatment that would be given to those same assets or liabilities by the group.
2. If they are assignable to specific intangible assets they are accounted for by explicit recognition in the consolidated balance sheet provided that their fair value at the acquisition date can be reliably determined.
3. Any remaining differences that cannot be specifically recognized are recorded as goodwill and assigned to one or more specific cash-generating units.

Negative differences, when quantified, are recognized in the income statement.

Any purchases of minority interests after the taking of control of an entity are recognized as increases in the cost of a business combination.

Where the cost of a business combination or the fair values assignable to identifiable assets, liabilities or contingent liabilities of the acquiree cannot be determined with certainty, the initial accounting for the business combination is treated as provisional. However, the accounting process is required to be completed within one year of the acquisition date, and must take effect as from that date.

(m) Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance. Intangible assets are deemed to be identifiable when they are separable from other assets because they can be sold, leased or otherwise disposed of individually, or when they arise from a contract or other legal transaction. An intangible asset will be recognized when it meets this criterion and the group considers it likely that economic benefits will flow from the asset and its cost can be reliably measured.

Intangible assets are initially recognized at acquisition or production cost, and are subsequently valued at cost less any accumulated amortization and/or impairment losses.

• Goodwill

A positive difference between the cost of a business combination and the acquired proportion of the net fair value of the assets, liabilities and contingent liabilities of the acquired entity is recognized on the balance sheet as goodwill. Goodwill represents a payment made by the group in anticipation of the future economic benefits from assets of an acquired entity that are not capable of being individually or separately identified and recognized. Goodwill is recognized only if it has been purchased for valuable consideration through a business combination. Goodwill is not amortized, but at the end of each accounting period it is subjected to analysis for any possible impairment that would reduce its recoverable value to below its stated net cost and, if found to be impaired, is written down against the consolidated income statement.

No impairment loss recognized for goodwill can subsequently be reversed.

Goodwill acquired from 1 January 2004 onwards is valued at acquisition cost, while goodwill acquired before that date is held at the net value recorded as at 31 December 2003.

• Other intangible assets

This item is made up largely of intangible assets identified in business combinations and includes such assets as contractual relations with customers, deposits or trade marks and computer applications.

Other intangible assets may have useful lives that are indefinite — where, after all relevant factors have been taken into account, it has been concluded that there is no foreseeable limit to the time during which they can be expected to generate net cash flows for the group — or finite. Intangible assets that have indefinite useful lives are not amortized; however, at the end of each accounting period, the group reviews their remaining useful lives to verify that they are still indefinite and takes appropriate action if it finds otherwise. Intangible assets whose useful lives are finite are amortized on the basis of their useful lives according to criteria similar to those used for tangible assets.

Any loss in the stated value of an intangible asset due to impairment will, in any event, be recognized by the group and a corresponding adjustment made to the consolidated income statement. The rules for recognizing losses in value due to impairment of intangible assets and any recoveries of impairment losses in earlier periods are similar to those that apply to tangible assets.

(n) Inventories

Inventories are non-financial assets that are being held for sale or for use by the group in the normal course of business, or are in the process of production, construction or development for such sale, or are to be consumed in the production process or in the rendering of services. They include land and other property held for sale by the group as part of its property development activities.

Inventories are valued at the lesser of their cost value, including all purchase and conversion costs and other direct and indirect costs incurred in bringing the inventories to their present condition and location, and their net realization value.

(o) Own equity instruments

Own equity instruments are defined as equity instruments that:

- do not involve any obligation to the issuer: to deliver cash or another financial asset to a third party, or to exchange financial assets or liabilities with a third party on terms potentially unfavourable to the issuer;
- will or may be settled in the issuer's own equity instruments and is: a non-derivative instrument for which the issuer is or may be obliged to deliver a variable number of its own equity instruments, or a derivative instrument that will or may be settled for a fixed amount of cash or another financial asset, for a fixed number of the issuer's own equity instruments.

All transactions in the group's own equity instruments, whether on issue or cancellation or otherwise, are recognized directly in equity.

Changes in the value of instruments classified as own equity instruments are not recognized in the financial statements. Any consideration paid or received for such instruments is added or deducted directly in equity.

(p) Employee compensation based on equity instruments

The delivery to employees of the group's own equity instruments in payment for their services, where the instruments are delivered on completion of a specified period of service, is recognized as an expense for services over the period during which the services are being provided. A corresponding increase in equity or a liability is recognized, according to whether the compensation is classified as equity instrument-based compensation, liabilities to employees based on the value of the group's own equity instruments, or transactions with employees paid in cash or equity instruments.

Where the liability is discharged by means of a transfer of commitments, that is, through derivatives contracts that precisely mirror the terms and conditions on which the equity instruments were issued, the group charges the anticipated costs associated with the derivatives contracts to the income statement according to the specific period in which the services are provided, but does not recognize any increase in equity or in the associated liability.

(q) Liabilities under insurance contracts

The group's insurance undertakings credit their issued premiums, and charge the costs of claims payable by them, when finally settled, to the income statement. All amounts credited to the income statement but not accrued at the balance sheet date, and all costs incurred but not charged to the income statement, are accounted for at the end of each year as accrued expenses and deferred income or prepayments and accrued income. The most significant items accounted for in this way are:

- Provisions for non-life insurance

Provisions for unearned premiums represent the portion of premiums accruing in the year that relate to the period between the end of the year and the end of the policy term on a "policy-by-policy" basis. As required by existing regulations, this allocation has been calculated on the basis of premium rates accruing in the year, after deducting any premium loading.

• Provisions for life insurance

Provisions for life insurance consist of the provision for unearned premiums for policies with terms of one year or less, and the mathematical reserves for all other policies.

Mathematical reserves are calculated by the prospective method, that is, the difference between the actuarial present value of the insurer's future obligations and those of the policyholder (or, if applicable, the insured) except in those types of policy where this calculation method is impracticable, in which case the retrospective method, that is, taking the mathematical reserves as the difference between the value of current premiums paid by the policyholder on the reserve calculation date and the value of the obligations already assumed by the insurer, is applied. The mortality, survivorship and invalidity tables used in calculating provisions for life insurance are based on domestic or foreign experience adjusted according to generally accepted actuarial practice, using confidence intervals generally accepted in the light of Spanish experience.

The mortality tables used in the main types of life insurance written or sold by the group have generally been the GKM 80 tables except in the case of annuities, for which the ERM/F90, GRM/95 or PERFM/F 2000 tables have been used. The average duration of the mathematical reserves is 0.93 years for saving-with-insurance products and 4.89 years for annuity products, according to the most recent available information.

• Claims reserves

This represents the value of the group's outstanding liabilities in respect of claims made before the end of the year and is equal to the difference between the total estimated or known cost and the total amount already paid in respect of these claims. The costs of claims include all external expenses and internal claims handling costs. Claims have been assessed individually in estimating these costs.

Claims reserves are made up of provisions for unpaid or unsettled benefits, provisions for unreported claims and provisions for internal loss adjustment expenses. As required by regulations, the technical provisions for unreported claims in 2007 and 2006 have been determined on the basis of the number of unreported claims and the average cost of claims for the last three years.

• Provision for "with profits" insurance and return premiums

This includes provisions for benefits or bonuses payable to policyholders, insureds or beneficiaries and any premiums required to be returned to policyholders or insureds based on past experience with each insured risk, to the extent that they have not been assigned to any individual policy.

• Technical provisions for life insurance when the investment risk is borne by policyholders

To provide for commitments in respect of investments related to life insurance policies, provisions are made having regard to the value of the assets on the basis of which policyholders' entitlements will be determined.

(r) Provisions and contingent liabilities

Provisions are current obligations of the group which have arisen from past events and whose nature on the balance sheet date is clearly specified, but which are of uncertain timing or amount; when such obligations mature or become due for settlement, the group expects to settle them through an outflow of resources embodying economic benefits.

A provision for restructuring will be recognized only when the group has a detailed, formal plan identifying the fundamental changes to be made and where the group has started to implement the plan or has publicly announced its main features, or where there are objective evidence of its implementation.

Contingent liabilities are possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events that are outside the control of the group. Contingent liabilities include present obligations of the group the settlement of which is not likely to result in an outflow of resources embodying economic benefits or whose amount, in extremely rare instances, cannot be measured with sufficient reliability.

(s) Provisions for pensions

The group's pension commitments to its employees are as follows:

• Defined contribution plans

These are predetermined contributions paid into a separate entity in accordance with agreements reached with particular groups of employees. Contributions are made subject to there being no legal or effective obligation to make additional contributions to cover investment or other risks.

Contributions to defined contribution plans in 2007 totalled €14,226,000 (€13,938,000 in 2006).

• Defined benefit plans

Defined benefit plans provide for all current pension commitments agreed under articles 35, 36 and 37 of the 21st Collective Agreement for the banking industry.

These commitments are financed in two ways: through the pension scheme and through insurance contracts.

The Banco Sabadell employee pension scheme covers benefits payable under collective agreements with members of regulated employee organizations as described above, with the following exceptions:

1. Additional commitments for early retirement as provided for by article 36 of the Collective Agreement.
2. Disability benefit in certain circumstances.
3. Widows', widowers' and orphans' benefits payable on the death of retired employees recognized as having entered the Bank's service after 8 March 1980.

The Banco Sabadell employee pension scheme is treated for all purposes as a scheme asset.

Insurance policies provide general cover for specified commitments under articles 36 and 37 of the 21st banking industry agreement, including:

1. Commitments that are expressly excluded from the Banco Sabadell employee pension scheme (1, 2 and 3 above).
2. Serving employees covered by a collective agreement with the former Banco Atlántico.
3. Pension commitments in respect of some serving employees, not provided for under the collective agreement.
4. Commitments to employees on leave of absence who are not entitled to benefits under the Banco Sabadell employee pension scheme.
5. Commitments to early retirees. These may be partly financed out of pension rights under the Banco Sabadell employee pension scheme.

Insurance contracts have been taken out both with insurers outside the Group, principally for commitments to former Banco Atlántico employees, and with BanSabadell Vida, S.A.

The balance sheet heading "provisions for pensions and similar obligations" includes the actuarial present value of pension commitments, calculated individually by the projected unit credit method on the basis of financial and actuarial assumptions which are set out below.

From the obligations so calculated, the scheme assets at their fair value have been deducted. These assets, including insurance polices, are those from which the pension obligations are to be settled, since they meet the following requirements:

1. They are not owned by the Bank but by a legally separate, non-related third party.
2. They are available only to pay or fund employee benefits and are not available to creditors of the Bank, even in the event of the Bank becoming insolvent.
3. They cannot be returned to the Bank unless the assets remaining in the scheme are sufficient to meet all obligations of the scheme and of the Bank relating to employee benefits, or unless the assets are returned to the Bank to reimburse it for employee benefits previously paid.
4. They are not non-transferable financial instruments issued by the Bank.

Assets to fund pension commitments as shown in the individual balance sheet of BanSabadell Vida, S.A., a group insurance subsidiary, are not scheme assets as the company is a related party of the Bank. They are shown in the consolidated balanced sheet under different headings according to the type of financial asset.

The group has decided to apply a corridor in recognizing in profit and loss for the year only such actuarial gains and losses as exceed 10% of the greater of the present value of defined benefit obligations and the fair value of scheme assets at the end of the immediately preceding year.

However, actuarial gains or losses related to commitments to early retirees until they acquire legally retired status are recognized immediately.

The actuarial assumptions used in the valuation of pension commitments are as follows:

	2007	2006
Tables	PERM / F 2000 (new)	PERM / F 2000 (new)
Discount rate - pension scheme	4.00% per annum	4.00% per annum
Discount rate - policies taken out with related parties	4.00% per annum	4.00% per annum
Discount rate - policies taken out with non-related parties	5.06% per annum	4.20% per annum
Inflation	2.00% per annum	2.00% per annum
Rate of increase in salaries	3.00% per annum	3.00% per annum
Retirement due to disability	SS90-Absoluta	SS90-Absoluta
Staff turnover	None assumed	None assumed
Early retirement	Allowed for	Allowed for
Normal retirement age	65	65

The discount rate on policies taken out with non-related parties has been determined by reference to the yield on AA-rated 15-year corporate debt (Bloomberg €AA Composite).

The age of early retirement for all employees is assumed to be the earliest retirement date after which pension entitlements cannot be revoked by the employer.

The expected long-term return on pension scheme assets is 4% per annum (a target return that is compatible with the level of risk set in accordance with the investment policy of the Banco Sabadell employee pension scheme). For fixed-rate, without profits, unmatched insurance policies, the return assumed in respect of each commitment is the average insured interest on each premium paid, weighted according to the mathematical reserve corresponding to each premium paid. For fixed-rate, without profits, matched insurance policies the rate of return used is the discount rate.

(t) Foreign currency transactions

The functional currency of the group is the euro. All balances and transactions denominated in currencies other than the euro are therefore treated as denominated in a foreign currency. Euro equivalent values (in thousands of euros) for the aggregate balances of asset and liability accounts in foreign currency held by the Group at 31 December 2007 and 2006 are given in note 26.

On initial recognition, debit and credit balances denominated in foreign currency are translated to the functional currency at the spot exchange rate – defined as the exchange rate for immediate delivery – on the recognition date. Subsequent to initial recognition, the following procedures are used to translate foreign currency balances to the functional currency:

- Monetary assets and liabilities are translated at the closing exchange rate, defined as the average spot exchange rate ruling on the reporting date.
- Non-monetary items measured at historical cost are translated at the exchange rates ruling on the date of acquisition.
- Non-monetary items stated at fair value are translated at the exchange rate ruling on the date on which the fair value was determined.
- Income and expenses are translated at the exchange rates ruling on the transaction date.

In general, foreign exchange differences arising on the translation of debit and credit balances denominated in foreign currency are recorded in the income statement. However, for foreign exchange differences arising on non-monetary items measured at fair value where the fair value adjustment is made and recognized under valuation adjustments in equity, the exchange rate component is recorded separately from the revaluation of the non-monetary item.

(u) Recognition of income and expense

Interest income and expense and similar items are generally recorded in the period in which they accrue, using the effective interest method. Dividends received from other companies are recognized as income when the entitlement vests.

Generally, fee and commission income and expense and similar items are recorded in the income statement according to the following criteria:

- Fees and commissions relating to financial assets and liabilities measured at fair value through profit or loss are recognized when received.
- Fees and commissions relating to transactions or services that take place over a period of time are allocated over the period during which the transaction or service takes place.
- Fees and commissions relating to transactions or services that are completed in a single act are recognized at the time of the act that gives rise to the fee or commission.

Financial fees and commissions which form an integral part of the effective cost or yield of a financial transaction have been deferred net of associated direct costs and recognized in the income statement over the expected average life of the transaction.

Non-financial income and expenditure is accounted for on an accrual basis. Amounts paid or received that are deferred over time are recorded at the value obtained by discounting the expected cash flows at market rates of interest.

(v) Income tax

Spanish corporation tax and similar tax expense applicable to foreign subsidiaries are treated as expenses and are recorded in the income statement under income tax unless the tax has arisen on a transaction accounted for directly in equity, in which case the tax is also recognized directly in equity, or unless it relates to a business combination, in which case the deferred tax is recognized as an asset or liability of the business combination.

The tax expense shown under the income tax heading is the tax charge assessed on the taxable income for the year, after taking account of applicable tax deductions and allowances and any tax losses. The taxable income for the year may be at variance with the profit for the year shown in the income statement, as it excludes items of income or expenditure that are taxable or deductible in other years as well as items which are non-taxable or non-deductible.

Tax assets and liabilities in respect of deferred tax comprise the tax expected to be payable or recoverable on differences between the carrying values of assets and liabilities in the financial statements, on the one hand, and the values of those assets and liabilities on which tax is assessed, on the other. These tax assets and liabilities are determined by applying to such temporary differences or tax credits the tax rate at which they are expected to be recovered or paid.

A deferred tax asset such as a tax prepayment, or a credit in respect of a deduction, tax loss or other benefit is always recognized provided that the group is likely to obtain sufficient future taxable profits against which the tax asset can be realized. A deferred tax liability will, in general, always be recognized.

All recognized deferred tax assets and liabilities are reviewed in each accounting period to verify that they still apply and are adjusted as necessary.

The undertakings in the Banco Sabadell group that are included in the consolidated accounts for corporation tax purposes are shown in the Annex. Their tax charges for the year have been worked out on this basis and are payable to Banco de Sabadell, S.A. as the parent company of the consolidated group, which is responsible for paying the tax to the Revenue authorities.

(w) Financial guarantees

Financial guarantees are contracts by which the group undertakes to make specified payments for a third party in the event of the third party failing to do so. They may take a variety of legal forms such as guarantees, avals, surety or performance bonds and irrevocable documentary credits issued or confirmed by the group.

Guarantees are recognized by the group at their fair value under the liability heading “accrued expenses and deferred income”. On first recognition and in the absence of evidence to the contrary, the fair value will be the present value of the expected cash flows. The present value of the future cash flows receivable is recorded simultaneously under “other financial assets”.

Subsequent to initial recognition, guarantee contracts are treated as follows:

- The value of guarantees recorded in “other financial assets” is discounted by recording the differences in the income statement as interest income.
- The fair value of guarantees recorded in “accrued expenses and deferred income” is credited to the income statement as fee and commission income over the expected life of the guarantee.

Financial guarantees are classified according to the credit risk attributable to the customer or the transaction and in appropriate cases an assessment will be made of the need to provide for the risk by following procedures similar to those described in note 1(e) for debt instruments carried at amortized cost.

(x) Assets under management

Third party assets managed by the group are not included in the consolidated balance sheet. Management fees are shown in the income statement under fee and commission income.

(y) Consolidated cash flow statement

The consolidated cash flow statement includes certain items which are defined as follows:

- Cash flows: inflows and outflows of cash and cash equivalents, where "cash equivalents" are short-term, highly liquid investments for which the risk of a change in value is minimal.

- Operating activities: The ordinary activities of the group, as well as other activities that cannot be described as investing or funding activities.
- Investing activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents.
- Funding activities: activities that result in changes in the size and composition of equity and of liabilities not included in operating activities.

(z) Netting

Where credit and debit balances arising from transactions are permitted, whether by contract or by law, to be set off against each other and the group intends to settle them on a net basis or to realize the asset and settle the liability simultaneously, they are reported in the balance sheet at their net values.

Comparable data

During the year 2007 a preference share issue by Banco Sabadell in 2006 was recorded on the liability side of the balance sheet under "Financial liabilities at amortized cost – Subordinated liabilities" at a nominal value of €500,000,000. At 31 December 2006 the preference share issue, with accrued interest, was recognized under "Capital having the nature of a financial liability" with a total value of €505,514,000. As International Financial Reporting Standards require that information presented in the consolidated annual accounts should be comparable, changes have been made to the balance sheet as at 31 December 2006 and also to the relevant headings of the consolidated income statement and cash flow statement.

Note 2. Banco Sabadell group

The companies comprising the group as at 31 December 2007 and 2006 are listed in the Annex along with their registered offices, principal activities, the Bank's proportional holding in each, key financial data for each company, and whether they are accounted for by the full consolidation, proportional consolidation or equity method.

a) Changes in basis of consolidation

Changes in the composition of the consolidated group are described below.

Changes in the year 2007:

Undertakings included in the consolidated accounts for the first time:

Name of undertaking	% Share	Direct/ indirect	Method or procedure
Aviones Alfambra CRJ-900, A.I.E.	25.00	Direct	Equity method
Aviones Cabriel CRJ-900, A.I.E.	25.00	Direct	Equity method
Aviones Gorgos CRJ-900, A.I.E.	25.00	Direct	Equity method
Aviones Sella CRJ-900, A.I.E.	25.00	Direct	Equity method
BS Select Fund of Hedge Funds, S.I.C.A.V., S.A.	99.00	Direct	Full consolidation
Duplico 2000, S.L. (1)	33.00	Indirect	Equity method
EMTE Grupo Empresarial y Corporativo, S.L. (2)	20.00	Indirect	Equity method
Flagler Title Services, Llc. (3)	51.00	Indirect	Full consolidation
Intermas Nets, S.A. (4)	20.00	Indirect	Equity method
Parc Eòlic Veciana-Cabaro, S.L.	40.00	Indirect	Equity method
Solvia Estate, S.A.	100.00	Direct	Full consolidation
Telstar, S.A. (1)	20.00	Indirect	Equity method
Tolosa 161, S.L.	23.00	Indirect	Equity method
Transatlantic Bank Inc. (3)	100.00	Indirect	Full consolidation
Transatlantic Holding Corp.	100.00	Direct	Full consolidation

(1) Included in the consolidated accounts following the purchase of the remaining 50% holding in Aurica XXI, S.C.R., S.A. from Banco Pastor.
(2) Acquired by the group in June 2007 through Aurica XXI, S.C.R., S.A. Formerly known as Solduga S.L.U.
(3) Acquired by the group in May 2007 through Transatlantic Holding Corp.
(4) Acquired by the group in June 2007 through Aurica XXI, S.C.R., S.A.

Addition of Duplico 2000, S.L. and Telstar, S.A. to the consolidated group.

On 23 February 2007 an agreement was entered into under which Banco Sabadell acquired Banco Pastor's 50% holding in Aurica XXI, S.C.R., S.A. Banco Sabadell thus obtained control of 100% of the share capital of Aurica XXI, S.C.R., S.A. The purchase consideration was €10,392,000.

The purchase resulted in the addition to the consolidated group of two undertakings, Duplico 2000, S.L. and Telstar, S.A., in which Aurica held shareholdings of 33% and 20% respectively.

Acquisition of 20% of EMTE Grupo Empresarial y Corporativo, S.L.

On 21 June 2007 the group, through its subsidiary Aurica XXI, S.C.R, S.A., acquired a 20% interest in EMTE Grupo Empresarial y Corporativo, S.L. for €23,177,000, giving rise to a goodwill of €291,000.

Acquisition of 20% of Intermas Nets, S.A.

On 15 June 2007 the group, through its subsidiary Aurica XXI, S.C.R, S.A., acquired a 20% interest in Intermas Nets, S.A. for the sum of €22,213,000, resulting in a goodwill of €15,695,000.

Acquisition of Transatlantic Holding Corporation

On 23 January 2007, Banco de Sabadell, S.A. entered into an agreement with Transatlantic Holding Corporation under which Banco Sabadell would take over 100% of the equity shares of Transatlantic by no later than 31 December 2007 for a consideration of approximately USD 175 million. The purchase took place on 1 May 2007, with Banco Sabadell taking over 100% of the share capital of Transatlantic Holding Corporation, which is itself the sole shareholder of Transatlantic Bank Inc.

The purchase consideration paid by Banco Sabadell for the shares was USD 176,208,000 (€129,657,000). The associated goodwill of €96,323,000 (USD 130,901,000) was added to intangible assets (see note 15).

Transatlantic Holding Corporation became a part of the consolidated group on 1 May 2007.

Undertakings no longer included in the consolidated accounts:

Name of undertaking	% Share	Direct/ indirect	Method or procedure
Auxiliar Barcelonesa de Servicios, S.A. (1)	100.00	Direct	Full consolidation
Banco Atlántico Services (Monaco) S.A.M. (2)	100.00	Indirect	Full consolidation
Banco Exelbank, S.A. (3)	100.00	Direct	Full consolidation
Banco Herrero, S.A. y La Caixa, U.T.E. (4)	50.00	Direct	Proportional consolidation
Berta Energies Renovables, S.L. (5)	40.08	Indirect	Full consolidation
Colinas de Nueva Andalucía, S.A. (1)	100.00	Direct	Full consolidation
Compañía Auxiliar de Transportes y Aparcamientos, S.A. (1)	100.00	Direct	Full consolidation
Difusión de la Propiedad Inmobiliaria, S.A. (1)	100.00	Direct	Full consolidation
Duplico 2000, S.L. (6)	33.00	Indirect	Equity method
Flagler Title Services, Llc. (3)	51.00	Indirect	Full consolidation
Fluidra, S.A. (7)	20.04	Indirect	Equity method
Inmobiliaria Sil, S.A. (1)	100.00	Direct	Full consolidation
Inmobiliaria Sotecón, S.A. (1)	100.00	Direct	Full consolidation
Nisa Gav, S.A. (8)	50.00	Indirect	Equity method
Parc Eòlic Los Aligars, S.L. (5)	51.80	Indirect	Full consolidation
Parc Eòlic Tossa la Mola de'n Pasqual, S.L. (5)	51.80	Indirect	Full consolidation
Promotora Navarra para el Norte de España, S.A. (1)	100.00	Direct	Full consolidation
Sabadell International Finance Ltd. (9)	100.00	Direct	Full consolidation
Tarraco Eólica Ascó, S.L. (5)	20.00	Indirect	Equity method
Tarraco Eólica les Garrigues, S.L. (5)	20.00	Indirect	Equity method
Totvent, S.A. (5)	74.00	Indirect	Full consolidation

(1) Ceased to be included in the consolidated accounts after being merged into Europea de Inversiones y Rentas, S.A. in November 2007.
(2) Liquidated in January 2007.
(3) Ceased to be included in the consolidated accounts following the sale of the Bank's holding in June 2007.
(4) Liquidated and wound up in June 2007.
(5) Sold in November 2007.
(6) Ceased to be included in the consolidated accounts following the sale of 50% of the holding in June 2007; as the holding no longer exceeds 20% it has been accounted for as an available-for-sale financial asset.
(7) Ceased to be included in the consolidated accounts following the sale of 9.94% of the holding in June 2007; as the holding no longer exceeds 20% it has been accounted for as an available-for-sale financial asset.
(8) Ceased to be included in the consolidated accounts on being classified as an investment of an associated undertaking.
(9) Liquidated in September 2007.

Sale of Banco Exelbank, S.A.

On 21 March 2007 an agreement was entered into under which Banco de Sabadell transferred the entire share capital of Banco Exelbank, S.A to BNP Paribas Securities Services, S.A. The final sale consideration was fixed at €65,268,000 and resulted in a profit before tax of €38,562,000 to the Banco Sabadell group.

Formation of Eolia Renovables from Tarraco Eólica Ascó, S.L., Tarraco Eólica les Garrigues, S.L. and TotVent, S.A. with its investee companies Parc Eòlic los Aligars, S.L., Parc Eòlic Tossa la Mola d'en Pascual, S.L. and Berta Energies Renovables, S.L.

On 25 June 2007 it was decided that when permission to set up Eolia Renovables had been obtained from the National Stock Exchange Commission (CNMV), a deed would be executed for the purpose and the shares of Tarraco Eólica Ascó, S.L., Tarraco Eólica les Garrigues, S.L., TotVent, S.A., Parc Eòlic los Aligars, S.L., Parc Eòlic Tossa la Mola d'en Pascual, S.L. and Berta Energies Renovables, S.L. would be exchanged for shares in the new company. The share exchange took place on 31 October 2007 and resulted in a profit before tax of €18,938,000 for the group.

The group's resulting holding in Eolia Renovables has been accounted for as part of its portfolio of available-for-sale financial assets at the acquisition cost of €33,313,000, the aggregate of the fair values of the undertakings contributed to the new enterprise, based on its percentage share in each.

Merger by absorption into Europea de Inversiones y Rentas, S.L. of Difusión de la Propiedad Inmobiliaria, S.A., Inmobiliaria Sil, S.A., Colinas de Nueva Andalucía, S.A., Compañía Auxiliar de Transportes y Aparcamientos, S.A., Inmobiliaria Sotecón, S.A., Promotora Navarra para el Norte de España, S.A. and Auxiliar Barcelonesa de Servicios, S.A.

On 17 July 2007, the following companies were absorbed by Europea Inversiones y Rentas, S.L.: Difusión de la Propiedad Inmobiliaria, S.A., Inmobiliaria Sil, S.A., Colinas de Nueva Andalucía, S.A., Compañía Auxiliar de Transportes y Aparcamientos, S.A., Inmobiliaria Sotecón, S.A., Promotora Navarra para el Norte de España, S.A. and Auxiliar Barcelonesa de Servicios, S.A. All these companies were dissolved but not liquidated, and their entire share capital was transferred en *bloc* to Europea de Inversiones y Rentas, S.L. by universal succession. The latter was subrogated in all rights and obligations of the absorbed companies generally and without any reservation or limitation whatsoever.

From 1 January 2007 onwards all operations of the absorbed companies were treated for accounting purposes as operations of Europea de Inversiones y Rentas, S.L.

Sale of Duplico 2000, S.L.

On 20 June 2007 an agreement was entered into for the sale by Aurica XXI, S.C.R., S.A. of a 16.5% equity interest in Duplico 2000, S.L. The sale resulted in a profit before tax of €1,730,000 for the group.

The group's remaining 16.5% holding was then reclassified as part of the group's portfolio of available-for-sale financial assets.

Sale of Fluidra, S.A.

On 21 September 2007 a public offering for sale of shares in Fluidra, S.A. by BanSabadell Inversió Desenvolupament, S.A. was formally agreed together with a subsequent green shoe option. The sale resulted in the disposal of a 10.37% holding and a profit of €41,424,000 for the group.

The group's remaining 9.67% shareholding has been reclassified as part of its portfolio of available-for-sale financial assets valued at market prices.

Changes in the year 2006:

Undertakings included in the consolidated accounts for the first time:

Name of undertaking	% Share	Direct/ indirect	Method or procedure
Aviación Regional Cántabra, AIE (1)	26.41	Direct	Equity method
Axel Group, S.L. (1) (6)	100.00	Direct	Full consolidation
Axel Urquijo, S.L. (2)	100.00	Direct/Indirect	Full consolidation
Banco Urquijo, S.A. (6)	99.75	Direct	Full consolidation
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros (3) (6)	100.00	Direct	Full consolidation
Biodiésel Aragón, S.L. (3)	37.60	Indirect	Equity method
Caceis Bank España, S.A. (2) (6)	100.00	Indirect	Full consolidation
Ciudad Circuito, S.L. (4)	25.00	Indirect	Proportional consolidation
Dish, S.A. (2)	99.75	Indirect	Full consolidation
Explotación Eólica la Pedrera, S.L. (3)	80.00	Indirect	Full consolidation
Gaviel, S.A. (2)	49.88	Indirect	Equity method
General de Biocarburantes, S.A. (5)	30.24	Indirect	Equity method
Grafos, S.A.	45.00	Indirect	Equity method
Indigo Investments SP, zoo (3)	50.00	Indirect	Proportional consolidation
Nisa Gav, S.A. (2)	49.88	Indirect	Equity method
Promotora de Negocios y Representaciones, S.A. (2)	99.75	Indirect	Full consolidation
Tarraco Eólica-Ascó, S.L. (5)	20.00	Indirect	Equity method
Tarraco Eólica-Les Garrigues, S.L. (5)	20.00	Indirect	Equity method
Urquijo Correduría de Seguros, S.A. (2)	64.84	Indirect	Full consolidation
Urquijo Gestión Pensions, E.G.F.P., S.A. (2)	99.75	Indirect	Full consolidation
Urquijo Gestión, S.G.I.I.C., S.A. (2)	99.75	Indirect	Full consolidation
Urquijo Servicios Patrimoniales, S.A. (2)	99.75	Indirect	Full consolidation

(1) Acquired by the group in December 2006 through Banco de Sabadell, S.A.
(2) Acquired as a result of the purchase of the Banco Urquijo group.
(3) A newly formed company.
(4) Acquired by the group in September 2006 through Landscape Coperfil Logistics, S.L.
(5) Acquired by the group in April 2006 through Explotaciones Energéticas Sínia XXI, S.L.
(6) Further details can be found in this note.

Purchase of Axel Group, S.L.

On 28 December 2006 Axel Group, S.L. the holder of a 70% equity interest in Axel Urquijo, S.L., the corporate finance arm of the former Banco Urquijo, was acquired by Banco Sabadell for €6,435,000. Banco Sabadell already controlled 30% of the undertaking following its acquisition of Banco Urquijo on 4 July 2006.

Axel Urquijo was renamed Sabadell Corporate Finance and will become Banco Sabadell's corporate finance subsidiary, operating as part of its Investment Banking division.

Purchase of Banco Urquijo, S.A.

On 4 July 2006, after all required official approvals had been obtained, a deed of purchase was executed under which Banco Sabadell acquired the equity interest of approximately 99.74% held in, and the control exercised over, Banco Urquijo, S.A. by Kredietbank S.A. Luxembourgeoise. Banco Urquijo was included in the consolidated group from 1 July 2006 onwards.

The final purchase consideration paid by Banco Sabadell was €762,401,000, which was met without an issue of new shares being required.

The Banco Urquijo, S.A. acquisition as a whole, once minority shareholdings amounting to 0.26% had been purchased, generated a goodwill of €473,837,000 which was accounted for as intangible assets (see note 15).

Shares held by minority shareholders were purchased through an exchange of shares at a rate of nine 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 valuation and accounting treatment of this business combination were shown in the annual accounts for the year 2006.

Merger by absorption of Banco Urquijo, S.A. into Banco de Sabadell, S.A.

On 1 December 2006, but with effect from 1 August 2006 for accounting purposes, the merger took place of Banco Urquijo, S.A. into Banco de Sabadell, S.A. The merger involved the dissolution, but not the liquidation, of Banco Urquijo, S.A. and the transfer of its assets en bloc to Banco de Sabadell, S.A. by universal succession, with the latter being subrogated in all rights and obligations of Banco Urquijo generally and without any reservation or limitation whatsoever.

From 1 August 2006 onwards, all operations of Banco Urquijo, S.A. were treated for accounting purposes as operations of Banco de Sabadell, S.A.

Transfer of private banking business

On 26 October 2006 the Board of Directors of Banco de Sabadell, S.A. approved a recommendation for the transfer by Banco de Sabadell, S.A. to Sabadell Banca Privada, S.A. of the private banking business of Banco de Sabadell, S.A. resulting from the merger by absorption of Banco Urquijo, S.A.

The transfer consisted of a non-monetary contribution of all assets and liabilities comprising the private banking business of Banco de Sabadell, S.A. to Sabadell Banca Privada, S.A.

The assets and liabilities to be contributed were valued at the carrying value given to them by the contributing company, Banco de Sabadell, S.A. and amounted to a total of €125,000,000.

In consideration of the transfer of business by Banco Sabadell, on 5 December 2006 the share capital of Sabadell Banca Privada, S.A. was increased by €55,088,000 by the issue of 18,301,610 new ordinary shares with a nominal value of €3.01 each, at a premium of €3.82 per share. The new shares, amounting to a total of €69,912,000, were taken up by Banco de Sabadell, S.A. in their entirety.

The object of the transfer of business was to concentrate the whole of the former private banking business of Banco Urquijo, S.A. within the group's specialist private banking subsidiary and thus preserve the existing organization of businesses within the Banco Sabadell group.

Change of name from Sabadell Banca Privada, S.A. to Banco Urquijo Sabadell Banca Privada, S.A.

The integration of the Banco Urquijo private banking business with that of Sabadell Banca Privada, S.A. resulted in a new entity, Banco Urquijo Sabadell Banca Privada, S.A. The change of name from Sabadell Banca Privada, S.A. to Banco Urquijo Sabadell Banca Privada, S.A. became effective as from 5 December 2006. On that date the business began to operate under the Banco Urquijo name.

Incorporation of BanSabadell Seguros Generales

On 2 May 2006 a new company, BanSabadell Seguros Generales S.A. de Seguros y Reaseguros, was formed with a share capital of €10,000,000 divided into 10,000 ordinary registered shares with a nominal value of €1,000 each.

The company operates exclusively as a direct insurer in the non-life class of business, as well as in the areas of reinsurance and insurance-related loss prevention. It will also seek partnerships with companies outside the insurance industry to market their services.

Takeover of 100% of Caceis Bank España, S.A. and change of name to Banco Exelbank, S.A.

On 17 November 2006 the 51% interest held by Caceis S.A.S. in Caceis Bank España, S.A. was formally transferred to Banco de Sabadell, S.A. Banco Sabadell already indirectly held 49% of the shares as a result of the purchase of a majority holding in Banco Urquijo on 4 July 2006, and this further purchase therefore gave Banco Sabadell control of 100% of Caceis Bank España. The purchase consideration was €25,971,000.

Later in November, the name of Caceis Bank España S.A. was changed to Banco Exelbank, S.A.

Undertakings no longer included in the consolidated accounts:

Name of undertaking	% Share	Direct/ indirect	Method or procedure
Atlántico Bienes Raíces (Panamá) (4)	100.00	Indirect	Full consolidation
Atlántico Holding Financial, Ltd. (4)	100.00	Direct	Full consolidation
Banco Atlántico (Panamá) (4)	100.00	Indirect	Full consolidation
Banco Urquijo, S.A. (1)	99.75	Direct	Full consolidation
Ciudad Circuito, S.L. (5)	25.00	Indirect	Proportional consolidation
Derivados Forestales Group XXI, S.L. (4)	45.00	Indirect	Equity method
Espais & Landscape Diagonal Mar, S.L. (5)	50.00	Indirect	Proportional consolidation
Europastry, S.A. (4)	20.00	Indirect	Equity method
IBA Management Ltd. (Bahamas)	100.00	Indirect	Full consolidation
IBA Nominee Trust Ltd. (Bahamas)	100.00	Indirect	Full consolidation
IBA Services Ltd. (Bahamas)	100.00	Indirect	Full consolidation
Indigo Investments SP, zoo (5)	50.00	Indirect	Proportional consolidation
Landscape Arcisa Cantábrico, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Augusta, S.L. (5)	100.00	Indirect	Full consolidation
Landscape Coperfil Activa, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Coperfil Logistics, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Corsan, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Ebrosa, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Espais Diagonal 0, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Espais Promocions, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Europrojectes, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Grupo Lar, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Habitat, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Inversions, S.L. (5)	100.00	Indirect	Full consolidation
Landscape Larcovi Proyectos Inmobiliarios, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Nozar, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Osuna, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Parcsud, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Proingru Pinetons, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Proingru, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Promocions Immobiliàries, S.L. (4) (5)	100.00	Direct	Full consolidation
Landscape Serveis Immobiliaris, S.A. (5)	100.00	Indirect	Full consolidation
Landscape Toro, S.L. (5)	50.00	Indirect	Proportional consolidation
Landscape Vertix, S.L. (5)	50.00	Indirect	Proportional consolidation
Netfocus, S.L. (4)	80.00	Direct	Full consolidation
Representaciones Sabadell, S.A. (2)	100.00	Indirect	Full consolidation
Reyal Landscape, S.L. (5)	50.00	Indirect	Proportional consolidation
Urquijo Correduría de Seguros, S.A. (4)	65.00	Indirect	Full consolidation
Urquijo Gestión Pensions, E.G.F.P., S.A. (3) (4)	99.75	Indirect	Full consolidation

(1) Merged into Banco de Sabadell, S.A.
(2) Liquidated.
(3) Merged with BanSabadell Pensiones, E.G.F.P., S.A.
(4) Further details can be found in this note.
(5) Part of the Landscape Group. Further details can be found in this note.

Sale of Atlántico Holdings Financial Ltd. with its subsidiaries Banco Atlántico (Panamá), S.A. and Atlántico Bienes Raíces, S.A.

On 29 September 2006 Banco de Sabadell, S.A. sold its holding of shares in Atlántico Holdings Financial Ltd. and its subsidiary Banco Atlántico (Panamá), S.A., a Panama-based bank, to Grupo Financiero Continental, S.A. The sale was for a consideration of USD 141,000,000 (€111,842,000) and resulted in a profit before tax of €37,550,000 for the Banco Sabadell group. Atlántico Bienes Raíces, S.A., a wholly-owned subsidiary of Banco Atlántico (Panamá) S.A. was sold at the same time.

Exchange of shares in Derivados Forestales Group XXI, S.L. for shares in Ercros, S.A. and subsequent sale of shares in Ercros

On 28 April 2006 the Annual General Meeting of Ercros, S.A. adopted a resolution to increase the capital of the company by 133,971,417 shares. A total of 60,287,138 of these shares — 8.39% of the total share capital — were taken by BanSabadell Inversió Desenvolupament, S.A.

The shares were paid for with a non-money contribution of 45,000 shares in Derivados Forestales Group XXI, S.L. — 45% that company — owned by BanSabadell Inversió Desenvolupament, valued at €44,081,000 in its equity portfolio.

As of 28 April 2006 the newly purchased holding in Ercros, S.A. was recognized as part of the purchaser's portfolio of available-for-sale financial assets at its fair value of €51,847,000. In October, however, the holding in Ercros, S.A. was sold for €49,375,000, resulting in an overall capital gain of €5,294,000 on the transaction.

Sale of Europastry, S.A.

On 30 November 2006 the group disposed of its 20% holding in Europastry, S.A. A total of €48 million was received for the sale, resulting in a profit before tax of €10,335,000 for the group.

Sale of Landscape real estate group

On 21 November 2006 Banco de Sabadell, S.A. concluded an agreement with three companies, Astroc Mediterráneo, S.A., Courrent Assets, S.L. and Alramaev, S.L. for the sale of Banco Sabadell's holding in real estate developer Landscape Promocions Immobiliàries, S.L.U.

The sale was approved by the Bank's Board of Directors on 26 October.

Regulatory approval for the deal was sought, including from the competition authorities.

On 28 December 2006, regulatory approval having been obtained, a notarial deed was executed for the transfer of the group's entire 100% holding in Landscape Promocions Immobiliàries, S.L.U. The sale consideration of €900,000,000 resulted in a profit before tax of €734,701,000 for the group.

Sale of Netfocus

On 22 December 2006 the group's 80% holding in Netfocus, S.L. was sold. A total sale consideration of €8,500,000 was received, including the return of a participation loan to the company.

Sale of Urquijo Correduría de Seguros, S.A.

On 27 November 2006 Banco de Sabadell, S.A. and Unipsa Correduría de Seguros, S.A., Grupo March, sold their respective interests in insurance broker Urquijo Correduría de Seguros, S.A. to Concentra Inversiones, S.L.

Urquijo Correduría de Seguros had been owned as to 65% by Banco Urquijo, S.A., with the remaining 35% being held by Unipsa Correduría de Seguros, S.A. Grupo March.

The Banco Sabadell group received €2,600,000 from the sale, a figure which was increased by a further €650,000 in commission income from Urquijo Correduría de Seguros, S.A. in the course of 2007.

Merger by absorption of Urquijo Gestión Pensiones, E.G.F.P., S.A. into BanSabadell Pensiones, E.G.F.P., S.A.

On 11 December 2006 Urquijo Gestión Pensiones, E.G.F.P., S.A., a pension fund management entity, was merged by absorption into BanSabadell Pensiones, E.G.F.P., S.A. From 1 August onwards all transactions of the merged entity were treated for accounting purposes as carried out on behalf of BanSabadell Pensiones.

(b) Agreement for acquisition of business

On 27 December 2007, Banco Sabadell entered into an agreement with Banco Bilbao Vizcaya Argentaria, S.A. ("BBVA") to purchase the international private banking business carried on by its branch in Miami, Florida, USA. The agreement, when implemented in full, will result in Banco Sabadell being substituted for BBVA in all BBVA client relationships managed by its Miami branch. The final consideration payable by Banco Sabadell to BBVA for the transfer of business will be determined when the terms of the deal are finalized, based on the client relationships actually transferred, and will be subject to adjustment to take account of further transfers of relationships after the deal is closed. The final value of the deal is not expected to exceed USD 70 million. The acquisition is subject to all regulatory and official permissions and approvals being obtained.

Note 3. Proposed distribution of profits and basic earnings per share

The allocation of the Bank's profit for the year 2007 which the Board will propose to the Annual General Meeting is shown in the following table. The allocation for 2006 was approved by the Annual General Meeting on 29 March 2007 and is also shown in the table.

€'000

	2007	2006
To dividends	342,724	253,983
To voluntary reserves	261,406	602,580
Profit of Banco de Sabadell, S.A. for the year	**604,130**	**856,563**

Proposals for allocations of profits of subsidiaries and associates are subject to approval by their respective Annual General Meetings.

The gross dividend per share for the year recommended by the Board of Directors of the Bank is €0.28 (€0.208 adjusted for the 2006 share split - see note 29).

The interim dividend declared by the Board of Directors and paid by the Bank during the year is included in equity under interim dividends and totalled €158,164,000 (€116,281,000 in 2006).

The following table shows that sufficient profits were generated by the Bank during the period to enable an interim dividend to be paid.

€'000

	2007	2006
Profit of Bank to 30 September	643,518	485,323
Estimated income tax	(161,932)	(136,767)
Net profit available for distribution	481,586	348,556
Amount proposed and distributed	**158,164**	**116,281**

Basic earnings per share

Basic earnings per share are obtained by dividing the net profit attributable to the group by the weighted average number of ordinary shares outstanding in the year, excluding any treasury shares purchased by the group. The calculations are shown in the following table:

	2007	2006
Net profit attributable to the group (€'000)	782,335	908,398
Profit from discontinued operations (net) (€'000)	0	554,831
Weighted average number of ordinary shares outstanding (1)	1,221,547,165	1,224,013,680
Basic earnings per share (€)	**0.64**	**0.74**

(1) Adjusted for the 4-for-1 share split in May 2007 (see note 29).

Since the Bank has no outstanding debt securities convertible into shares or options on its own shares, diluted earnings per share are equal to basic earnings per share.

Note 4. Loans and advances to credit institutions

Loans and advances to credit institutions recorded in the consolidated balance sheet at 31 December 2006 and 2005 are analysed in the following table:

€'000

	2007	2006
Analysis by heading:		
Loans and receivables	3,574,102	6,928,116
Total	**3,574,102**	**6,928,116**
Analysis by type:		
Time deposits	1,888,218	2,559,446
Reverse repos	1,262,563	2,594,216
Other accounts	399,276	1,751,062
Doubtful assets	1,279	1,161
Impairment provisions	(2,174)	(1,543)
Other valuation adjustments	24,940	23,774
Total	**3,574,102**	**6,928,116**
Analysis by currency:		
Euro denominated	3,041,647	5,683,820
Foreign currency denominated	532,455	1,244,296
Total	**3,574,102**	**6,928,116**

Average annual interest rates on loans and advances to credit institutions for the years 2007 and 2006 were 3.96% and 3.02% respectively.

Note 5. Debt securities

Debt securities shown in the consolidated balance sheet at 31 December 2007 and 2006 are analysed as follows:

€'000

	2007	2006
Analysis by heading:		
Financial assets held for trading	1,013	4,784
Other financial assets at fair value through profit or loss	143,292	39,689
Available-for-sale financial assets	4,678,451	3,063,473
Loans and receivables	0	1
Total	**4,822,756**	**3,107,947**
Analysis by type:		
Spanish government securities	1,597,836	1,206,916
Treasury bills	22,883	69,846
Other book-entry securities	1,574,953	1,137,070
Securities of financial institutions and other issuers	3,228,062	1,906,213
Doubtful assets	46	51
Impairment provisions	(3,188)	(5,233)
Total	**4,822,756**	**3,107,947**
Analysis by currency:		
Euro denominated	4,722,055	3,076,446
Foreign currency denominated	100,701	31,501
Total	**4,822,756**	**3,107,947**

Average annual rates of interest on debt securities in the years 2007 and 2006 were 4.12% and 2.64% respectively.

Debt securities have been recorded at their fair values measured, for 94% and 96% of holdings in 2007 and 2006 respectively, by reference to published prices quoted on official securities markets. Fair values for the remaining 6% and 4% have been calculated from discounted cash flows based on risk premiums for comparable quoted securities and/or by reference to recent transactions in those securities.

Note 6. Other equity instruments

The "other equity instruments" heading of the consolidated balance sheet at 31 December 2007 and 2006 can be analysed as follows:

€'000

	2007	2006
Analysis by heading:		
Financial assets held for trading	8,122	0
Other financial assets at fair value through profit or loss	276,094	255,891
Available-for-sale financial assets	742,141	435,894
Total	**1,026,357**	**691,785**
Analysis by type:		
Resident sector	210,477	108,139
Credit institutions	6,818	7,152
Other	203,659	100,987
Non-resident sector	511,803	305,234
Credit institutions	475,592	253,344
Other	36,211	51,890
Share in net assets of mutual funds and OEICs	314,758	288,741
Impairment provisions	(10,681)	(10,329)
Total	**1,026,357**	**691,785**
Analysis by currency:		
Euro denominated	1,018,267	686,216
Foreign currency denominated	8,090	5,569
Total	**1,026,357**	**691,785**

Other financial assets at fair value through profit or loss in both years consisted entirely of investments associated with unit linked life policies.

Other equity instruments have been recorded at fair values which, for 91% and 95% of the group's holdings in 2007 and 2006 respectively, have been determined by reference to published official market prices. For the remaining 9% and 5%, fair values are based on market information for comparable quoted companies and/or the most recent available financial statements.

Note 7. Trading derivatives (assets and liabilities)

The composition of the trading derivatives captions on the asset and liability sides of the consolidated balance sheet at 31 December 2007 and 2006 was as follows:

€'000

	2007		2006	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Securities options	30,555	30,960	2,693	2,937
Interest rate options	31,605	31,464	19,454	20,920
Currency options	21,736	21,746	1,909	1,878
Swaps	175,135	181,066	81,693	88,238
Other	2,493	2,636	1,628	1,684
Total	**261,524**	**267,872**	**107,377**	**115,657**
Analysis by currency:				
Euro denominated	229,868	236,855	97,096	105,351
Foreign currency denominated	31,656	31,017	10,281	10,306
Total	**261,524**	**267,872**	**107,377**	**115,657**

Note 8. Loans and advances to other debtors

Loans and advances to other debtors in the consolidated balance sheet at 31 December 2007 and 2006, except for non-current assets held for sale, are analysed as follows:

€'000

	2007	2006
Analysis by heading:		
Loans and receivables	61,999,362	54,557,292
Total	**61,999,362**	**54,557,292**
Analysis by type:		
Spanish general government	266,322	143,164
Commercial loans	3,547,230	3,729,858
Secured receivables	33,759,599	28,682,784
Other term receivables	18,218,824	16,788,220
Payable on demand and other accounts	872,672	844,275
Finance leases	3,591,362	3,197,147
Factoring and "confirming"	2,585,150	1,945,279
Reverse repos	54,475	88,502
Doubtful assets	324,226	237,962
Impairment provisions	(1,219,968)	(1,075,674)
Other valuation adjustments	(530)	(24,225)
Total	**61,999,362**	**54,557,292**
Analysis by sector:		
Spanish general government	266,322	143,164
Resident sector	58,905,587	52,211,741
Non-resident sector	3,723,725	3,064,324
Doubtful assets	324,226	237,962
Impairment provisions	(1,219,968)	(1,075,674)
Other valuation adjustments	(530)	(24,225)
Total	**61,999,362**	**54,557,292**
Analysis by currency:		
Euro denominated	60,533,040	53,292,566
Foreign currency denominated	1,466,322	1,264,726
Total	**61,999,362**	**54,557,292**

Average annual rates of interest on loans and advances to other debtors in the years 2007 and 2006 were 5.43% and 4.51% respectively.

The breakdown of loans and advances to other debtors (except for non-current assets held for sale) by geographical region at 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Spain	59,455,321	52,223,254
Other European Union	2,439,105	2,562,329
Latin America	169,671	181,612
USA and Canada	699,817	232,528
Other OECD	78,399	69,701
Rest of world	377,017	363,542
Impairment provisions	(1,219,968)	(1,075,674)
Total	**61,999,362**	**54,557,292**

Loans and advances to other debtors due for repayment but not classified as doubtful assets at 31 December 2007 amounted to €89,446,000 (€99,369,000 at 31 December 2006). At 31 December 2007 more than 79% of this total was not more than one month overdue (31 December 2006: 82% of the total).

Doubtful assets

Assets recognized as doubtful under different balance sheet headings at 31 December 2007 and 2006 were as follows:

€'000

	2007	2006
Loans and advances to credit institutions	1,279	1,161
Debt securities	46	51
Loans and advances to other debtors	324,226	237,962
Total	**325,551**	**239,174**

The movements in the doubtful assets account were follows:

€'000

Balance at 31 December 2005	**206,376**
Acquisition of Banco Urquijo group	18,545
Additions	333,437
Recoveries	(267,990)
Foreign exchange differences	(462)
Written off	(50,732)
Balance at 31 December 2006	**239,174**
Additions	345,340
Recoveries	(198,724)
Written off	(60,239)
Balance at 31 December 2007	**325,551**

The distribution of doubtful assets by geographical region at 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Spain	273,644	203,029
Other European Union	35,002	11,208
Latin America	3,969	23,264
USA and Canada	8,133	136
Other OECD	2,214	418
Rest of world	2,589	1,119
Total	**325,551**	**239,174**

Impairment provisions

Impairment provisions resulting in value adjustments to assets under different balance sheet headings at 31 December 2007 and 2006 were as follows:

€'000

	2007	2006
Loans and advances to credit institutions	2,174	1,543
Debt securities	3,188	5,233
Loans and advances to other debtors	1,219,968	1,075,674
Total	**1,225,330**	**1,082,450**

Details of changes in, and opening and closing balances of, impairment provisions to cover against credit risk exposure are shown in the following table:

€'000

	Specific	Generic	Country risk	Total
Balance at 31 December 2005	**91,179**	**726,929**	**12,949**	**831,057**
Acquisition of Banco Urquijo group	16,838	41,778	463	59,079
Provisions charged to income statement	67,729	234,392	6,586	308,707
Releases to income statement	(28,285)	(11,693)	(12,279)	(52,257)
Foreign exchange differences	(2,072)	(1,355)	(648)	(4,075)
Transfers	(50,745)	0	0	(50,745)
Other movements	(3,283)	(5,592)	(441)	(9,316)
Balance at 31 December 2006	**91,361**	**984,459**	**6,630**	**1,082,450**
Provisions charged to income statement	169,744	323,755	2,580	496,079
Releases to income statement	(68,577)	(223,696)	(3,285)	(295,558)
Foreign exchange differences	(102)	(2,112)	(294)	(2,508)
Transfers	(60,305)	0	0	(60,305)
Other movements	(173)	5,345	0	5,172
Balance at 31 December 2007	**131,948**	**1,087,751**	**5,631**	**1,225,330**

The distribution of impairment allowances by geographical region at 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Spain	1,155,701	1,016,833
Other European Union	38,960	31,064
Latin America	10,705	21,407
USA and Canada	11,091	4,142
Other OECD	966	899
Rest of world	7,907	8,105
Total	**1,225,330**	**1,082,450**

Additional information

Finance income accruing on impaired financial assets but not recognized in the consolidated income statement at 31 December 2007 and 2006 amounted to €6,448,000 and €4,248,000 respectively.

Impaired financial assets derecognized from the balance sheet on the ground that the probability of recovery was remote showed the following evolution:

€'000

Balance at 31 December 2005	**667,747**
Additions:	**471,130**
Acquisition of Banco Urquijo group	418,271
Assets with poor prospects of recovery	52,424
Derecognized for other reasons	435
Recoveries:	**(17,820)**
Due to debt refinancing or restructuring	0
Due to receipt of cash without additional financing	(16,350)
Due to repossession of tangible assets	(1,470)
Permanently written off:	**(108,797)**
Due to debt forgiveness	(10,060)
Due to statute of limitations	(96,131)
Due to other circumstances	(2,606)
Net change due to foreign exchange differences	**(36)**
Balance at 31 December 2006	**1,012,224**
Additions:	**68,588**
Assets with poor prospects of recovery	62,783
Derecognized for other reasons	5,805
Recoveries:	**(13,356)**
Due to debt refinancing or restructuring	0
Due to receipt of cash without additional financing	(12,000)
Due to repossession of tangible assets	(1,356)
Permanently written off:	**(76,426)**
Due to debt forgiveness	(10,333)
Due to statute of limitations	(66,091)
Due to other circumstances	(2)
Net change due to foreign exchange differences	**(68)**
Balance at 31 December 2007	**990,962**

Note 9. Financial asset transfers

In recent years the Banco Sabadell group has undertaken a number of securitization programmes, either alone or in partnership with other highly rated domestic and foreign banks. Financial assets securitized by the group under these programmes at the end of the years 2006 and 2005 are summarized below. Assets on which the associated risks and rewards were transferred are shown separately.

€'000

	2007	2006
Derecognized in full from balance sheet:	**349,814**	**496,630**
Securitized mortgage loans	302,152	400,823
Other securitized assets	43,099	90,707
Other financial asset transfers	4,563	5,100
Retained in full on balance sheet:	**5,571,533**	**4,031,297**
Securitized mortgage loans	3,105,865	2,281,012
Other securitized assets	2,465,668	1,750,285
Total	**5,921,347**	**4,527,927**

Assets and liabilities held in securitization funds set up after 1 January 2004 and for which the risks and rewards were not transferred to third parties have been retained in the consolidated financial statements.

Details of current securitization programmes are given in the table below:

€'000

		Rating			Issue		Liability outstanding			
Year	Fund name and series	Fitch	Moody's	S&P	Number of securities	Amount	2007	2006	Yield	Market
1998	TDA 5, F.T.H.				7,800	1,171,974	138,217	184,259		AIAF
	Series A	AAA	Aaa	–	7,644	1,148,535	114,778	160,820	LIBOR 3M+0.16%	
	Series B (subordinated)	AAA	Aa1	–	156	23,439	23,439	23,439	LIBOR 3M+0.45%	
2002	FTPYME TDA SABADELL 1, F.T.A.				6,000	600,000	114,216	164,703		AIAF
	Series 1CA (a)	AAA	–	–	3,201	320,100	49,431	77,561	EURIBOR 6M+0.01%	
	Series 1SA	AA	–	–	2,544	254,400	39,285	61,642	EURIBOR 6M+0.40%	
	Series 2SA	A	–	–	111	11,100	11,100	11,100	EURIBOR 6M+0.50%	
	Series B	BB	–	–	144	14,400	14,400	14,400	EURIBOR 6M+0.75%	
2003	GC FTGENCAT II, F.T.A.				9,500	950,000	238,707	392,914		AIAF
	Series AG (b)	AAA	Aaa	–	7,068	706,800	137,765	271,931	EURIBOR 3M+0.11%	
	Series AS	AA+	Aa1	–	1,767	176,700	34,441	54,483	EURIBOR 3M+0.48%	
	Series BG (b)	AA	Aa2	–	176	17,600	17,600	17,600	EURIBOR 3M+0.28%	
	Series BS	A	A1	–	176	17,600	17,600	17,600	EURIBOR 3M+0.70%	
	Series C	BBB	Baa1	–	313	31,300	31,300	31,300	EURIBOR 3M+1.45%	
2003	FTPYME TDA SABADELL 2, F.T.A.				5,000	500,000	255,216	366,222		AIAF
	Series 1CA (a)	AAA	–	AAA	1,968	196,800	92,866	139,999	EURIBOR 3M	
	Series 1SA	AAA	–	AAA	2,667	266,700	125,850	189,723	EURIBOR 3M+0.26%	
	Series 2SA	AA	–	A	215	21,500	21,500	21,500	EURIBOR 3M+0.50%	
	Series 3SA	BBB	–	BBB	150	15,000	15,000	15,000	EURIBOR 3M+1.20%	
2004	GC SABADELL 1, F.T.H.				12,000	1,200,000	708,860	822,346		AIAF
	Series A1	–	Aaa	AAA	1,500	150,000	0	0	EURIBOR 3M+0.06%	
	Series A2	–	Aaa	AAA	10,206	1,020,600	679,460	792,946	EURIBOR 3M+0.17%	
	Series B	–	A2	A	192	19,200	19,200	19,200	EURIBOR 3M+0.42%	
	Series C	–	Baa2	BBB	102	10,200	10,200	10,200	EURIBOR 3M+0.78%	
2004	IM FTPYME SABADELL 3, F.T.A.				6,000	600,000	289,981	391,689		AIAF
	Series 1SA	–	Aaa	AAA	4,408	440,800	131,954	232,489	EURIBOR 3M+0.11%	
	Series 1CA (a)	–	Aaa	AAA	1,241	124,100	124,100	124,100	EURIBOR 3M-0.01%	
	Series 2	–	A2	A	234	23,400	22,618	23,400	EURIBOR 3M+0.35%	
	Series 3SA	–	Baa3	BBB-	117	11,700	11,309	11,700	EURIBOR 3M+0.80%	
2005	GC FTPYME SABADELL 4, F.T.A.				7,500	750,000	475,399	750,000		AIAF
	Series AS	AAA	Aaa	–	5,494	549,400	274,799	549,400	EURIBOR 3M+0.10%	
	Series AG (a)	AAA	Aaa	–	1,623	162,300	162,300	162,300	EURIBOR 3M+0.00%	
	Series B	A+	A2	–	240	24,000	24,000	24,000	EURIBOR 3M+0.42%	
	Series C	BBB	Baa3	–	143	14,300	14,300	14,300	EURIBOR 3M+0.70%	
2005	GC FTGENCAT SABADELL 1, F.T.A.				5,000	500,000	500,000	500,000		AIAF
	Series AS	AAA	–	–	1,289	128,900	128,900	128,900	EURIBOR 3M+0.15%	
	Series AG (b)	AAA	–	–	3,456	345,600	345,600	345,600	EURIBOR 3M-0.04%	
	Series B	A	–	–	198	19,800	19,800	19,800	EURIBOR 3M+0.42%	
	Series C	BBB	–	–	57	5,700	5,700	5,700	EURIBOR 3M+0.78%	
2006	IM FTGENCAT SABADELL 2, F.T.A.				5,000	500,000	500,000	500,000		AIAF
	Series AS	AAA	–	–	2,028	202,800	202,800	202,800	EURIBOR 3M+0.15%	
	Series AG (b)	AAA	–	–	2,717	271,700	271,700	271,700	EURIBOR 3M-0.05%	
	Series B	A	–	–	198	19,800	19,800	19,800	EURIBOR 3M+0.40%	
	Series C	BBB	–	–	57	5,700	5,700	5,700	EURIBOR 3M+0.70%	
2006	GC FTPYME SABADELL 5, F.T.A.				12,500	1,250,000	1,250,000	1,250,000		AIAF
	Series A1	AAA	–	–	2,200	220,000	220,000	220,000	EURIBOR 3M+0.07%	
	Series A2	AAA	–	–	8,803	880,300	880,300	880,300	EURIBOR 3M+0.13%	
	Series A3 (G) (a)	AAA	–	–	828	82,800	82,800	82,800	EURIBOR 3M+0.01%	
	Series B	A	–	–	400	40,000	40,000	40,000	EURIBOR 3M+0.30%	
	Series C	BBB	–	–	269	26,900	26,900	26,900	EURIBOR 3M+0.58%	
2007	GC FTPYME SABADELL 6, F.T.A.				10,000	1,000,000	1,000,000	0		AIAF
	Series A1	–	Aaa	AAA	1,750	175,000	175,000	0	EURIBOR 3M+0.11%	
	Series A2	–	Aaa	AAA	6,354	635,400	635,400	0	EURIBOR 3M+0.19%	
	Series A3 (G) (a)	–	Aaa	AAA	1,341	134,100	134,100	0	EURIBOR 3M+0.005%	
	Series B	–	A2	A	355	35,500	35,500	0	EURIBOR 3M+0.43%	
	Series C	–	Baa2	BBB-	200	20,000	20,000	0	EURIBOR 3M+0.75%	
2007	IM SABADELL EMPRESAS 1, F.T.A.				10,000	1,000,000	1,000,000	0		AIAF
	Series A1	–	Aaa	AAA	2,000	200,000	200,000	0	EURIBOR 3M+0.25%	
	Series A2	–	Aaa	AAA	7,390	739,000	739,000	0	EURIBOR 3M+0.35%	
	Series B	–	A3	A	250	25,000	25,000	0	EURIBOR 3M+1.25%	
	Series C	–	Baa3	BBB	360	36,000	36,000	0	EURIBOR 3M+2.50%	
2007	IM FTGENCAT SABADELL 3, F.T.A.				3,500	350,000	350,000	0		AIAF
	Series AS	–	–	AAA	1,690	169,000	169,000	0	EURIBOR 3M+0.25%	
	Series AG (b)	–	–	AAA	1,573	157,300	157,300	0	EURIBOR 3M+0.21%	
	Series B	–	–	A	139	13,900	13,900	0	EURIBOR 3M+1.25%	
	Series C	–	–	BBB	98	9,800	9,800	0	EURIBOR 3M+2.50%	
							6,820,596	**5,322,133**		

(a) Guaranteed by the Spanish Government.

(b) Guaranteed by the Catalan Government

Of the totals outstanding in 2007 and 2006, bonds associated with assets that were not removed from the balance sheet amounted to a total of €3.602.697,000 in 2007 and €2.917.678,000 in 2006. These bonds are reported in the balance sheet under debt certificates including bonds (see note 19).

Note 10. Other financial assets

Other financial assets stated on the consolidated balance sheet at 31 December 2007 and 2006 were:

€'000

	2007	2006
Analysis by heading:		
Loans and receivables	590,355	3,090,161
Total	**590,355**	**3,090,161**
Analysis by type:		
Fees and commissions on financial guarantees	49,156	55,281
Collateral advanced	237,448	239,582
Clearing houses	134,755	1,275,726
Other (a)	168,996	1,519,572
Total	**590,355**	**3,090,161**
Analysis by currency:		
Euro denominated	563,802	2,827,408
Foreign currency denominated	26,553	262,753
Total	**590,355**	**3,090,161**

(a) The year-end total for 2006 includes an outstanding amount of €900,000,000 receivable on the sale of Landscape Promocions Immobiliàries, S.L.U. This was paid in full on 2 January 2007.

Note 11. Hedging derivatives (assets and liabilities)

Hedging derivatives reported at fair value on the consolidated balance sheets at 31 December 2007 and 2006 are analysed as follows:

€'000

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Micro-hedges				
Fair value hedges	345,506	584,433	317,069	249,384
Cash flow hedges	445	6,346	522	4,159
Total	**345,951**	**590,779**	**317,591**	**253,543**
Analysis by currency:				
Euro denominated	330,558	587,737	314,882	249,664
Foreign currency denominated	15,393	3,042	2,709	3,879
Total	**345,951**	**590,779**	**317,591**	**253,543**

The group enters into interest rate hedging contracts as part of its policy for managing interest rate risk (see note 36 on interest rate exposures). The following are the main types of hedging instrument used:

- At 31 December 2007 and 2006, the Group had entered into interest rate swap arrangements with counterparties of recognized good standing, the fair value of which was -€239,214,000 and -€67,529,000 respectively at those dates. These had been designated as hedging instruments to cover the interest rate risk on specified capital raising issues on the capital markets at fixed rates of interest. The interest rate swaps had the effect of changing the interest payable on these issues from fixed to variable.
- At 31 December 2007 and 2006, the group had entered into interest rate swap arrangements with counterparties of recognized good standing, the fair value of which was €70,345,000 and €107,181,000 respectively at those dates. These had been designated as hedging instruments to cover the interest rate risk on specified financial liabilities sold through the group's branch network at fixed rates of interest. The interest rate swaps had the effect of changing the rates of interest on these issues from fixed to variable.

- At 31 December 2007 and 2006, the group had entered into interest rate swap arrangements with counterparties of recognized good standing, the fair value of which was €5,703,000 and €13,094,000 respectively at those dates. These had been designated as hedging instruments to cover the interest rate risk on individual loans extended by the group at fixed rates of interest. The interest rate swaps had the effect of changing the interest rates on these loans from fixed to variable.

In addition, as part of the group's hedging of issues denominated in foreign currency, at 31 December 2007 the Bank had entered into a cross-currency swap arrangement with a counterparty of recognized credit standing, the fair value of which was -€105,345,000. This has been designated as a hedging instrument to cover the currency risk on a number of dollar-denominated capital raising issues in the USA.

With regard to cash flow hedges, amounts recognized in consolidated equity during the year, or derecognized from consolidated equity and included in the consolidated income statement during the year, are reported in the consolidated statement of changes in equity.

The majority of the group's hedging operations are carried out by Banco de Sabadell, S.A. and Banco Urquijo Sabadell Banca Privada, S.A.

Gains and losses recognized during the year on hedging instruments and on hedged items are shown in the following table:

€'000

	2007		2006	
	Hedging instruments	**Hedged items**	**Hedging instruments**	**Hedged items**
Fixed-rate assets	6,111	(4,184)	26,159	(26,055)
Exchange rate hedges	(105,855)	105,770	0	0
Capital market	(206,249)	201,822	(317,120)	311,188
Branch network	(47,388)	50,605	33,818	(36,300)
Total	**(353,381)**	**354,013**	**(257,143)**	**248,833**

Note 12. Non-current assets held for sale and liabilities associated with non-current assets held for sale

These items of the consolidated balance sheet at 31 December 2007 and 2006 are analysed below:

€'000

	2007	2006
Assets	**12,263**	**13,551**
Loans and advances to credit institutions	0	2,221
Loans and advances to other debtors	0	292
Land and buildings for own use	8,568	6,598
Repossessed assets	3,695	4,428
Other assets	0	12
Impairment provisions	**(1,648)**	**(1,125)**
Total non-current assets held for sale	**10,615**	**12,426**
Liabilities	**0**	**1,161**
Deposits from credit institutions	0	201
Deposits from other creditors	0	704
Other liabilities	0	256
Liabilities associated with non-current assets held for sale	**0**	**1,161**

These totals include non-current assets and liabilities whose book values are expected to be recoverable on disposal within one year of the balance sheet date.

Note 13. Investments

The following table shows the composition of, and changes in, this item at 31 December 2007 and 2006.

€'000

	Balance at 31.12.2006	Results of equity-accounted undertakings	Acquisition or increase in capital	Disposal or dissolution	Payment of dividends	Transfer	Translation differences and other movements	Balance at 31.12.2007
Undertakings consolidated by the equity method								
Aviación Regional Cántabra, A.I.E.	7,863	546	0	0	0	0	(39)	8,370
Aviones Alfambra CRJ-900, A.I.E.	0	(150)	1,060	0	0	0	0	910
Aviones Cabriel CRJ-900, A.I.E.	0	(150)	1,060	0	0	0	0	910
Aviones Gorgos CRJ-900, A.I.E.	0	(152)	1,060	0	0	0	0	908
Aviones Sella CRJ-900, A.I.E.	0	(151)	1,060	0	0	0	0	909
Banco del Bajío, S.A. (a)	67,581	8,611	19,104	0	(2,874)	0	(8,519)	83,903
Berta Energies Renovables, S.L.	1	0	0	0	0	(1)	0	0
Biodiesel Aragón, S.L.	1,750	0	0	0	0	0	0	1,750
Centro Financiero B.H.D., S.A. (a)	24,708	7,605	4,708	0	(5,949)	0	(2,051)	29,021
Dexia Sabadell, S.A. (b)	58,871	6,125	8,800	0	0	0	4,668	78,464
Duplico	0	54	3,487	(1,777)	0	(1,764)	0	0
EMTE Grupo Empresarial y Corporativo, S.L. (c)	0	875	23,177	0	0	0	0	24,052
Fluidra, S.A. (d)	55,712	7,594	0	(31,612)	(2,204)	(29,490)	0	0
FS Colaboración y Asistencia, S.A.	322	177	0	0	0	0	0	499
Gaviel, S.A.	631	0	0	0	0	0	0	631
General de Biocarburantes, S.A.	2,241	(122)	0	0	0	0	(2,119)	0
Grafos, S.A. Arte sobre Papel	2,314	(360)	2,214	0	(189)	0	0	3,979
Intermas Nets, S.A.	0	65	22,213	0	0	0	0	22,278
Parc Eòlic Veciana - Cabaro, S.L.	0	0	1,140	0	0	0	0	1,140
Parque Eólico la Peñuca, S.L.	2,031	358	0	0	0	0	0	2,389
SBD Creixent, S.A.	2,955	7	0	0	0	0	0	2,962
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	2,257	382	0	0	0	0	0	2,639
Tarraco Eólica Ascó, S.L.	193	57	33	(283)	0	0	0	0
Tarraco Eólica les Garrigues, S.L.	240	2	41	(283)	0	0	0	0
Telstar, S.A.	0	697	6,110	0	0	0	0	6,807
Tolosa 161, S.L.	0	0	0	0	0	0	0	0
Total	**229,670**	**32,070**	**95,267**	**(33,955)**	**(11,216)**	**(31,255)**	**(8,060)**	**272,521**

(a) Euro equivalent.
(b) Formerly known as Dexia Sabadell Banco Local, S.A.
(c) Formerly known as Solduga, S.L.
(d) Formerly known as Aquaria de Inv. Corp., S.A.

€'000

	Balance at 31.12.2005	Results of equity-accounted undertakings	Acquisition or increase in capital	Disposal or dissolution	Payment of dividends	Transfer	Translation differences and other movements	Balance at 31.12.2006
Undertakings accounted for by the equity method								
Aquaria de Inv. Corp., S.A.	37,443	4,572	14,970	0	(1,322)	0	49	55,712
Aviación Regional Cántabra, A.I.E.	0	0	7,863	0	0	0	0	7,863
Axel Urquijo, S.L.	0	0	467	0	0	(467)	0	0
Banco del Bajío, S.A. (a)	52,540	9,480	14,010	0	(2,061)	0	(6,388)	67,581
Berta Energies Renovables, S.L.	5	(4)	0	0	0	0	0	1
Biodiesel Aragón, S.L.	0	0	1,750	0	0	0	0	1,750
Centro Financiero B.H.D., S.A. (a)	22,555	3,758	2,119	0	(3,779)	0	55	24,708
Derivados Forestales Group XXI, S.L.	48,412	0	0	(44,081)	(4,331)	0	0	0
Dexia Sabadell, Banco Local, S.A.	45,348	5,650	8,000	0	0	0	(127)	58,871
Europa Invest, S.A.	71	0	0	0	0	(71)	0	0
Europastry, S.A.	35,716	0	1,685	(36,442)	(959)	0	0	0
FS Colaboración y Asistencia, S.A.	213	118	0	0	0	0	(9)	322
Gaviel, S.A.	0	1	630	0	0	0	0	631
General de Biocarburantes, S.A.	0	(9)	2,250	0	0	0	0	2,241
Grafos, S.A. Arte sobre Papel	0	198	0	0	0	2,116	0	2,314
Parque Eólico la Peñuca, S.L.	1,176	855	0	0	0	0	0	2,031
SBD Creixent, S.A.	2,964	(8)	0	0	0	0	(1)	2,955
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	1,980	454	0	0	(212)	0	35	2,257
Tarraco Eólica Ascó, S.L.	0	(21)	214	0	0	0	0	193
Tarraco Eólica les Garrigues, S.L.	0	(6)	246	0	0	0	0	240
Total	**248,423**	**25,038**	**54,204**	**(80,523)**	**(12,664)**	**1,578**	**(6,,386)**	**229,670**

(a) Euro equivalent.

Changes in separately recognized goodwill associated with investments in the years to 31 December 2007 and 2006 were as follows:

€'000

	Balance at 31.12.2005	Recognized/ derecognized	Balance at 31.12.2006	Recognized/ derecognized	Balance at 31.12.2007
Aviación Regional Cántabra, A.I.E.	0	0	0	702	702
Aviones Alframbra CRJ-900, A.I.E.	0	0	0	77	77
Aviones Cabriel CRJ-900, A.I.E.	0	0	0	77	77
Aviones Gorgos CRJ-900, A.I.E.	0	0	0	76	76
Aviones Sella CRJ-900, A.I.E.	0	0	0	76	76
Biodiesel Aragón, S.L.	0	0	0	160	160
Centro Financiero BHD, S.A.	3,585	0	3,585	0	3,585
Dexia Sabadell, S.A.	3,237	0	3,237	0	3,237
EMTE Grupo Empresarial y Corporativo, S.L. (a)	0	0	0	291	291
Europastry, S.A.	17,545	(17,545)	0	0	0
Fluidra, S.A. (b)	1,403	0	1,403	(1,403)	0
General de Biocarburantes, S.A.	0	523	523	(523)	0
Intermas Nets, S.A.	0	0	0	15,695	15,695
Telstar, S.A.	0	0	0	1,349	1,349
Total	**25,770**	**(17,022)**	**8,748**	**16,577**	**25,325**

(a) Formerly known as Solduga, S.L.

(b) Formerly known as Aquaria de Inv. Corp., S.A.

Note 14. Tangible assets

The composition of this item of the consolidated balance sheet at 31 December 2007 and 2006 was as follows:

€'000

	2007				2006			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
For own use:	**1,420,254**	**(521,791)**	**(20,163)**	**878,300**	**1,389,009**	**(472,860)**	**(12,919)**	**903,230**
Computer and related equipment	201,349	(169,912)	0	31,437	187,435	(158,094)	0	29,341
Furniture, vehicles & other equipment	550,871	(248,828)	(17,000)	285,043	500,583	(214,051)	(12,371)	274,161
Buildings	665,108	(103,049)	(3,163)	558,896	689,500	(100,711)	(548)	588,241
Building work in progress	3	0	0	3	2,235	0	0	2,235
Other	2,923	(2)	0	2,921	9,256	(4)	0	9,252
Investment property:	**10,504**	**(1,863)**	**0**	**8,641**	**6,961**	**(956)**	**0**	**6,005**
Buildings	9,308	(1,863)	0	7,445	5,922	(956)	0	4,966
Rural property, building plots and sites	1,196	0	0	1,196	1,039	0	0	1,039
Leased out under operating leases	**131,735**	**(38,211)**	**0**	**93,524**	**105,304**	**(32,461)**	**0**	**72,843**
Total	**1,562,493**	**(561,865)**	**(20,163)**	**980,465**	**1,501,274**	**(506,277)**	**(12,919)**	**982,078**

Changes in tangible assets in 2007 and 2006 are shown in the following table:

€'000

	Land and buildings	Furniture & equipment	Investment properties	Leased out under op. leases	Total
Cost:					
Balance at 31 December 2005	505,575	610,628	339,704	87,613	1,543,520
Acquisition of Banco Urquijo group	157,343	54,395	0	10	211,748
Additions	45,864	105,199	104,090	52,310	307,463
Disposals	(8,751)	(72,358)	2,956	(34,629)	(112,782)
Derecognized on sale of Landscape Group	0	(10,590)	(432,890)	0	(443,480)
Other	(10,531)	12,235	(6,899)	0	(5,195)
Balance at 31 December 2006	689,500	699,509	6,961	105,304	1,501,274
Additions	31,597	98,417	4,478	52,001	186,493
Disposals	(44,914)	(33,317)	(427)	(25,570)	(104,228)
Changes in basis of consolidation	397	5,062	163	0	5,622
Other	(11,472)	(14,525)	(671)	0	(26,668)
Balance at 31 December 2007	**665,108**	**755,146**	**10,504**	**131,735**	**1,562,493**
Accumulated depreciation:					
Balance at 31 December 2005	80,351	332,649	23,566	24,670	461,236
Acquisition of Banco Urquijo group	14,341	38,679	0	6	53,026
Additions	9,328	56,955	114	16,803	83,200
Disposals	(3,028)	(53,717)	(302)	(9,483)	(66,530)
Derecognized on sale of Landscape Group	0	(2,902)	(30,206)	0	(33,108)
Other	(281)	485	7,784	465	8,453
Balance at 31 December 2006	100,711	372,149	956	32,461	506,277
Additions	9,432	60,572	104	19,797	89,905
Disposals	(2,984)	(16,433)	(24)	(14,047)	(33,488)
Changes in basis of consolidation	296	3,043	0	0	3,339
Other	(4,406)	(589)	827	0	(4,168)
Balance at 31 December 2007	**103,049**	**418,742**	**1,863**	**38,211**	**561,865**
Impairment losses					
Balance at 31 December 2005	99	12,371	7	0	12,477
Acquisition of Banco Urquijo group	0	200	0	0	200
Additions	441	3	0	0	444
Disposals	(99)	(200)	(7)	0	(306)
Derecognized on sale of Landscape Group	0	0	0	0	0
Other	107	(3)	0	0	104
Balance at 31 December 2006	548	12,371	0	0	12,919
Additions	2,662	705	0	0	3,367
Disposals	(47)	0	0	0	(47)
Other	0	3,924	0	0	3,924
Balance at 31 December 2007	**3,163**	**17,000**	**0**	**0**	**20,163**
Net balance at 31 December 2006	**588,241**	**314,989**	**6,005**	**72,843**	**982,078**
Net balance at 31 December 2007	**558,896**	**319,404**	**8,641**	**93,524**	**980,465**

The fair value of properties for the group's own use is approximately €1,250 million. Fair values of properties have been based on assessed values certified by firms of valuers. In reaching their assessments, valuers used the comparative method for unoccupied and/or own use premises, the income capitalization method for leased properties and the "static residual" approach for land values.

The gross value of own-use tangible assets that remained in use and had been fully depreciated at 31 December 2007 and 2006 amounted to €202,623,000 and €184,912,000 respectively.

The net book cost of tangible assets of foreign operations was €44,883,000 at the close of 2007 (€43,149,000 at the close of 2006).

The bulk of the group's operating lease business is carried on by BanSabadell Renting, S.A. and consists of vehicle leasing.

In 1996 Banco de Sabadell, S.A., Banco Herrero, S.A. (now merged with Banco Sabadell) and Europea de Inversiones y Rentas, S.L. availed themselves of article 5 of Royal Decree Law 7/1996 of 7 June and subsequent legislative provisions to restate their tangible fixed assets in accordance with Royal Decree 2607/1996 of 20 December. The maximum amount to which any asset could be revalued was the professionally assessed market value of the asset. Increases in the valuations of tangible fixed assets of group companies availing themselves of the asset restatement provisions of Royal Decree-Law 7/1996 were as follows:

€'000

	Increase in valuation
Banco de Sabadell, S.A.	36,402
Banco Herrero, S.A. (1)	6,353
Europea de Inversiones y Rentas, S.L.	2,254
Total	**45,009**

(1) Banco Herrero, S.A. was absorbed by Banco de Sabadell, S.A. in 2002.

Of the total amount subject to restatement, €632,000 was written off during the year for Banco de Sabadell, S.A. (€666,000 in 2006) and €11,000 for Europea de Inversiones y Rentas, S.L. (€11,000 in 2006).

The asset restatements have had the effect of increasing depreciation charges and this will mean increased charges of €632,000 against group results in the coming year 2008, assuming that no assets are sold and derecognized from the balance sheet during the year.

Note 15. Intangible assets

The composition of this item at 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Goodwill:	**570,454**	**481,268**
Aurica XXI, S.C.R., S.A.	1,128	0
Axel Group, S.L.	5,324	5,215
Banco Exelbank, S.A.	0	203
Banco Urquijo	473,837	473,837
Compañía de Electricidad y Cogeneración de Uvero, S.A.	1,046	1,046
Totvent-2000, S.A.	0	967
Transatlantic Holding Corp. (1)	89,119	0
Other intangible assets:	**145,338**	**146,028**
With finite useful lives:	145,338	146,028
Contractual relations with customers (Banco Urquijo)	43,867	49,767
Deposits from other creditors (Banco Urquijo)	12,544	14,766
Banco Urquijo brand	9,391	10,277
Computer software purchase costs	79,387	70,516
Other deferred charges	149	702
Total	**715,792**	**627,296**

(1) See note 2.

The goodwill generated by the purchase of Banco Urquijo was measured according to current valuation rules. First, the cost of the business combination was determined, based on the fair value of the assets surrendered, the liabilities incurred, any potential income and cost synergies identified, and the costs directly attributable to the business combination.

From a comparison of the cost of the business combination with the net fair value of the assets, liabilities and contingent liabilities of the acquired undertaking, a difference of €473,837,000 arose and was recognized in assets as goodwill. In measuring assets at their fair values, increases in property values were recognized for a total of €80,690,000 (€61,410,000 after tax) and intangible assets were identified with a value of €78,587,000 (€54,598,000 after tax).

This goodwill was then allocated to the cash-generating units (CGUs) thought likely to benefit from the synergies identified. These were the Private Banking CGU, the Commercial Banking CGU, and Other CGUs. Synergies that could not be allocated to any one CGU because of limitations in the historical data available for the acquired undertaking were assigned to all CGUs.

At the end of 2007 the Bank made an assessment to see whether there were any indications of impairment in the goodwill associated with Banco Urquijo, on a recoverable value basis. The valuation method used was to discount the future distributable net profits associated with the operations of Banco Urquijo. The assessment showed there had been no impairment in the value of the goodwill.

The goodwill in Transatlantic Holding Corp. at 31 December 2007 amounted to €89,119.000, after negative foreign exchange differences totalling €7,204,000 had been applied (see note 2). These exchange losses have been wholly offset by gains in the designated hedging instrument (a dollar denominated debt security - see note 19).

Under existing rules the valuation and accounting treatment of a business combination must be regarded as definite after one year. As far as these annual accounts are concerned, a definite determination for this business combination has not yet been reached as the group is still in the process of analysing and exploiting the data held in the systems of Transatlantic Bank Inc. This data will be factored in to the financial projections to ensure that they give a true and fair view of the business.

In "other intangible assets", the main items associated with the purchase of Banco Urquijo are the values of contractual rights under agreements with Banco Urquijo customers for certain products (OEICs, investment and pension funds, credit/debit cards, short-term loans, broking and custody services), the values of deposits, and the value of the Banco Urquijo brand. These assets have been valued by the income approach (discounted cash flow) method, with the multi-period excess earnings technique being used for income from contractual relations and deposits, and the price premium technique to measure the brand value.

These intangible items have finite useful lives of 12 years for Private Banking customers, seven years for Commercial Banking customers and five years for other categories. They are amortized over these lives on a straight-line basis in a way similar to that used for tangible assets.

The computer software purchase costs item in the table refers principally to deferred expense related to outsourced IT work and software licence purchases. The largest deferred expense items within other intangible assets in 2007 were the costs of investments in a new application to meet the operational requirements of the recently launched general insurance undertaking and in new advanced risk management software designed to satisfy the criteria laid down by the Basel II accord.

The 2006 total for other intangible assets included development on an information system known as Proteo, which is designed to support the value and growth objectives embraced by the group's strategic plan.

Deferred expense as intangible assets in 2007 in relation to systems for the newly launched general insurance business and risk management modelling software amounted to €6,454,000 and €8,358,000 respectively. No amortization charges were made during the year 2007.

Deferred expense recognized as intangible assets for the Proteo programme in the year to 31 December 2006 totalled €41,129,000 of which €22,955,000 has been amortized.

Changes in goodwill for the years 2007 and 2006 were as follows:

€'000

	Goodwill	Impairment	Total
Balance at 31 December 2005	**2,696**	**0**	**2,696**
Acquisition of Banco Urquijo group	473,837	0	473,837
Additions	13,686	(8,269)	5,417
Disposals and write-offs	(682)	0	(682)
Other	0	0	0
Balance at 31 December 2006	**489,537**	**(8,269)**	**481,268**
Additions	90,356	0	90,356
Disposals and write-offs	(9,439)	8,269	(1,170)
Other	0	0	0
Balance at 31 December 2007	**570,454**	**0**	**570,454**

Changes in the group's intangible asset accounts in 2007 and 2006 were as follows:

€'000

	Cost	Amortization	Impairment	Total
Balance at 31 December 2005	**214,224**	**(161,329)**	**(4,371)**	**48,524**
Acquisition of Banco Urquijo group	93,002	(13,964)	0	79,038
Additions	49,349	(23,781)	(1,759)	23,809
Disposals and write-offs	(21,703)	17,673	0	(4,030)
Other	1,814	(3,127)	0	(1,313)
Balance at 31 December 2006	**336,686**	**(184,528)**	**(6,130)**	**146,028**
Additions/reductions due to changes in basis of consolidation	737	(632)	0	105
Additions	59,189	(38,480)	(9,624)	11,085
Disposals and write-offs	(30,922)	13,183	6,130	(11,609)
Other	(751)	480	0	(271)
Balance at 31 December 2007	**364,939**	**(209,977)**	**(9,624)**	**145,338**

The gross value of other intangible assets that were still in use and had been fully amortized at 31 December 2007 and 2006 totalled €168,314,000 and €151,676,000 respectively.

Note 16. Other assets

The composition of other assets at 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Inventories	2,522	2,844
Other	20,185	386,482
Total	**22,707**	**389,326**

The "other" item of the "other assets" account at 31 December 2007 and 2006 consisted mainly of debit transactions in transit to be offset against credit transactions in transit included in "other liabilities".

Changes in inventories in 2007 and 2006 were as follows:

€'000

	Land	Real estate developments	Other	Total
Balance at 31 December 2005 (1)	**673,013**	**203,411**	**119,076**	**995,500**
Additions	252,204	118,408	40,245	410,857
Disposals	(5,318)	(106,736)	(35,200)	(147,254)
Derecognized on sale of Landscape Group	(919,899)	(215,083)	(121,277)	(1,256,259)
Balance at 31 December 2006	**0**	**0**	**2,844**	**2,844**
Additions	0	0	1,643	1,643
Disposals	0	0	(1,965)	(1,965)
Balance at 31 December 2007	**0**	**0**	**2,522**	**2,522**

(1) Inventories at 31 December 2005 consisted largely of inventories held by companies in the Landscape Group.

Note 17. Deposits from credit institutions

Deposits from credit institutions, a liability item on the consolidated balance sheet, are analysed as follows for the years 2007 and 2006:

€'000

	2007	2006
Analysis by heading:		
Financial liabilities at amortized cost	3,528,357	4,112,937
Total	**3,528,357**	**4,112,937**
Analysis by type:		
Time deposits	3,007,877	2,940,672
Repurchase agreements	181,941	231,978
Other accounts	304,495	902,775
Valuation adjustments	34,044	37,512
Total	**3,528,357**	**4,112,937**
Analysis by currency:		
Euro denominated	3,143,796	3,232,302
Foreign currency denominated	384,561	880,635
Total	**3,528,357**	**4,112,937**

Average annual rates of interest payable on deposits from credit institutions for the years 2007 and 2006 were 3.91% and 2.74% respectively.

Note 18. Deposits from other creditors

Deposits from other creditors (except for liabilities associated with non-current assets held for sale) reported on the consolidated balance sheets at 31 December 2007 and 2006 are analysed in the following table:

€'000

	2007	2006
Analysis by heading:		
Financial liabilities at amortized cost	33,350,687	30,090,641
Total	**33,350,687**	**30,090,641**
Analysis by type:		
General government	851,957	1,038,289
Demand deposits	14,294,355	16,448,556
Current accounts	12,433,722	14,342,525
Savings accounts	1,860,633	2,106,031
Time deposits	15,634,694	9,124,028
Repurchase agreements	2,364,294	3,277,692
Valuation adjustments	205,387	202,076
Total	**33,350,687**	**30,090,641**
Analysis by sector:		
General government	851,957	1,038,289
Resident sector	29,079,877	26,076,347
Non-resident sector	3,213,466	2,773,929
Valuation adjustments	205,387	202,076
Total	**33,350,687**	**30,090,641**
Analysis by currency:		
Euro denominated	31,257,906	28,382,652
Foreign currency denominated	2,092,781	1,707,989
Total	**33,350,687**	**30,090,641**

Average annual rates of interest payable on deposits from other creditors for the years 2007 and 2006 were 2.50% and 1.60% respectively.

Note 19. Debt certificates including bonds

Details of debt certificates including bonds issued by the group and recorded on the balance sheet at 31 December 2007 and 2006 are given in the table below:

€'000

	Date of Issuer	Type of issue security	2007	2006	at 31,12,2007	Rate of interest date	Maturity currency	Issue
Sabadell International Finance Ltd.	(1)	15.01.2002	Debt securities	0	450,000	EURIBOR 3M + 0.18	15.01.2007	Euro
Sabadell International Finance B.V.	(1)	12.11.2003	Debt securities	600,000	600,000	EURIBOR 3M + 0.14	12.11.2008	Euro
Banco de Sabadell, S.A.		25.05.2004	Debt securities	0	1,000,000	EURIBOR 3M + 0.09	25.05.2007	Euro
Banco de Sabadell, S.A.		20.09.2005	Debt securities	1,000,000	1,000,000	EURIBOR 3M + 0.10	20.09.2010	Euro
Banco de Sabadell, S.A.		29.11.2005	Debt securities	0	1,250,000	EURIBOR 3M + 0.05	29.11.2007	Euro
Banco de Sabadell, S.A.		10.03.2006	Debt securities	1,500,000	1,500,000	EURIBOR 3M + 0.01	10.03.2008	Euro
Banco de Sabadell, S.A.		07.07.2006	Debt securities	1,500,000	1,500,000	EURIBOR 3M + 0.10	07.07.2009	Euro
Banco de Sabadell, S.A.		04.10.2006	Debt securities	50,000	50,000	EURIBOR 3M + 0.14	04.10.2016	Euro
Banco de Sabadell, S.A.		26.10.2006	Debt securities	1,000,000	1,000,000	EURIBOR 3M + 0.13	26.10.2011	Euro
Banco de Sabadell, S.A.		18.12.2006	Debt securities	1,000,000	1,000,000	EURIBOR 3M + 0.05	18.06.2008	Euro
Banco de Sabadell, S.A.		11.06.2007	Debt securities	750,000	0	EURIBOR 3M + 0.04	11.12.2008	Euro
Banco de Sabadell, S.A.		24.09.2007	Debt securities	400,000	0	EURIBOR 3M + 0.08	24.09.2008	Euro
Banco de Sabadell, S.A.		25.04.2007	Debt securities	883,001	0	LIBOR 3M + 0.04	23.04.2009	USD
Banco de Sabadell, S.A.		25.04.2007	Debt securities	475,603	0	LIBOR 3M + 0.10	23.04.2010	USD
Banco de Sabadell, S.A.	(2)	22.03.2005	Notes	0	312,029	2.70% - 3.20%	Various dates	Euro
Banco de Sabadell, S.A.	(2)	20.06.2006	Notes	126,992	4,991,678	1.99% - 4.04%	Various dates	Euro
Banco de Sabadell, S.A.	(2)	13.03.2007	Notes	5,715,734	0	3.45% - 5.04%	Various dates	Euro
Banco de Sabadell, S.A.		29.04.2003	Mortgage bonds	1,500,000	1,500,000	4.50%	29.04.2013	Euro
Banco de Sabadell, S.A.		26.01.2004	Mortgage bonds	1,200,000	1,200,000	3.75%	26.01.2011	Euro
Banco de Sabadell, S.A.		15.06.2005	Mortgage bonds	1,500,000	1,500,000	3.25%	15.06.2015	Euro
Banco de Sabadell, S.A.		19.01.2006	Mortgage bonds	1,750,000	1,750,000	3.50%	19.01.2016	Euro
Banco de Sabadell, S.A.		10.05.2006	Mortgage bonds	300,000	300,000	4.13%	10.05.2016	Euro
Banco de Sabadell, S.A.		16.05.2006	Mortgage bonds	120,000	120,000	4.25%	16.05.2016	Euro
Banco de Sabadell, S.A.		24.01.2007	Mortgage bonds	1,500,000	0	4.25%	24.01.2017	Euro
Banco de Sabadell, S.A.		20.06.2007	Mortgage bonds	300,000	0	EURIBOR 3M + 0.05	20.06.2017	Euro
Banco de Sabadell, S.A.		05.11.2007	Mortgage bonds	200,000	0	4.53%	05.11.2009	Euro
Banco de Sabadell, S.A.		16.11.2007	Mortgage bonds	200,000	0	4.50%	16.11.2009	Euro
BancSabadell d'Andorra, S.A.		Various dates	Ordinary bonds	11,000	2,000	0% - 7.00%	Various dates	Euro
Securitization funds		Various dates	Ordinary bonds	3,602,697	2,917,678		Various dates	Euro
Valuation and other adjustments				(145,265)	(20,248)			
Total				**27,039,762**	**23,923,137**			

(1) Underwritten by Banco de Sabadell, S.A.

(2) A prospectus has been filed with the CNMV for an issue of €8,500 million.

Note 20. Subordinated liabilities

Details of subordinated liabilities issued by the group and recorded on the consolidated balance sheet at 31 December 2007 and 2006 are as follows:

€'000

Issuer	Date of issue	Amount 2007	Amount 2006	Rate of interest at 31.12.2007	Maturity/ redemption date
Banco Atlántico, S.A. (a)	27.04.2000	90,000	90,000	5.142%	01.08.2008
Banco Atlántico, S.A. (a)	09.08.2002	30,000	30,000	4.944%	01.10.2010
Sabadell International Capital Ltd. (b)	05.12.2002	0	300,000	–	05.12.2007
Banco Atlántico, S.A. (a)	21.08.2003	30,000	30,000	4.944%	11.10.2011
Banco de Sabadell, S.A.	18.02.2004	300,000	300,000	5.030%	18.02.2014
Banco de Sabadell, S.A.	25.05.2006	1,000,000	1,000,000	4.977%	25.05.2016
Banco de Sabadell, S.A. (c)	20.09.2006	500,000	500,000	5.234%	20.09.2016
Valuation and other adjustments		11,978	23,068		
Total		**1,961,978**	**2,273,068**		

(a) Now merged with Banco de Sabadell, S.A.

(b) The issue was redeemed prior to maturity.

(c) Reclassified during the year as subordinated liabilities (see note 1 - Comparative data).

Subordinated liabilities rank below the claims of all other unsecured creditors of the group. All issues are denominated in euros.

Note 21. Other financial liabilities

The "other financial liabilities" item of the consolidated balance sheet at 31 December 2007 and 2006 is analysed below.

€'000

	2007	2006
Analysis by heading:		
Financial liabilities at amortized cost	877,440	3,075,456
Total	**877,440**	**3,075,456**
Analysis by type:		
Obligations payable	262,474	217,791
Collateral received	42,179	185,822
Clearing houses	34,164	973,502
Tax collection accounts	156,216	147,599
Payment orders outstanding	7,886	67,336
Other financial liabilities	374,521	1,483,406
Total	**877,440**	**3,075,456**
Analysis by currency:		
Euro denominated	837,444	2,688,926
Foreign currency denominated	39,996	386,530
Total	**877,440**	**3,075,456**

Note 22. Liabilities under insurance contracts

The balances for this heading at 31 December 2007 and 2006 are analysed below:

€'000

	2007	2006
Unearned premium and unexpired risk reserves	56	59
Provisions for life insurance	2,400,987	2,239,082
Unearned premium and unexpired risk reserves	14,043	12,550
Mathematical reserves	2,386,944	2,226,532
Provisions for benefits	45,568	39,573
Provisions for "with profits" insurance and return premiums	1,420	1,261
Technical reserves for life insurance where the investment risk is borne by policyholders	570,416	484,878
Liabilities due to reinsurance and co-insurance	6	830
Total	**3,018,453**	**2,765,683**

Note 23. Provisions

The components of this item of the consolidated balance sheet at 31 December 2007 and 2006 were as follows:

€'000

	2007	2006
Provisions for pensions and similar obligations	262,386	298,488
Provisions for contingent exposures and commitments	89,020	94,569
Other provisions	72,740	106,816
Total	**424,146**	**499,873**

Details of changes in provisions during the years 2007 and 2006 are given in the following table:

€'000

	Pensions and similar obligations	Contingent exposures & commitments	Other provisions	Total
Balance at 31 December 2005	**276,639**	**87,775**	**102,129**	**466,543**
Acquisition of Banco Urquijo group	**59,154**	**5,142**	**69,949**	**134,245**
Provisions charged to income statement:	**18,269**	**19,451**	**1,804**	**39,524**
Personnel expenses	6,691	0	0	6,691
Interest expense and similar charges	10,929	0	0	10,929
Provisioning expenses	649	19,451	1,804	21,904
Releases to income statement	**(4,341)**	**(17,482)**	**(21,903)**	**(43,726)**
Foreign exchange differences	**0**	**(588)**	**(13)**	**(601)**
Utilizations:	**(49,101)**	**0**	**(31,841)**	**(80,942)**
Insurance premiums paid	(8,095)	0	0	(8,095)
Pension payments	(41,006)	0	0	(41,006)
Other payments	0	0	(31,841)	(31,841)
Other movements	**(2,132)**	**271**	**(13,309)**	**(15,170)**
Balance at 31 December 2006	**298,488**	**94,569**	**106,816**	**499,873**
Provisions charged to income statement:	**29,256**	**4,627**	**2,613**	**36,496**
Personnel expenses	6,549	0	0	6,549
Interest expense and similar charges	10,337	0	0	10,337
Provisioning expenses	12,370	4,627	2,613	19,610
Releases to income statement	**0**	**(9,730)**	**(15,227)**	**(24,957)**
Foreign exchange differences	**0**	**(481)**	**(16)**	**(497)**
Utilizations:	**(54,505)**	**0**	**(31,648)**	**(86,153)**
Insurance premiums paid	(12,120)	0	0	(12,120)
Pension payments	(42,385)	0	0	(42,385)
Other payments	0	0	(31,648)	(31,648)
Other movements	**(10,853)**	**35**	**10,202**	**(616)**
Balance at 31 December 2007	**262,386**	**89,020**	**72,740**	**424,146**

The main provision components are as follows:

- Provisions for pensions and similar obligations: includes provisions to cover post-employment benefits, including pension commitments in respect of employees taking early retirement and similar obligations.
- Provisions for contingent exposures: includes all provisions to cover contingent exposures associated with financial guarantees or other contractual commitments.
- Other provisions: consists largely of reserve funds assigned by the group to cover certain risks incurred in the normal course of business, including those described in note 34.

Most provisions are long-term in character.

The balances giving rise to pension liabilities recognized in the group balance sheet are shown below:

€'000

	2007	2006
Obligations due to pension commitments	738,582	799,493
Actuarial gains / (losses) in scheme assets not recognized in income statement	(717)	12,466
Fair value of scheme assets	(475,479)	(513,471)
Net liability recognized on balance sheet	**262,386**	**298,488**

Obligations covered by specific assets totalled €737,374,000 (including €90,137,000 in commitments to early retirees) at 31 December 2007, and €797,559,000 (including €114,872,000 for early retirees) at 31 December 2006.

The fair value of pension-linked assets reported in the group balance sheet stood at €306,189,000 at 31 December 2007 and €325,834,000 at 31 December 2006.

The fair value of scheme assets consisting of financial instruments issued by the Bank was €3,404,000 at 31 December 2007 and €3,894,000 at 31 December 2006.

Estimates of probability-weighted present values at 31 December de 2007 of benefits payable over the next ten years are shown below:

€'000

	Year										Total
	2008	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	
Probable pension payments	38,404	33,130	28,952	24,947	21,382	17,906	14,709	12,704	11,225	10,105	**213,464**

Note 24. Capital having the nature of a financial liability

This heading consists of financial instruments issued by the group which, although treated as capital for legal purposes, do not qualify for classification as equity.

As of 31 December 2007 and 2006 this item was made up entirely of an issue of preference shares with a value of €250,000,000, plus scheduled interest payments. The issue was made by Sabadell International Equity Ltd. in March 1999.

These preference shares carry no voting rights and were subscribed for in their entirety by unrelated third party investors. The issue is perpetual in character but is redeemable at the option of the issuer on application to the Bank of Spain.

As at 31 December 2007 the rate of interest payable on the Sabadell International Equity Ltd. preference share issue was 4.293% (3,283% at 31 December 2006).

Note 25. Fair value of financial assets and liabilities

As explained in note 1, financial assets are recorded in the balance sheet at their fair values except in the case of loans and receivables, equity instruments whose market value cannot reliably be determined and derivatives which have such equity instruments as their underlyings and are settled on delivery of the underlying instruments. Financial liabilities are recognized in the balance sheet at their fair values except in the case of financial liabilities at amortized cost, capital having the nature of a financial liability and derivatives whose underlyings are equity instruments for which a market value cannot reliably be determined.

A certain portion of the assets and liabilities recorded in the balance sheet under loans and receivables and financial liabilities at amortized cost are counted as fair value and cash flow hedges used by the group and are therefore recognized in the balance sheet at their fair values according to the risks being hedged.

Other assets and liabilities, for the most part, have variable rates of interest which are subject to review within periods of one year or less. This greatly limits potential differences between the carrying values at which these assets and liabilities are recorded and their fair values.

Note 26. Foreign currency transactions

Euro equivalent values for different classes of foreign currency-denominated assets and liabilities held by the group at 31 December 2007 and 2006 were as follows:

€'000

	2007	2006
Foreign currency assets:		
Cash and deposits with central banks	23,896	19,548
Loans and advances to credit institutions	532,455	1,244,296
Debt securities	100,701	31,501
Loans and advances to other debtors	1,466,322	1,264,726
Other assets	325,633	393,650
Total	**2,449,007**	**2,953,721**
Foreign currency liabilities:		
Deposits from central banks	917	260
Deposits from credit institutions	384,561	880,635
Deposits from other creditors	2,092,781	1,707,989
Other liabilities	1,481,664	436,501
Total	**3,959,923**	**3,025,385**

Note 27. Minority interests

The undertakings in which minority interests are held are as follows:

€'000

	2007			2006		
	% Minority interests	Amount	Attributable profit/loss	% Minority interests	Amount	Attributable profit/loss
BancSabadell d'Andorra, S.A.	49.03%	18,297	3,943	49.03%	16,468	3,005
Compañía de Electricidad y Cogeneración de Uvero, S.A.	27.08%	685	42	27.08%	793	137
Other undertakings		2,268	1,292		242	(235)
Total		**21,250**	**5,277**		**17,503**	**2,907**

Changes in the "minority interests" heading in 2007 and 2006 were as follows:

€'000

Balance at 31 December 2005	**16,005**
Changes in valuation adjustments	(553)
Changes in proportional shareholdings and other movements	(856)
Profit or loss for the year	2,907
Balance at 31 December 2006	**17,503**
Changes in valuation adjustments	(886)
Changes in proportional shareholdings and other movements	(644)
Profit or loss for the year	5,277
Balance at 31 December 2007	**21,250**

Note 28. Valuation adjustments

Valuation adjustments for the group at 31 December 2007 and 2006 are analysed below:

€'000

	2007	2006
Available-for-sale financial assets	96,770	137,542
Debt securities	15,209	46,975
Other equity instruments	81,561	90,567
Cash flow hedges	(4,956)	(363)
Foreign exchange differences	(9,943)	(471)
Total	**81,871**	**136,708**

Note 29. Own funds

Changes in own funds in the years 2007 and 2006 were as follows:

€'000

	Capital	Reserves and share premium	Other equity instruments	Treasury shares	Profit/ loss for the year	Interim dividend	Total
Balance at 31 December 2005	**153,002**	**2,859,015**	**277**	**0**	**453,128**	**(91,801)**	**3,373,621**
Appropriation of profits in previous years	0	248,106	0	0	(248,106)	0	0
Interim dividend for 2005	0	0	0	0	(91,801)	91,801	0
Final dividend for 2005	0	0	0	0	(113,221)	0	(113,221)
Translation differences and other movements	0	(10,727)	0	0	0	0	(10,727)
Acquisitions of own shares	0	0	0	(141,206)	0	0	(141,206)
Disposals of own shares	0	0	0	139,341	0	0	139,341
Issuance/redemption of other equity instruments	0	0	1,280	0	0	0	1,280
Profit for the year 2006	0	0	0	0	908,398	0	908,398
Interim dividend for 2006	0	0	0	0	0	(116,281)	(116,281)
Balance at 31 December 2006	**153,002**	**3,096,394**	**1,557**	**(1,865)**	**908,398**	**(116,281)**	**4,041,205**
Appropriation of profits in previous years	0	654,415	0	0	(654,415)	0	0
Interim dividend for 2006	0	0	0	0	(116,281)	116,281	0
Final dividend for 2006	0	0	0	0	(137,702)	0	(137,702)
Translation differences and other movements	0	511	0	0	0	0	511
Acquisitions of own shares	0	0	0	(507,089)	0	0	(507,089)
Disposals of own shares	0	653	0	479,634	0	0	480,287
Issuance/redemption of other equity instruments	0	0	0	0	0	0	0
Transfers	0	1,557	(1,557)	0	0	0	0
Profit for the year 2007	0	0	0	0	782,335	0	782,335
Interim dividend for 2007	0	0	0	0	0	(158,164)	(158,164)
Balance at 31 December 2007	**153,002**	**3,753,530**	**0**	**(29,320)**	**782,335**	**(158,164)**	**4,501,383**

Minimum capital requirement - capital management

At 31 December 2007 and 2006, the group's qualifying capital resources were above the required levels both under Bank of Spain rules and under the regulations of the Bank of International Settlements in Basle (BIS).

Ongoing management of the group's capital base has ensured that funding has been available to finance growth in conformity with minimum regulatory capital requirements.

At 31 December de 2007 the group's qualifying capital under BIS guidelines stood at €6,747,957,000, a year-on-year increase of 3.9%. There was also a capital surplus of €1,779,445,000, as can be seen from the following table:

€'000

	2007	2006	Change y.o.y. (%)
Capital	153,002	153,002	0.0
Reserves	4,157,521	3,740,618	11.1
Minority interests	19,793	17,131	15.5
Deductions	(595,779)	(490,018)	21.6
Core capital	**3,734,537**	**3,420,733**	**9.2**
Core capital ratio (%)	6.01	6.02	
Preference shares	750,000	750,000	0.0
Primary capital	**4,484,537**	**4,170,733**	**7.5**
Tier I capital ratio (%)	7.22	7.33	
Secondary capital	**2,263,420**	**2,325,300**	**(2.7)**
Tier II capital ratio (%)	3.64	4.09	
Capital base	**6,747,957**	**6,496,033**	**3.9**
Minimum capital requirement	4,968,512	4,549,569	9.2
Capital surplus	**1,779,445**	**1,946,464**	**(8.6)**
BIS Ratio (%)	**10.87**	**11.42**	
Risk-weighted assets (RWA)	**61,351,915**	**56,159,924**	**9.2**

Core capital contributed 6.01% towards the BIS ratio and accounted for 55.34% of qualifying capital resources. Increased deductions caused mainly by goodwill arising on business acquisitions during the year (in particular Transatlantic Bank), were able to be offset by retained earnings for the year.

The addition to core capital of preference share issues (this remained unchanged in 2007) brings Tier I capital to a total of €4,484,537,000, that is, 66.46% of qualifying capital resources, and increases the capital ratio to 7.22%.

Secondary or Tier II capital provides a further 3.64% of the BIS ratio and is made up very largely of subordinated debt, valuation adjustments and generic provisions (subject to regulatory limits as to eligibility).

Risk-weighted assets were actively managed by the group during the year and grew by 9.2% to a total of €61,351,915,000 at 31 December 2007, compared with an increase of some 14% in lending.

Risk-weighted assets of this size carry a minimum regulatory capital requirement of €4,968,512,000, which is considerably less than the qualifying capital resources actually held by the group.

Share capital

The Annual General Meeting of Banco Sabadell held on 29 March 2007 adopted a resolution to carry out a share split in respect of all shares comprising the Bank's share capital, reducing their nominal value from €0.50 per share to €0.125 per share. There was no change in the total share capital of the Bank. The consequence of the resolution was that shareholders received four shares with a nominal value of €0.125 in exchange for each of the old €0.50 shares held by them previously.

On 7 May 2007, after all legal formalities had been completed and all relevant permissions and approvals obtained, the Banco Sabadell share split came into effect. On that date exchange dealing in all Banco Sabadell shares then outstanding was suspended and the new shares issued as a result of the split were simultaneously admitted to trading.

The Bank's issued share capital at 31 December 2007 and 2006 was €153,001,710 divided into 1,224,013,680 registered shares with a nominal value of €0.125 each (306,003,420 registered shares with a nominal value of €0.50 in 2006). All shares are fully paid and are numbered consecutively from 1 to 1,224,013,680, both inclusive.

There were no changes in the total amount of the Bank's share capital in either 2007 or 2006.

The Bank's shares are quoted on the Madrid, Barcelona and Valencia stock exchanges via the automatic quotation system managed by Sociedad de Bolsas, S.A.

None of the other undertakings included in the consolidated accounts are quoted on any stock exchange.

The rights attaching to all equity instruments of the Bank are regulated by the Spanish companies legislation (Ley de Sociedades Anónimas). At an Annual General Meeting a shareholder may cast votes in proportion to his percentage holding in the share capital, subject to a limit of 10% of the total number of votes.

Details of significant shareholdings in Banco Sabadell (i.e. holdings amounting to 3% or more of the share capital or voting rights) at 31 December 2007 are provided in the following table:

Undertaking	Direct holding	Number of shares	Indirect shareholder
Mayor Vent, S.L. Unipersonal	5.490%	67,209,090	Isak Andic Ermay (1)
Jaipur Investment, S.L.	5.155%	63,099,260	Inversiones Hemisferio, S.L. (2)
Famol Participaciones, S.L.	5.000%	61,201,000	–
Fundo de Pensoes do Grupo BCP	4.969%	60,821,413	–
Unicredito Italiano, S,P,A	4.000%	48,960,548	–
Fenynton, S.L.	3.830%	46,889,824	–

(1) Holds 99.99% of Mayor Vent, S.L. Unipersonal.
(2) Holds 75% of Jaipur Investment, S.L.

Share premium

The balance of the share premium account at 31 December 2007 and 2006 was €1,373,270,000.

Reserves

€'000

	2007	2006
Restricted reserves:	**477,862**	**457,484**
Statutory reserve	30,600	30,600
Reserve for own shares pledged as security	405,719	383,195
Revaluation reserve	34,900	37,046
Reserve for investment in Canary Islands	6,530	6,530
Share redenomination reserve	113	113
Available reserves:	**1,880,938**	**1,243,161**
Reserves of equity-accounted undertakings	**21,460**	**22,479**
Total	**2,380,260**	**1,723,124**

The balance of the revaluation reserve set up pursuant to Royal Decree-Law 7/1996 was formally approved by the tax authorities on 28 April 2000 and may now be used:

a) to eliminate negative accounting results
a) to increase the share capital
a) as available reserves, on the expiry of ten years following the date of the balance sheet on which the asset revaluations were recorded.

As permitted by the Royal Decree Law and subsequent implementing provisions, on 7 June Europea de Inversiones y Rentas, S.L. transferred its revaluation reserves to voluntary reserves.

The contributions made by consolidated undertakings to group reserves are set out in the Annex.

Holdings of treasury shares

The Bank's holdings of shares in the parent company showed the following evolution during the year:

	No. of shares	Nominal value (€'000)	Average share price (€)	Proportion of total (%)
Balance at 31 December 2005	**0**	**0,00**	**0.00**	**0.00**
Purchases (1)	20,482,552	2,560,32	6.90	1.67
Sales (1)	20,258,000	2,532,25	6.94	1.66
Balance at 31 December 2006	**224,552**	**28,07**	**8.31**	**0.02**
Purchases	68,068,541	8,508,57	7.45	5.56
Sales	64,478,597	8,059,82	7.45	5.27
Balance at 31 December 2007	**3,814,496**	**476,81**	**7.69**	**0.31**

(1) Adjusted for the 4-for-1 share split carried out in May 2007.

Of the total sales in 2006, 59,427 were sold as part of the share exchange with minority shareholders in Banco Urquijo, S.A. after its absorption by Banco Sabadell.

This resulted in a profit and an increase in equity of €653,000 in 2007 (€1,280,000 in 2006).

At the close of the year a total of 54,752,965 shares of the Bank with a nominal value of €6,844,000 were pledged as security (45,201,468 shares, after adjusting for the split, with a nominal value of €5,650,000 at 31 December 2006).

Note 30. Contingent exposures

The breakdown of this item is as follows:

€'000

	2007	2006
Financial guarantees	7,574,590	8,218,834
Other contingent exposures	600	0
Total	**7,575,190**	**8,218,834**

Doubtful contingent exposures

The movement in the "doubtful contingent exposures" account was as follows:

€'000

Balance at 31 December 2005	**29,562**
Acquisition of Banco Urquijo group	539
Additions	15,995
Disposals	(34,661)
Balance at 31 December 2006	**11,435**
Additions	18,716
Disposals	(24,029)
Balance at 31 December 2007	**6,122**

The distribution of contingent exposures by geographical region at 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Spain	5,732	8,368
Other European Union	20	1,560
Latin America	180	920
Rest of world	190	587
Total	**6,122**	**11,435**

Provisions for credit risk in respect of doubtful contingent exposures were as follows:

€'000

	2007	2006
Exposures covered by specific provisions:	**6,151**	**7,856**
Provisions for credit risk	5,197	6,723
Provisions for country risk	954	1,133
Exposures covered by generic provisions	**82,869**	**86,713**
Total	**89,020**	**94,569**

Changes in these provisions, which are recorded in provisions on the liability side of the balance sheet, are shown in note 23.

Note 31. Contingent commitments

The composition of this item at 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Drawable by third parties	21,570,213	19,626,656
Credit institutions	260,916	165,990
General government	1,459,999	620,138
Other resident sectors	19,174,632	18,334,721
Non-resident sector	674,666	505,807
Financial asset forward purchase commitments	0	22,500
Regular way financial asset purchase contracts	92,734	270,696
Securities due for redemption	663	6,282
Other contingent commitments	1,628,372	1,777,501
Total	**23,291,982**	**21,703,635**

Among the more significant components of the "drawable by third parties" item at 31 December 2007 were commitments totalling €4,621,184,000 subject to debtor creditworthiness assessments in without-recourse factoring operations (€3,693,307,000 at 31 December 2006), and mortgage loan commitments amounting to €4,504,240,000 (€4,194,932,000 at 31 December 2006). The "other contingent commitments" category consisted mainly of guarantees of other types in line with the group's risk management policy.

Note 32. Off-balance sheet customer funds

Off-balance sheet customer funds under the group's management and funds sold but not managed by the group were of the following types:

€'000

	2007	2006
Under management by the group:	**17,924,580**	**18,645,374**
Investment companies and mutual funds	12,515,866	14,184,318
Pension funds	3,502,159	3,317,514
Asset management	1,906,555	1,143,542
Mutual funds sold but not managed by the group	**3,032,626**	**2,297,749**
Financial instruments deposited by third parties	**50,494,436**	**60,479,325**
Total	**71,451,642**	**81,422,448**

Net fees and commissions on these products are reported in the income statement under fees and commissions received and amounted to €230,288,000 in 2007 (€188,507,000 in 2006).

Note 33. Income statement

Some salient aspects of the group's income statement for the years 2007 and 2006 are highlighted in the tables that follow.

(a) Interest and similar income/charges and returns on equity instruments

The components of net interest income were as follows:

€'000

	2007	2006
Interest and similar income:	**3,688,780**	**2,476,719**
Cash and balances with central banks	27,343	14,648
Loans and advances to credit institutions	208,403	168,463
Loans and advances to other debtors	3,151,763	2,089,259
Debt securities	114,509	75,708
Doubtful assets	7,010	7,230
Rectification of income as a result of hedging transactions	131,977	85,015
Income from insurance contracts linked to pensions	32,620	31,346
Other interest	15,155	5,050
Returns on equity instruments	**25,682**	**22,153**
Total	**3,714,462**	**2,498,872**
Interest expense and similar charges:	**(2,397,225)**	**(1,401,001)**
Deposits from central banks	(11,690)	(16,495)
Deposits from credit institutions	(158,713)	(148,546)
Deposits from other creditors	(884,663)	(500,494)
Debt certificates including bonds	(1,114,546)	(645,325)
Subordinated liabilities	(106,177)	(68,489)
Rectification of income as a result of hedging transactions	(74,689)	19,430
Interest cost of pension funds	(31,009)	(30,282)
Remuneration of capital having the nature of a financial liability	(10,105)	(7,730)
Other interest	(5,633)	(3,070)
Total	**(2,397,225)**	**(1,401,001)**

(b) Fee and commission income

Fee and commission income from trading and for services was composed of the following:

€'000

	2007	2006
On contingent exposures	71,057	73,248
On contingent commitments	12,758	11,307
Foreign currency and banknote exchange	1,515	4,094
Collection and payment services	230,127	224,922
Securities-related services	81,399	67,738
Distribution of non-bank financial products	219,532	183,972
Other fee and commission expense	69,581	35,097
Total	**685,969**	**600,378**

Fee and commission expenses were as follows:

€'000

	2007	2006
Fees and commissions payable to correspondent and other banks	43,578	38,682
Other fee and commission expense	12,183	11,435
Total	**55,761**	**50,117**

(c) Insurance activities

This component of the income statement was made up of the following:

€'000

	2007	2006
Insurance and reinsurance premiums received and paid	1,490,616	1,371,645
Benefits paid and other insurance-related expenses	(1,339,831)	(984,350)
Net provisions for liabilities under insurance contracts	(207,625)	(457,453)
Finance income (net)	135,237	129,970
Total	**78,397**	**59,812**

The totals shown in the table for the years 2007 y 2006 include the income before tax from the underwriting and other results of the enterprises forming part of the group's insurance business (and therefore include all finance income and expense receivable or payable by them), not counting the operating expenses of those undertakings. These operating expenses are accounted for under the relevant headings of the consolidated income statement.

(d) Gains or losses on financial assets and liabilities (net)

The composition of this item of the consolidated income statement for the years to 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Held for trading	34,895	20,776
Available-for-sale financial assets	57,370	24,856
Loans and receivables	100	(629)
Hedging derivatives and other gains/losses	992	(8,605)
Total	**93,357**	**36,398**
Analysis by type of financial instrument:		
Net gains/(losses) on debt securities	13,306	600
Net gains/(losses) on equity instruments	61,714	30,858
Net gains/(losses) on derivatives contracts	18,237	5,569
Other net gains/(losses)	100	(629)
Total	**93,357**	**36,398**

(e) Income from non-financial services and costs of sales

Sales and other income from non-financial services include sales of goods and income from services associated with the ordinary operations of non-financial undertakings that do not qualify for inclusion in the consolidated financial services group. Costs of sales include the costs attributable to sales of goods and services sold or provided as part of the ordinary business of such undertakings.

(f) Personnel expenses

The personnel expenses item of the income statement was composed of the following:

€'000

	2007	2006
Salaries and bonuses of current employees	476,616	423,417
Social security contributions	98,900	92,353
Pensions	20,776	20,630
Other costs	102,601	69,282
Total	**698,893**	**605,682**

The average number of staff employed by all group undertakings in 2007 was 10,222 (9,843 in 2006).

The gender and category split of group employees at 31 December 2007 and 2006 was as follows:

Number of employees

	2007		2006	
	Men	Women	Men	Women
Technical/specialist	4,282	2,629	4,268	2,260
Administrative	1,396	1,927	1,522	2,016
Total	**5,678**	**4,556**	**5,790**	**4,276**

(g) Other administrative expenses

€'000

	2007	2006
IT and systems	66,881	71,457
Communications	23,380	23,150
Advertising	29,037	22,916
Premises, fittings and equipment	64,444	62,652
Printing and office supplies	9,620	6,704
Taxes	47,016	43,866
Other expenses	85,767	77,872
Total	**326,145**	**308,617**

A total of €626,000 in fees was paid to PricewaterhouseCoopers Auditores, S.L. for auditing and other services in Spain in the year 2007 (€856,000 in 2006), plus a further €361,000 for services relating to foreign branches and subsidiaries in 2007 (€278,000 in 2006).

Fees totalling €62,000 were paid to other auditors for auditing services in Spain in 2007 (€247,000 in 2006), plus another €186,000 for services relating to foreign branches and subsidiaries in 2007 (€114,000 in 2006).

Fees for other services provided by PricewaterhouseCoopers Auditores, S.L. and other firms in the same group amounted to €929,000 in 2007 (€413,000 in 2006).

Fees paid to other auditors for other services amounted to €2,424,000 in 2007 (€1,572,000 in 2006).

(h) Other operating expenses

The "other operating expenses" item was made up almost entirely of the group's contribution to the Deposit Guarantee Fund.

(i) Impairment losses (net)

The composition of this item of the consolidated income statement for the years to 31 December 2007 and 2006 was as follows:

€'000

	2007	2006
Available-for-sale financial assets	1,531	2,467
Loans and receivables	189,741	241,777
Non-current assets held for sale	1,455	68
Investments	6,749	0
Tangible assets	3,320	444
Goodwill	0	8,268
Other intangible assets	9,624	1,757
Total	**212,420**	**254,781**

(j) Profit from discontinued operations (net)

There were no profits from discontinued operations in 2007. For the year to 31 December 2006 the composition of this item of the income statement was as follows:

€'000

	2006
Interest and similar income	(8,842)
Interest expense and similar charges	(2,037)
Returns on equity instruments	1
Share of profit or loss of equity-accounted undertakings	(36)
Fee and commission income	1,250
Fee and commission expense	(244)
Gains or losses on financial assets and liabilities (net)	48
Foreign exchange differences (net)	61
Sales and income from non-financial services	250,239
Cost of sales	(175,861)
Other operating income	(118)
Personnel expenses	(4,420)
Other administrative expenses	(2,201)
Depreciation and amortization	(8,645)
Impairment losses (net)	306
Provisioning expense (net)	7
Finance income from non-financial activities	12,216
Finance expenses of non-financial activities	(38,829)
Other gains	774,520
Other losses	(2,126)
Income tax	(240,458)
Total	**554,831**

The results of these operations in 2006 related almost entirely to the Landscape Group businesses. The associated basic earnings per share were €1.81 (€0.45 adjusted for the May 2007 share split).

As in the case of profits, no cash flows were generated from discontinued operations in 2007. Cash flow generation for discontinued operations in 2006 was as follows:

€'000

	2006
Contribution to group results	**554,831**
Adjustment to profit or loss:	**(523,744)**
Depreciation/amortization of assets (+)	8,645
Impairment losses (net) (+/-)	(306)
Provisioning expense (net) (+/-)	(7)
Gains/losses on disposal of tangible assets (+/-)	0
Gains/losses on disposal of investments (+/-)	(772,534) (*)
Taxes (+/-)	240,458 (*)
Other non-monetary items (+/-)	0
Adjusted profit or loss	**31,087**
Net increase/decrease in operating assets	**85,538**
Total net cash flows from operating activities	**116,625**
Total net cash flows from investing activities	**(63,026)**
Total net cash flows from financing activities	**(5,194)**
Net increase/decrease in cash or cash equivalents	**48,405**

(*) These items are included in "other non-monetary items" in the consolidated cash flow statement.

Note 34. Taxation (income tax)

Undertakings treated as consolidated for tax purposes

Banco de Sabadell, S.A. is the dominant company of a group treated as consolidated for tax purposes which includes all Spanish-resident group undertakings that qualify as dependent companies under Spanish regulations on the taxation of the consolidated income of corporate groups.

Undertakings treated as part of the group for tax purposes are shown in the Annex.

All other group companies submit individual tax returns in accordance with the applicable tax regulations.

Reconciliation

The reconciliation of the difference between the accounting results for the years 2007 and 2006 and the assessed income for corporation tax purposes is as follows:

€'000

	2007	2006
Profit before tax	989,840	629,781
Increases in taxable income	210,797	175,924
Reductions in taxable income	(258,806)	(248,375)
Assessed income for tax purposes	**941,831**	**557,330**
Tax (at 32.5% in 2007 and 35% in 2006)	**306,095**	**195,066**
Double taxation, training and other allowances	(42,264)	(20,322)
Net tax payable	**263,831**	**174,744**
Tax due to timing differences (net)	(20)	11,018
Adjustments due to changes in tax regulations (1)	(3,324)	96,535
Other adjustments (net)	(58,259)	(8,990)
Income tax	**202,228**	**273,307**

(1) An adjustment against profit and loss was included under this heading in 2006 as required by Law 35/2006, which changed the tax rates that would apply in subsequent years.

Among the new tax provisions of Law 35/2006 of 28 November were changes to the corporation tax rules, including a reduction in the tax rate from 35% in 2006 to 32.5% in 2007 and 30% from 2008 onwards. In 2006, since group companies had previously recognized deferred tax assets and liabilities based on timing adjustments to the corporation tax at a rate of 35%, and future reversals would be at a lower rate (the accounting rules require that possible future losses be recognized at the time they become known), an adjustment was made for those losses in 2006 and charged to the income statement.

The amount of the adjustment for deferred tax items in 2006 was based on the total amount of the adjustments to be made at 31 December 2006, to which a reduction of 2.5% in the tax rate was applied for anticipated reversals in 2007 and a reduction of 5% for the remainder. Income tax adjustments in the year 2007 are based on the deferred tax items to be reversed at 31 December.

As a result of the sale of Landscape Promocions Immobiliàries, S.L. and Atlántico Holdings Financial Ltd. in 2006, a tax charge on the sale of these undertakings of €239,932,000 was included in profit from discontinued operations.

Taxable income - increases and reductions

The increases and reductions in taxable income shown in the previous table are analysed in the following table on the basis of whether they arose from temporary or permanent differences.

€'000

	2007	2006
Permanent differences	5,175	3,612
Temporary differences arising in the current year	191,884	159,662
Temporary differences arising in earlier years	13,738	12,650
Increases	**210,797**	**175,924**
Permanent differences	(53,247)	(44,583)
Temporary differences arising in the current year	(519)	(37,503)
Temporary differences arising in earlier years	(205,040)	(166,289)
Reductions	**(258,806)**	**(248,375)**

Tax assets - deferred

This caption shows the amount reclaimable from the Spanish Treasury in respect of deferred tax assets. These arise primarily from deferred tax due to differences between accounting and tax assessment procedures. The differences relate to non-tax deductible provisions totalling €353,426,000 (€275,127,000 in 2006), transfers into pension funds totalling €139,040,000 (€109,906,000 in 2006) and merger reserves of €181,957,000 (€178,236,000 in 2006). Deferred tax assets for 2006 also include €67,764,000 arising from the integration of Banco Urquijo and others due to consolidation adjustments. The remaining deferred tax assets are made up sundry amounts to be recovered from the Spanish tax authorities.

Changes in deferred tax assets in 2007 and 2006 were:

€'000

Balance at 31 December 2005	**728,253**
Acquisition of Banco Urquijo group	78,997
Intragroup transactions	568
Pension funds	(19,405)
Non-tax deductible reserve funds	35,918
Merger reserves	(11,843)
Recognition of loan arrangement fees	(9,628)
Change in corporation tax rate	(113,536)
Change in valuation adjustments	(321)
Advance tax payments for foreign branches	2,136
Accelerated depreciation	(1,558)
Consolidation adjustments	(5,364)
Other movements	822
Balance at 31 December 2006	**685,039**
Intragroup transactions	296
Pension funds	(18,679)
Non-tax deductible reserve funds	22,867
Merger reserves	(10,984)
Recognition of loan arrangement fees	(2,921)
Change in corporation tax rate	825
Advance tax payments for foreign branches	351
Accelerated depreciation	1,078
Other movements	(1,710)
Balance at 31 December 2007	**676,162**

Tax liabilities - deferred

This consists of amounts payable to the Spanish Treasury in respect of deferred tax liabilities. These liabilities include deferred tax charges due to accelerated depreciation as permitted by the tax regulations, and reversals of deferred tax totalling €9,712,000 (€8,000,000 in 2006) in relation to mergers, €58,000 (€2,698,000 in 2006) in respect of intragroup transactions, and €48,293,000 (€81,428,000 in 2006) due to consolidation adjustments.

Deferred tax liabilities for 2006 include, in addition, an amount of €53,900,000 arising from the integration of Banco Urquijo.

Changes in deferred tax liabilities in the last two years were as follows:

€'000

Balance at 31 December 2005	**132,612**
Acquisition of Banco Urquijo group	53,900
Free depreciation	(264)
Intragroup transactions	312
Mergers	(4,334)
Deferred tax charges applicable to foreign branches	(78)
Valuation adjustments	(3,037)
Consolidation adjustments	2,174
Change in corporation tax rate	(17,001)
Other movements	(8)
Balance at 31 December 2006	**164,276**
Free depreciation	(2)
Intragroup transactions	(2,640)
Changes in securities revaluation reserve	792
Mergers	2,356
Deferred tax charges applicable to foreign branches	(715)
Valuation adjustments	(12,695)
Transfer of business	(4,135)
Asset restatements	(667)
Consolidation adjustments	(22,465)
Change in corporation tax rate	(2,499)
Other movements	75
Balance at 31 December 2007	**121,681**

The amount payable to the Spanish Treasury is shown under current tax liabilities.

Deductions

Deductions include €32,408,000 (€15,618,000 in 2006) deducted under article 42 of the Corporation Tax Law, as amended (Deduction of tax on reinvestment of extraordinary gains), in respect of gains totalling €201.622,000 (€259,741,000 in 2006) reinvested by undertakings forming part of the group for tax purposes.

Tax audits

On 24 January 2007 the tax inspectorate commenced an audit of the Banco Urquijo S.A. group of companies, which were merged with Banco de Sabadell, S.A. in December 2006, for the 2002-2004 tax years. The audit was still in progress at the close of the year.

As a result of earlier inspections by the tax authorities, audit reports had been issued and were contested both by the group and by the acquired and subsequently merged companies. The total tax demand amounted to €33,892,000, of which €13,259,000 was due to timing differences in the assessment for corporate income tax. All of the audit reports have been contested.

The Group has, of course, made suitable provision for any contingencies that might arise in relation to these tax assessments.

Tax liabilities of a contingent nature could arise as a result of different possible interpretations of the tax rules applicable to certain types of transaction within the banking industry. However, in the opinion of the Bank and its independent advisors, the possibility of such liabilities arising is remote, and if they did arise they would not be such as to have any significant impact on the annual accounts.

All companies treated as part of the consolidated group for tax purposes are liable to be inspected for any tax for which the statutory time limit has not expired.

Note 35. Segment reporting

(a) Segmentation policy

Segmental information has been provided first for the group's business units, and then on a regional basis.

The business units described below were set up under the group organizational structure existing at the end of the year 2007. For customer-facing businesses (Commercial Banking, Corporate Banking and Banco Urquijo), segmentation is based on the type of customer addressed by those units. "Cross selling" units (Bancassurance and Asset Management) are businesses offering specialized products which are sold through the group's branch network.

(b) Presentation principles and methods

Information for each business unit is based on the individual accounting records of each group undertaking, after all consolidation eliminations and adjustments have been made, and on an analytical accounting for income and expense where particular business lines are allocated to one or more corporate entities. The income and expense for each customer can thus be assigned according to the business to which they relate.

Each business unit is treated as a separate business. Where services are provided by one business unit to another (distribution of products, services, systems, etc.) inter-unit pricing applies. The impact of this on the group's income statement is nil.

Each business pays the direct costs allocated to it through generic and analytical accounting, as well as indirect costs attributable to Central Services units.

Capital is allocated in such a way that each business unit has the equivalent of the regulatory capital required to cover its risk exposure. This minimum regulatory capital is allocated by reference to the supervisory authority for each business (the Bank of Spain for customer-facing businesses, the National Stock Market Commission for Asset Management and the Directorate-General for Insurance in the case of Bancassurance).

Key data for each business unit are shown in the following table:

31.12.2007	Net operating income (€'000)	Profit before before tax (€'000)	Average total assets (€'000)	ROE	Cost: income ratio	Employees	Branches in Spain
Commercial Banking	527,929	469,263	26,911,119	21.1%	52.0%	6,627	1,142
Corporate Banking	525,093	407,026	29,736,465	11.5%	21.2%	1,156	66
Banco Urquijo	31,719	29,844	1,460,655	20.8%	49.9%	267	17
Bancassurance	69,687	70,818	3,816,523	30.2%	18.3%	104	–
Asset Management	37,226	37,226	37,979	135.4%	30.0%	155	–

31.12.2006	Net operating income (€'000)	Profit before before tax (€'000)	Average total assets (€'000)	ROE	Cost: income ratio	Employees	Branches in Spain
Commercial Banking	444,606	376,238	23,529,860	17.6%	53.3%	6,532	1,107
Corporate Banking	399,899	245,870	22,242,714	8.2%	23.0%	1,140	63
Banco Urquijo	13,384	10,522	475,777	17.9%	40.2%	267	17
Bancassurance	53,168	54,166	3,050,193	24.5%	22.9%	89	–
Asset Management	26,615	26,615	21,797	145.5%	25.4%	144	–

The differences between the amounts shown above and the totals in the consolidated group accounts relate to Central Services, investee companies, internal pricing offset accounts and extraordinary income and expense.

Average total assets for the group as a whole at 31 December 2007 were €73,162,349,000 compared with €61,402,302,000 a year earlier.

Note 36. Financial risk management

The main financial risks faced by the Banco Sabadell Group in the course of its operations involving the use of financial instruments are credit risk, market risk and liquidity risk.

The group is aware that the accurate and efficient management and control of risk ensures that shareholder value is maximized and that an appropriate degree of solvency is maintained in a context of sustainable growth.

With this in view, the management and control of risk has been embodied in a broad framework of principles, policies, procedures and advanced valuation methods, forming an efficient decision-taking structure whose aim is to achieve an optimum balance of return and risk.

Underlying principles

The Banco Sabadell group has laid down basic principles for the management and control of risk. These are described in the following paragraphs.

- **Solvency.** Banco Sabadell has opted for a prudent and balanced policy on risk to ensure sustained and profitable business growth in line with the strategic targets set by Banco Sabadell and the group for maximum value creation. It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant proportion of the Bank's capital resources. For this reason, the risk variable is taken into account in decisions at every level and is quantified according to a single measure: economic capital.
- **Responsibility.** The Board of Directors is committed to maintaining processes for the management and control of risk: drawing up policies, setting limits and responsibility thresholds at lower levels of management, and approving risk management models and procedures and a methodology by which risk can be measured, monitored and controlled. At the executive level there is a clear separation of functions between risk-originating business units and the functions responsible for managing and controlling risk.
- **Monitoring and control.** The ongoing management of risk is supported by robust control procedures to ensure compliance with specified limits, clearly defined responsibilities for monitoring indicators and predictive alerts, and the use of an advanced risk assessment methodology.

Credit risk

Credit risk is the possibility that losses may be incurred as a result of default by obligors of financial instruments held by the group.

Credit risk exposure is subjected to rigorous monitoring and control through regular reviews of borrowers' creditworthiness and their ability to meet their obligations to the group, with exposure limits for each counterparty being adjusted to levels deemed to be acceptable. Exposure to credit risk is usually mitigated by requiring the borrower to provide collateral or other security to the Bank.

The group makes provisions to cover against credit risk, both in respect of specific losses actually incurred at the balance sheet date and for losses considered likely in the light of past experience. This is done in such a way as to ensure that losses could not exceed loss provisions even in the event of a major change in economic conditions or in borrower quality.

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

The relationship manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking, while the risk analyst takes a more system-based approach based on his specialized knowledge.

The Board of Directors delegates powers and discretions to the Risk Control Committee, which then sub-delegates authority at each level. The implementation of authority thresholds on credit approval management systems ensures that powers delegated at each level are linked to the expected loss calculated for each transaction of every corporate customer on the system.

The establishment of advanced methodologies for managing risk exposures (in line with the New Basel Capital Accord - NBCA - and best practice) also benefits the process in ensuring that proactive measures can be taken once a risk has been identified. Of vital importance in this process are risk assessment tools such as credit rating for corporate borrowers and credit scoring for retail customers, as well as indicators that serve as advance alerts in monitoring risk.

Recovery of past-due accounts is the responsibility of a specialized function which coordinates initial out-of-court negotiations and, where necessary, legal proceedings conducted by the group's legal department or by independent legal advisors depending on the nature and size of the debt.

The year-end carrying values of financial assets involving credit risk exposures, analysed by asset type, counterparty type and instrument type, and for domestic and foreign operations, are set out in the table that follows. These values give a good indication of maximum exposure to credit risk since they show the maximum level of indebtedness of borrowers at the close of each year.

€'000

Credit risk exposure	2007 Spanish operations	2007 Foreign operations	2007 Total	2006 Spanish operations	2006 Foreign operations	2006 Total
Cash and deposits with central banks	**1,193,468**	**27,295**	**1,220,763**	**882,468**	**22,283**	**904,751**
Loans and advances to credit institutions	**3,268,164**	**308,112**	**3,576,276**	**6,615,246**	**290,639**	**6,905,885**
Doubtful assets	*718*	*561*	*1,279*	*600*	*561*	*1,161*
Money market operations	**0**	**0**	**0**	**0**	**0**	**0**
Loans and advances to other debtors	**61,596,301**	**1,623,559**	**63,219,860**	**54,526,425**	**1,130,766**	**55,657,191**
General government	247,620	20,899	268,519	139,693	5,758	145,451
Doubtful assets	*2,197*	*0*	*2,197*	*2,287*	*0*	*2,287*
Other private sector	61,348,681	1,602,660	62,951,341	54,386,732	1,125,008	55,511,740
Doubtful assets	*312,264*	*9,765*	*322,029*	*233,015*	*2,660*	*235,675*
Debt securities	**4,647,551**	**178,393**	**4,825,944**	**3,009,656**	**103,524**	**3,113,180**
Central banks	0	0	0	0	0	0
General government	1,895,199	12,050	1,907,249	1,510,937	13,383	1,524,320
Credit institutions	1,956,447	93,565	2,050,012	1,049,625	84,846	1,134,471
Other private sector	795,859	72,778	868,637	449,043	5,295	454,338
Doubtful assets	46	0	46	51	0	51
Trading derivatives	**259,939**	**1,585**	**261,524**	**106,860**	**517**	**107,377**
Hedging derivatives	**345,774**	**177**	**345,951**	**317,821**	**(230)**	**317,591**
Total	**71,311,197**	**2,139,121**	**73,450,318**	**65,458,476**	**1,547,499**	**67,005,975**

In line with current market developments the Banco Sabadell group enters into agreements to set up netting arrangements with most of the counterparties with which it trades in derivative instruments and has agreed a number of Credit Support Annexes (CSAs). Both these measures are designed to mitigate the group's exposure to credit risk. Security deposits held by Banco Sabadell by way of collateral at the end of 2007 totalled €195,430,000 (€16,260,000 at the end of 2006).

The group also has exposures and commitments to borrowers of a contingent nature. These generally arise from guarantees given by the group or commitments under credit facilities extended to customers for up to a given limit so that they have access to funds when required. These facilities also involve credit exposure and are subject to the same processes of approval, monitoring and control as described above.

An analysis of the group's loans and advances on a segmental and sectorial basis is given in the following table:

%

	2007	2006
Agriculture, livestock and fisheries	1	1
Industry	21	20
Construction	4	5
Real estate development	13	13
Services and other	35	36
Residential mortgages	22	21
Other loans to individuals	4	4
Total	**100**	**100**

The breakdown of loans and advances according to areas where credit risk originates is as follows:

%

	2007	2006
Spain	90	90
Other European Union	6	7
USA and Canada	1	1
Other OECD	2	0
Latin America	0	1
Rest of world	1	1
Total	**100**	**100**

The regional distribution of loans and advances to Spanish resident borrowers is shown in the following table:

%

	2007	2006
Catalonia	40	40
Madrid	15	15
Community of Valencia	6	6
Balearic Islands	2	2
Asturias	4	5
Basque Country	2	2
Castile-León	2	2
Andalucia	6	6
Other regions	23	22
Total	**100**	**100**

The credit quality of financial assets held by the Banco Sabadell group may be inferred from its loan loss ratios which, as the next table shows, have reached historically low levels:

%

	2007	2006	2005
Loan loss ratio	0.47	0.39	0.49
Loan loss coverage ratio	394.29	466.56	383.07

As mentioned earlier, the group uses internally generated models to rate most of the borrowers (or transactions) with whom it incurs credit exposure. These models have been designed in accordance with best practice as proposed by the NBCA. However, not all asset portfolios giving rise to credit risk are subject to these models, partly because the design of such models demands a certain degree of experience of actual cases of default. To give a clear view of the overall quality of the portfolio, the following table uses risk categories defined in the financial reporting standards laid down by the Bank of Spain's Circular 4/2004. These categories are used to analyse credit risks to which the group is exposed and to estimate provisioning requirements to cover against impairment losses in portfolios of debt instruments.

€'000

Credit quality of financial assets	2007	2006
Negligible risk	9,874,821	10,895,341
Low risk	12,879,834	11,592,211
Medium-low risk	25,685,732	21,210,572
Medium risk	21,326,194	20,215,817
Medium-high risk	1,063,424	1,044,201
High risk	475,469	430,983
Total	**71,305,474**	**65,389,125**

The following table shows the distribution of the group's credit risk according to how risks were assessed in credit rating or credit scoring terms, for the most significant types of lending. It can be seen from the table that the proportion of exposures rated higher than BBB- was 80.19% (82.95% in 2006).

%

Analysis of risk exposures by credit rating	Measured by credit rating/scoring 2007	2006
AAA / AA+	5.11	5.27
AA	1.05	2.10
AA-	2.22	5.83
A+	7.11	5.52
A	6.92	8.60
A-	12.79	10.77
BBB+	22.75	22.42
BBB	12.97	12.54
BBB-	9.27	9.88
BB+	9.76	7.70
BB	4.51	3.68
BB-	4.05	3.79
B+	0.72	0.76
B	0.44	0.32
B-	0.27	0.67
CCC+	0.06	0.15
Total	**100.00**	**100.00**

Market risk

Market risk arises from the possibility of a loss in the value of a position or financial instrument held by the group due to changing market conditions such as movements in equity prices, interest rates or exchange rates.

Different approaches are taken to the management of market risk, depending on which of the group's main business lines has given rise to the risk:

- Risks arising from the group's customer-focused commercial banking and corporate banking businesses, known as structural risk. This can be sub-classified into interest rate risk, currency risk and liquidity risk. These categories of risk are discussed separately below.
- Risks generated through proprietary trading or market making activities by group undertakings, including trading in equities, bonds or derivatives. Trading of this kind will often be undertaken as part of treasury and capital market operations, with which this section is specifically concerned.

Discretionary market risk is measured by the VaR (Value at Risk) method, which allows the risks on different types of financial market transaction to be analysed as a single class. The VaR method provides an estimate of the potential maximum loss on a position that would result from an adverse, but normal, movement in any of the above risk factors. This estimate is expressed in monetary terms and is calculated at a specified date, to a specified confidence level and over a specified time horizon.

Market risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits assigned to each unit are sent to the risk control functions. Limits are assigned by the Board of Directors for each risk monitoring unit (i.e. notional amount, VaR or sensitivity limits as applicable). This makes it possible to keep track of changes in exposure levels and to measure the contribution of each risk factor.

Risk control of this kind is supplemented by special 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 VaR estimates are consistent with the specified confidence level. Using the VaR methodology does not, however, rule out the possibility that losses will be above the set limits, as significant market movements may occur that exceed the confidence levels being applied.

Risk levels for 2007 and 2006 as measured by the 10-day VaR at a 99% confidence level were as follows:

€ million

	2007			2006		
	Average	Maximum	Minimum	Average	Maximum	Minimum
Interest rate risk	1.12	3.38	0.62	0.60	2.97	0.33
Currency risk	0.07	0.17	0.00	0.02	0.11	0.00
Equity risk	4.03	6.94	2.81	3.43	5.28	1.60
Aggregate VaR	**5.22**	**8.32**	**3.95**	**4.05**	**8.09**	**2.00**

Interest rate risk

Changes in interest rates can affect financial instruments held by the group in two ways: through changes in their value and through changes in their future cash flows.

As a holder of both these kinds of instrument, the group is subject to both of these types of exposure to unexpected interest rate movements. Such movements may ultimately translate into unforeseen changes in net interest income if, as is common in banking, there are temporary mismatches in the maturity or repricing dates of asset, liability or off-balance sheet exposures.

Interest rate risk is managed on a consolidated basis for the whole group. This task is performed by the Asset and Liability Committee, although separate but coordinated risk management is also carried out within individual companies and areas of business such as insurance. The management of interest rate risk involves proposing alternative business or hedging strategies to ensure that business objectives are appropriate to market conditions and the group's asset position, and that the limits set by the Board are strictly observed.

A number of methodologies are used to measure interest rate risk, allowing a more flexible approach to be taken. One of these methodologies is to measure the sensitivity of net interest income to changes in interest rates over a one-year horizon on a maturity and repricing matrix. In this technique the carrying values of financial assets and liabilities are grouped according to their maturity dates or the dates on which their rates of interest are reviewed, whichever is nearer in time. In this particular type of analysis the maturity or repricing dates are the same as those fixed by contract and no other assumptions are made. The analysis allows an estimate to be made of the effect that a change in interest rates would have on net interest income, assuming that all rates change by the same amount and in a sustained manner. An analysis of interest rate sensitivity at 31 December 2007 and 2006 is presented in the following table:

€'000

31.12.2007	1 month or less	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Not sensitive	Total
Loans and advances	15,214,863	21,298,712	27,111,226	502,864	343,827	222,489	149,119	468,060	8,235	65,319,395
Money market	2,293,833	54,859	76,065	0	0	0	0	0	10,999	2,435,756
Capital market	1,474,284	81,344	547,310	246,687	8,336	291,640	283,077	1,248,941	1,781	4,183,400
Other assets	39,896	0	0	0	0	0	0	0	4,797,555	4,837,451
Total assets	**19,022,876**	**21,434,915**	**27,734,601**	**749,551**	**352,163**	**514,129**	**432,196**	**1,717,001**	**4,818,570**	**76,776,002**
Customer accounts	15,942,463	9,107,427	9,184,988	358,634	226,553	44,946	5,531,928	434,595	0	40,831,534
Money market	2,385,035	116,870	76,329	0	0	0	0	3,532	0	2,581,766
Capital market	4,699,546	10,174,268	1,412,055	473,687	56,231	1,293,065	34,084	6,985,676	0	25,128,612
Other liabilities	79,522	0	0	0	0	0	0	0	8,154,568	8,234,090
Total liabilities	**23,106,566**	**19,398,565**	**10,673,372**	**832,321**	**282,784**	**1,338,011**	**5,566,012**	**7,423,803**	**8,154,568**	**76,776,002**
Hedging derivatives	**(6,560,719)**	**(3,226,522)**	**1,120,256**	**659,560**	**207,999**	**1,212,331**	**293**	**6,586,802**	**0**	**0**
Interest rate sensitivity gap	**(10,644,409)**	**(1,190,172)**	**18,181,485**	**576,790**	**277,378**	**388,449**	**(5,133,523)**	**880,000**	**(3,335,998)**	**0**

€'000

31.12.2006	1 month or less	From 1 to 3 months	From 3 to 12 months	From 1 to 2 years	From 2 to 3 years	From 3 to 4 years	From 4 to 5 years	More than 5 years	Not sensitive	Total
Loans and advances	13,419,086	18,379,817	24,529,726	491,478	246,269	172,603	104,820	413,493	0	57,757,292
Money market	2,356,610	187,785	31,698	1,748	0	0	0	0	4,581	2,582,422
Capital market	2,479,368	102,256	124,211	73	242,447	520	283,158	669,145	0	3,901,178
Other assets	453	0	0	0	0	0	0	0	8,538,488	8,538,941
Total assets	**18,255,517**	**18,669,858**	**24,685,635**	**493,299**	**488,716**	**173,123**	**387,978**	**1,082,638**	**8,543,069**	**72,779,833**
Customer accounts	15,411,391	6,142,529	4,854,857	4,357,159	3,766,663	933,296	791,094	535,523	0	36,792,512
Money market	747,226	97,345	239,551	0	0	0	0	0	0	1,084,122
Capital market	4,555,231	11,932,155	1,071,177	33,879	27,133	19,151	1,279,646	5,470,436	0	24,388,808
Other liabilities	64,745	0	0	0	0	0	0	0	10,449,646	10,514,391
Total liabilities	**20,778,593**	**18,172,029**	**6,165,585**	**4,391,038**	**3,793,796**	**952,447**	**2,070,740**	**6,005,959**	**10,449,646**	**72,779,833**
Hedging derivatives	**(4,601,706)**	**(3,447,901)**	**1,239,810**	**791,842**	**119,052**	**104,673**	**953,236**	**4,840,994**	**0**	**0**
Interest rate sensitivity gap	**(7,124,782)**	**(2,950,072)**	**19,759,860**	**(3,105,897)**	**(3,186,028)**	**(674,651)**	**(729,526)**	**(82,327)**	**(1,906,577)**	**0**

The term structure shown in the table is typical for a bank with commercial banking as its main activity, with gaps or mismatches that are negative in the very short term, positive for terms of up to one year (reflecting the loan components of the portfolio) and negative for long term or not sensitive instruments (reflecting the liability balances held in current accounts). The matrix also shows the effects that hedging instruments have in altering the term profile of the Group's exposure to interest rate risk.

Sensitivity gap analysis is supplemented by a simulation technique which measures the effect of different interest rate movements at different maturities, i.e. 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 technique is to measure the sensitivity of equity to changes in interest rates by duration gap analysis. This measures the effect of interest rate changes over a longer time horizon.

The sensitivity of net interest income and equity, in relative terms in the latter case, to a change of 100 basis points (1%) in euro interest rates would be €39 million and 0.70% respectively (1.99% in 2006). The main assumption used in making this estimate is to take the estimated average term for current accounts as two and a half years even though, contractually speaking, balances in current accounts can be withdrawn at any time. This assumption is consistent with the observation that balances in current accounts can normally be expected to remain stable. Another assumption that is made is to exclude all possible maturities other than those fixed by contract, that is, such scenarios as early repayment or requests for early redemption are not taken into account. Finally, it is assumed that the change of 100 basis points in interest rates is immediate and sustained throughout the time horizon. A change of this size is itself hypothetical as there is nothing to indicate that this particular change should be expected. It has been used for illustrative purposes only.

Currency risk

Currency risk is the possibility of losses being incurred due to changes in the prices of currencies in which financial instruments are denominated, and results from the taking of matched open asset and liability positions.

The group's structural foreign currency exposure remained stable throughout 2007 and comprised long-term investments in foreign branches and subsidiaries.

The group's foreign currency exposure is not significant and is generally linked to activities to support customer-focused operations. A summary of the group's exposure to the main foreign currencies is provided in note 26.

The Board of Directors sets overall daily exposure limits for intraday positions (positions resulting from all transactions up to a particular time within a single day) and overnight positions (positions reached at the end of the day). These limits are monitored on a daily basis.

Liquidity risk

Liquidity risk is defined as the possibility of the group being unable to meet payment commitments, even if only temporarily, due to a lack of liquid assets or of its being unable to access the markets to refinance debts at a reasonable cost. This may be caused by external factors such as a financial market downturn, a systemic crisis or reputational issues, or internally, by an excessive concentration of maturing liabilities.

The group is exposed to daily demands on its available cash resources to meet contractual obligations related to financial instruments, such as maturing deposits, drawdowns of credit facilities, settlements on derivatives and so on. Experience shows, however, that only a minimum amount is ever actually required and this can be predicted with a high degree of confidence.

Limits are set by the Board of Directors for the maintenance of minimum cash levels and for levels of structural borrowing. The group monitors changes in its liquid asset position on a daily basis and holds a diversified portfolio of such assets. It also carries out yearly projections to anticipate future needs.

In addition, a review is carried out of gaps or mismatches between cash inflows and outflows over a short, medium and long time horizon using a maturity matrix based on the time remaining between the date to which the financial statements were made up and the contract maturity date of assets and liabilities.

An important assumption made when preparing the matrix presented below is that assets and liabilities will mature on their contract maturity dates. For assets and liabilities on which payments are made over a period of time, the remaining maturity is assumed to be the time from 31 December 2007 to the due date of each payment.

The maturity matrix at 31 December 2007 and 2006 is as follows:

€'000

31.12.2007	1 month or less	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Sub-total	No fixed maturity	Total
Loans and advances	5,530,244	7,796,311	17,696,475	18,074,988	16,211,107	65,309,125	10,272	65,319,397
Money market	2,292,300	54,859	76,065	0	0	2,423,224	12,532	2,435,756
Capital market	2,953,258	49,144	443,317	67,494	665,600	4,178,813	4,585	4,183,398
Other assets	39,896	0	0	0	0	39,896	4,797,555	4,837,451
Total assets	**10,815,698**	**7,900,314**	**18,215,857**	**18,142,482**	**16,876,707**	**71,951,058**	**4,824,944**	**76,776,002**
Customer accounts: demand deposits	0	0	0	0	0	0	15,357,626	15,357,626
Other customer accounts	9,911,015	6,519,283	7,837,663	740,229	465,720	25,473,910	0	25,473,910
Money market	2,385,035	116,870	76,329	0	3,532	2,581,766	0	2,581,766
Capital market	24,319	1,609,382	3,345,690	8,073,234	12,075,986	25,128,611	0	25,128,611
Other liabilities	0	0	0	0	0	0	8,234,089	8,234,089
Total liabilities	**12,320,369**	**8,245,535**	**11,259,682**	**8,813,463**	**12,545,238**	**53,184,287**	**23,591,715**	**76,776,002**
Liquidity gap	**(1,504,671)**	**(345,221)**	**6,956,175**	**9,329,019**	**4,331,469**	**18,766,771**	**(18,766,771)**	**0**

€'000

31.12.2006	1 month or less	From 1 to 3 months	From 3 to 12 months	From 1 to 5 years	More than 5 years	Sub-total	No fixed maturity	Total
Loans and advances	3,939,440	5,425,527	9,027,837	17,604,100	21,760,388	57,757,292	0	57,757,292
Money market	2,356,610	187,785	31,698	1,748	0	2,577,841	4,581	2,582,422
Capital market	2,479,368	69,564	18,589	541,989	791,666	3,901,176	0	3,901,176
Other assets	453	0	0	0	0	453	8,538,490	8,538,943
Total assets	**8,775,871**	**5,682,876**	**9,078,124**	**18,147,837**	**22,552,054**	**64,236,762**	**8,543,071**	**72,779,833**
Customer accounts: demand deposits	0	0	0	0	0	0	17,531,332	17,531,332
Other customer accounts	9,244,804	3,179,902	4,836,573	1,630,805	369,097	19,261,181	0	19,261,181
Money market	747,226	97,345	239,551	0	0	1,084,122	0	1,084,122
Capital market	546,770	42,907	3,031,541	11,135,219	9,632,369	24,388,806	0	24,388,806
Other liabilities	64,745	0	0	0	0	64,745	10,449,647	10,514,392
Total liabilities	**10,603,545**	**3,320,154**	**8,107,665**	**12,766,024**	**10,001,466**	**44,798,854**	**27,980,979**	**72,779,833**
Liquidity gap	**(1,827,674)**	**2,362,722**	**970,459**	**5,381,813**	**12,550,588**	**19,437,908**	**(19,437,908)**	**0**

In this analysis the very short-term end of the range is typically where refinancing is most required. This is due to continually maturing short-term liabilities which, in banking, tend to have a higher turnover than assets. In practice, however, since these short-term liabilities are continually being rolled over their financing needs, even where debt volumes are increasing, can be accommodated.

Even so, group policy is to maintain a safety margin to cover financing needs in any circumstances. This means, inter alia, maintaining a reserve of liquid assets considered as eligible collateral by the European Central Bank for possible withdrawals of funds to more than cover the group's three-month funding requirements.

The group has commitments of a contingent nature which may also affect its cash requirements. Most of these relate to credit facilities with agreed limits which were undrawn at close of the reporting year. Limits on these commitments are also set by the Board of Directors and are constantly monitored.

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 short, medium and long term. The Banco Sabadell group meets its cash needs in a number of ways and has programmes in place to raise finance on the capital markets to ensure a diversified source of funds. Some these funding programmes are described below.

- Euro Medium Term Notes: The Group has a programme in place for issuance of senior and subordinated debt on the global capital markets, directed at institutional investors. Although the programme has not been renewed since August 2003, the notes outstanding at 31 December 2007 amounted to €600 million (€1,350 million at 31 December 2006).
- Nonparticipating Securities Issuance Programme: the programme has been filed with Spain's stock market regulator, the CNMV, and covers issuance of medium-term and long-term bonds (both straight and subordinated) and mortgage bonds under CNMV supervision as required by Spanish law. These are placed with investors on the domestic and global markets. The limit for issues under the Nonparticipating Securities Issuance Programme at 31 December 2007 was €8,150 million (€3,530 million at 31 December 2006).
- Banco Sabadell Commercial Paper Issuance Programme: covers the issuance of corporate notes and is directed at institutional and retail investors. On 13 March 2007 "Banco Sabadell Commercial Paper Issuance Programme

2007" for up to a limit of €6,500 million was filed with the CNMV. On 2 October the limit was increased to €8,500 million. As of 31 December 2007 the value of notes in circulation under the programme was €5,843 million (€5,306 million at 31 December 2006).

Other sources of funding include:

- Medium and long term bilateral loans with financial and other institutions.
- Issues of asset-backed securities. Since 1998 the group has taken part in setting up 13 securitization funds for the transfer of mortgage loans, business finance loans for small and medium-sized firms and finance lease receivables. A portion of the bonds issued by securitization funds have been sold on the capital markets and the remainder are held by Banco Sabadell. Most of the mortgage bonds held by Banco Sabadell are pledged as security on a credit line held by the Bank with the Bank of Spain to help it manage its short-term liquidity requirements.

The Bank carries out regular liquidity stress testing to ensure that it is able to assess inflows and outflows of funds and the impact of these flows on its cash position under different scenarios. As part of this analysis it has a contingency plan in place to deal with unexpected scenarios that could cause an immediate funding requirement. The plan is constantly being updated and identifies the Bank's assets that are most readily convertible to cash in the short term; it also sets out action plans should it become necessary to raise additional cash.

Risk concentrations

Credit risk is undoubtedly the main business risk faced by the Banco Sabadell group. As an active player in the global banking industry the group has a sizeable concentration of exposures to other financial institutions. Managing these exposures involves the setting of limits by the Board of Directors and the monitoring of these limits on a day-to-day basis. As mentioned earlier, specific measures are also in place to mitigate risk, including netting agreements with the majority of counterparties with which derivatives are traded.

As of 31 December 2007, there were only four borrowers involving individual exposures of more than 10% of the group's capital; in no case, however, did the figure exceed 15%. The overall exposure to these four borrowers amounted to €3,219,562,000. At 31 December 2006 there were also four borrowers involving an exposure of this nature; this amounted to €2,730,890,000 overall, and none individually exceeded 15% of the group's capital.

Note 37. Environment

All group operations are subject to legal requirements on environmental protection and health and safety at work. The group considers that it substantially complies with these legal requirements and has procedures in place to ensure such compliance.

The group has taken appropriate action on environmental protection and improvement and to minimize possible environmental impacts, as required by law. A number of group-wide waste treatment, consumable recycling and energy saving schemes were continued during the year. Given the absence of any likely environmental risk or expense, it was not thought necessary to set aside any provision for contingencies of this nature.

Note 38. Related party transactions

With the exception of a transaction on 28 December 2006, details of which are given below, no significant transaction took place with any major shareholder during the years 2007 or 2006, other than in the normal course of business and at market prices.

Transaction:	Sale of Landscape Promocions Immobiliàries, S.L.U.	
Date:	28.12.2006	
Seller:	Banco de Sabadell, S.A.	
Buyer:	Astroc Mediterráneo, S.A.	49.99%
	Alramaev, S.L.	45.01%
	Courrent Assets, S.L.	5.00%
Total consideration paid for transfer of shares (1):	€900,000,000, of which €449,997,000 were paid by Astroc Mediterráneo, S.A.	

(1) On 26 October 2006 the Bank received a report from an independent financial advisor giving a fairness opinion on the transaction price.

No transactions that could be described as significant were entered into with directors or senior managers of the Bank. Those that did take place were in the normal course of the group's business or were done at market prices or on the same terms as applied to employees.

The group is not aware of any transaction, other than on an arm's length basis, with any person or entity connected in any way to a director or senior manager.

The most significant balances held by the group with associated undertakings and, as to any part not eliminated on consolidation, with jointly controlled undertakings, and the effect of these transactions on the income statement,are shown in the following table:

€'000

	2007	2006
Assets:		
Loans and advances to other debtors	85,997	17,555
Liabilities:		
Deposits from other creditors	26,850	8,842
Memorandum accounts:		
Contingent exposures	4,023	13,343
Contingent commitments	52,360	17,499
Income statement:		
Interest and similar income	527	526
Interest expense and similar charges	(507)	(113)
Returns on equity instruments	9,012	2,581
Net fees and commissions	72	118
Other operating income	59	773

Note 39. Agents

As of 31 December 2007 and 2006, no group undertaking had entered into an agency agreement that would allow an agent to act for and on behalf of the group on an ongoing basis in any customer relationship or in any negotiation or business of a kind commonly engaged in by a credit institution.

Note 40. Customer Service Department

As required by the Spanish Finance Ministry's Order 734/2004, a report on the group's Customer Service Department has been provided in the Report of the Directors that follows these notes to the annual accounts.

Note 41. Remuneration paid to directors and senior management group

The group's reporting of remuneration paid to directors and senior executives is in line with the recommendations contained in the Aldama Report. Details of fees paid to individual members of the Board of Directors in the years to 31 December 2007and 2006and all other emoluments received by them in that capacity in these two years are fully disclosed.

To ensure transparency in the reporting of remuneration paid to senior managers as recommended by Aldama, details have also been provided for all the senior executives in the Bank's senior management group, including Executive Directors and other executives at General Manager and Assistant General Manager level.

The following table shows the fees paid to directors and the amounts paid in respect of directors' pension commitments, for services rendered by them in that capacity:

€'000

	Fees paid		Pension commitments		Total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
José Oliu Creus	280.0	260.0	42.0	39.0	322.0	299.0
Joan Llonch Andreu	200.0	190.0	21.0	19.5	221.0	209.5
Jaime Guardiola Romojaro (1)	36.4	–	–	–	36.4	–
Isak Andic Ermay	140.0	120.0	–	–	140.0	120.0
Miguel Bósser Rovira	140.0	130.0	21.0	19.5	161.0	149.5
Francesc Casas Selvas	155.0	130.0	21.0	19.5	176.0	149.5
Héctor María Colonques Moreno	160.0	150.0	21.0	19.5	181.0	169.5
Juan Manuel Desvalls Maristany (2)	41.4	150.0	5.3	19.5	46.7	169.5
Joaquín Folch-Rusiñol Corachán	140.0	130.0	21.0	19.5	161.0	149.5
M. Teresa Garcia-Milà Lloveras (3)	103.6	–	–	–	103.6	–
Jorge Manuel Jardim Gonçalves	120.0	110.0	–	–	120.0	110.0
José Manuel Lara Bosch	140.0	130.0	–	–	140.0	130.0
Juan María Nin Genova (4)	63.4	130.0	21.0	19.5	84.4	149.5
José Permanyer Cunillera	160.0	150.0	21.0	19.5	181.0	169.5
Total	**1,879.8**	**1,780.0**	**194.3**	**195.0**	**2,074.1**	**1,975.0**

(1) At a meeting of the Board of Directors on 27 September 2007, Jaime Guardiola Romojaro was appointed to the post of Managing Director of Banco Sabadell.
(2) Retired as a director of Banco Sabadell on 29 March 2007 as required by the Bank's articles of association.
(3) At the Annual General Meeting of the Bank on 29 March 2007 it was resolved to appoint M. Teresa García-Milà as a member of the Board of Directors. She will serve as an independent director.
(4) Resigned as Managing Director of Banco Sabadell on 8 June 2007.

Fees paid to honorary directors in 2007 and 2006 totalled €135,000.

Loan and guarantee risks undertaken by the Bank and consolidated undertakings for all directors of the parent company and for companies outside the group in which directors held positions of responsibility or had significant interests totalled €136,988,000 at 31 December 2007. Of this amount €132,521,000 comprised loans and €4,467,000 related to avals and documentary credits (2006: €90,106,000, including €89,830,000 in loans and €276,000 in avals and documentary credits). The average rate of interest charged was 5.23% (3.99% in 2006). Deposits by directors totalled €8,692,000 (€14,189,000 in 2006).

Salary payments to members of the senior management group amounted to €9,746,000 in 2007 (€11,711,000 in 2006). Premiums paid in respect of accrued pension entitlements totalled €7,096,000 (€6,462,000 in 2006). Payments during the year under the share appreciation rights plan for senior executives resulted in personnel expenses of €2,865,000.

Details of existing agreements between the company and members of the Board and senior managers with regard to compensation on severance of contract are set out in the report of the directors that follows these annual accounts.

The members of the senior management group at 31 December are listed below:

José Oliu Creus	Chairman
Jaime Guardiola Romojaro (1)	Managing Director
José Permanyer Cunillera	Executive Director
José Luis Negro Rodríguez (2)	Deputy Secretary to the Board & Comptroller General
Juan-Cruz Alcalde Merino	Resources
Cirus Andreu Cabot	Asset Management
Ignacio Camí Casellas	Bancassurance
Rafael José García Nauffal	Treasury and Capital Markets
Joan-Mateu Grumé Sierra (3)	Corporate Development
Miquel Montes Güell	Operations
Fernando Pérez-Hickman (4)	Business Development - Americas
Jaume Puig Balcells	Commercial Banking
Enric Rovira Masachs (5)	Corporate Banking
José Tarrés Busquets	Risk and Recovery
Tomás Varela Muiña	Finance

(1) Appointed as Managing Director of Banco Sabadell at a meeting of the Board of Directors on 27 September 2007.
(2) Appointed Deputy Secretary to the Board at a meeting of the Board of Directors on 21 December 2006. Mr. Negro Rodríguez also holds the post of Comptroller-General.
(3) Appointed Assistant General Manager of Banco Sabadell at a meeting of the Board of Directors on 21 December 2006.
(4) Appointed Assistant Managing Director of Banco Sabadell at a meeting of the Board of Directors on 28 June 2007.
(5) Appointed Head of Corporate Banking and Assistant Managing Director of Banco Sabadell at a meeting of the Board of Directors on 24 May 2007.

Note 42. Directors' duty of loyalty

Pursuant to article 127 (iii) of the Spanish S.A. Companies Act which was introduced by Law 26/2003 of 17 July amending Law 24/1988 of 28 July on the Securities Market and the Spanish Companies Act, in the interests of corporate transparency, the Directors have made the following disclosures to the Company:

a. No situation has arisen that would directly or indirectly give rise to a conflict between an individual's private interest and the interests of the Company.
b. No Director holds equity interests in any company whose objects are identical, similar or complementary to those of the Company.

The Directors have also confirmed that none of them holds any office or position of responsibility or performs any services, either for their own account or for the account of any other person, in any company whose objects are identical, similar or complementary to those of the Company, with the following exceptions:

Director	Company	Position/office held
José Oliu Creus	Banco Comercial Português, S.A.	Member of Supervisory Board
José Oliu Creus	BanSabadell Holding, S.L., Sociedad Unipersonal	Chairman
Joan Llonch Andreu	BancSabadell d'Andorra, S.A.	Director
Joan Llonch Andreu	BanSabadell Holding, S.L., Sociedad Unipersonal	Director
Joan Llonch Andreu	Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Deputy Chairman
Jaime Guardiola Romojaro	Ibersecurities, Sociedad de Valores, S.A., Sociedad Unipersonal	Chairman
Miguel Bósser Rovira	BanSabadell Holding, S.L., Sociedad Unipersonal	Director
Jorge Manuel Jardim Gonçalves	Banco Comercial Português, S.A.	Chairman of Supervisory Board
Jorge Manuel Jardim Gonçalves	Banco Comercial Português, S.A.	Chairman of General and Supervisory Board
José Permanyer Cunillera	BancSabadell d'Andorra, S.A.	Director
José Permanyer Cunillera	Banco Urquijo Sabadell Banca Privada, S.A.	Deputy Chairman
José Permanyer Cunillera	Aurica XXI, S.C.R., S.A.	Director
José Permanyer Cunillera	BanSabadell Inversió Desenvolupament, S.A., Sociedad Unipersonal	Chairman
José Permanyer Cunillera	Sabadell Grupo Asegurador, A.I.E.	Director
José Permanyer Cunillera	Sabadell Aseguradora, Cia. Seguros y Reaseguros	Director

Note 43. Post-balance sheet events

No events of any significance have occurred since 31 December 2007.

Annex: Companies in the Banco Sabadell group at 31 December 2007

Name of company	Principal business	Registered office	Proportional holding	
			Direct	Indirect
Fully consolidated companies				
Assegurances Segur Vida, S.A.	Insurance	Andorra la Vella	-	50.97
Aurica XXI, S.C.R., S.A.	Venture capital company	Barcelona	100.00	-
Axel Group, S.L.	Financial advisers	Madrid	100.00	-
Ballerton Corporation Serviços, S.A.	Holding company	Madeira	-	100.00
Banco Atlantico Bahamas Bank & Trust, Ltd.	Banking	Nassau, Bahamas	99.99	0.01
Banco Atlantico Mónaco S.A.M.	Banking	Monaco	100.00	-
Banco de Sabadell, S.A.	Banking	Sabadell	-	-
Banco Urquijo Sabadell Banca Privada, S.A.	Banking	Madrid	100.00	-
BancSabadell d'Andorra , S.A.	Banking	Andorra la Vella	50.97	-
BanSabadell Correduría de Seguros, S.A.	Insurance brokers	Sabadell	100.00	-
Bansabadell Factura, S.L.	Electronic billing services	Sant Cugat del Vallès	100.00	-
BanSabadell Financiación, E.F.C., S.A	Finance company	Sabadell	100.00	-
BanSabadell Holding, S.L.	Holding company	Sabadell	100.00	-
BanSabadell Inversió Desenvolupament, S.A.	Holding company	Barcelona	100.00	-
BanSabadell Inversión, S.A., S.G.I.I.C.	Investment fund managers	Sant Cugat del Vallès	100.00	-
BanSabadell Pensiones , E.G.F.P., S.A.	Pension fund managers	Sabadell	100.00	-
BanSabadell Renting, S.L.	*Equipment leasing*	Sabadell	100.00	-
Bansabadell Seguros Generales, S.A. de Seguros y Reaseguros	Insurance	Sant Cugat del Vallès	100.00	-
BanSabadell Vida, S.A. de Seguros y Reaseguros	Insurance	Sabadell	100.00	-
BS Select Fund of Hedge Funds, S.I.C.A.V., S.A.	Holding company	Luxembourg	99.00	-
Compañía de Cogeneración del Caribe, S.L.	Electricity utility	Barcelona	-	100.00
Compañía de Electricidad y Cogeneración de Uvero, S.A.	Electricity utility	Higuey (Domin. Rep.)	-	72.92
Dish, S.A.	Hotel management	Madrid	100.00	-
Europa Invest, S.A.	Investment fund managers	Luxembourg	22.00	78.00
Europea de Inversiones y Rentas, S.L.	Real estate	Sant Cugat del Vallès	100.00	-
Europea Pall Mall Ltd.	Real estate	London	-	100.00
Explotación Eólica la Pedrera, S.L.	Electricity utility	Murcia	-	80.00
Explotaciones Energéticas SINIA XXI, S.L.	Holding company	Madrid	-	100.00
Gestora Plan HF94, S.L.	Services	Oviedo	100.00	-
Herrero International, S.A.R.L.	Holding company	Luxembourg	-	100.00
Hobalear, S.A.	Real estate	Sabadell	-	100.00
Ibersecurities Holding, S.A.	Holding company	Madrid	100.00	-
Ibersecurities, Soc.de V., S.A., Soc.Unip.	Stockbrokers	Madrid	-	100.00
Inmobiliaria Asturiana, S.A.	Real estate	Oviedo	99.63	-
Multibarter Mexicana, S.A. de C.V.	Real estate	Mexico City	100.00	-
Parc Eòlic Coll de Som, S.L.	Electricity utility	Barcelona	-	51.80
Parc Eòlic l'Arram, S.L.	Electricity utility	Barcelona	-	51.80
Promociones Argañosa, S.L.	Real estate	Oviedo	100.00	-
Promociones y Financiaciones Herrero, S.A.	Holding company	Oviedo	100.00	-
Promotora de Negocios y Representaciones, S.A.	Property rentals	Madrid	100.00	-
Sabadell Asia Trade Services, Ltd.	Services	Hong Kong	100.00	-
Sabadell Brasil Trade Services - Ass.Cial Ltda.	Representative office	Brazil	99.99	0.01
Sabadell Corporate Finance, S.L.	Financial advisers	Madrid	30.00	70.00
Sabadell d'Andorra Borsa, S.A.	Investment company	Andorra la Vella	-	50.97
Sabadell d'Andorra Inversions Societat Gestora, S.A.	Investment fund managers	Andorra la Vella	-	50.97
Sabadell International Capital, Ltd.	Finance company	George Town	100.00	-
Sabadell International Equity, Ltd. (a)	Finance company	George Town	-	-
Sabadell International Finance, B.V.	Finance company	Amsterdam	100.00	-
Servicio de Administración de Inversiones, S.A.	Holding company	Madrid	100.00	-
Servicios Reunidos, S.A.	Services	Sabadell	100.00	-
Solintec, S.A.	Computer services	Sant Fruitós de Bages	100.00	-
Solvia Estate, S.A.	Real estate	Sant Cugat del Vallès	100.00	-
Transatlantic Bank Inc.	Banking	Miami	-	100..00
Transatlantic Holding Corp.	Holding company	Miami	100.00	-
Urquijo Gestión, S.G.I.I.C., S.A.	Investment fund managers	Madrid	-	100.00
Urquijo Servicios Patrimoniales, S.A.	Financial services	Madrid	100.00	-
Total				

(a) 100% of the voting rights are held by the parent company.

€'000

Name of company	Financial data (1) Capital	Reserves	Results (2)	Dividends paid (3)	Total assets	Group net investment	Contribution to reserves or losses of consolidated undertakings	Contribution to consolidated profit	Treated as consolidated for tax purposes
Fully consolidated companies									
Assegurances Segur Vida, S.A.	602	31	1	0	62,646	602	16	0	No
Aurica XXI, S.C.R., S.A.	14,200	3,679	(532)	0	55,555	17,492	(344)	(535)	No
Axel Group, S.L.	26	36	(2)	0	306	6,544	0	(2)	Yes
Ballerton Corporation Serviços, S.A.	50	22,864	586	0	23,909	3,140	(1,579)	586	No
Banco Atlántico Bahamas Bank and Trust, Ltd.	1,359	804	33	0	2,828	2,439	780	33	No
Banco Atlantico Mónaco S.A.M.	11,250	9,842	390	0	22,844	19,498	267	390	No
Banco de Sabadell, S.A.	153,002	3,444,730	604,130	295,866	75,681,347	0	3,515,306	604,130	Yes
Banco Urquijo Sabadell Banca Privada, S.A.	73,148	97,522	22,792	3,000	2,476,214	143,030	27,640	22,792	Yes
BancSabadell d'Andorra, S.A.	30,069	3,321	8,027	1,275	659,701	15,326	811	4,091	No
BanSabadell Correduría de Seguros, S.A.	60	18	1,762	2,648	7,031	588	(612)	1,762	Yes
BanSabadell Factura, S.L.	100	(978)	408	0	1,263	100	(979)	408	Yes
BanSabadell Financiación, E.F.C., S.A.	24,040	26,993	(963)	200	553,789	24,040	26,993	(963)	Yes
BanSabadell Holding, S.L.	330,340	(6,804)	(5,143)	0	515,728	239,544	(3,790)	(5,143)	Yes
BanSabadell Inversió Desenvolupament, S.A.	15,025	46,550	24,361	0	138,741	15,025	50,821	24,361	Yes
BanSabadell Inversión, S.A., S.G.I.I.C.	601	50,390	34,125	0	190,658	607	50,384	34,125	Yes
BanSabadell Pensiones, E.G.F.P., S.A.	7,813	16,694	9,324	6,735	56,079	18,757	6,326	9,324	Yes
BanSabadell Renting, S.L.	2,000	3,903	32	0	160,080	3,861	2,368	32	Yes
BanSabadell Seguros Generales, S.A. de Seguros y Reaseg.	10,000	61	1,729	0	18,617	10,000	0	1,729	Yes
BanSabadell Vida, S.A. de Seguros y Reaseguros	43,858	113,461	28,781	0	4,006,624	54,212	103,776	28,781	Yes
BS Select Fund of Hedge Funds, S.I.C.A.V., S.A. (a)	22,504	0	375	0	23,364	9,900	0	375	No
Compañía de Cogeneración del Caribe, S.L.	2,933	(1,791)	(571)	0	19,618	3,007	(2,300)	(571)	Yes
Compañía de Electricidad y Cogeneración de Uvero, S.A.	2,677	(302)	155	0	6,792	2,410	585	113	No
Dish, S.A.	87	25	7	0	145	136	(23)	7	Yes
Europa Invest, S.A.	125	267	(16)	0	499	336	83	(16)	No
Europea de Inversiones y Rentas, S.L.	53,633	46,634	624	0	134,414	93,379	14,989	624	Yes
Europea Pall Mall Ltd.	21,104	(4,335)	(191)	0	17,012	20,843	(574)	(191)	No
Explotación Eólica la Pedrera, S.L.	1,700	0	0	0	1,709	1,360	(99)	0	Yes
Explotaciones Energéticas SINIA XXI, S.L.	1,352	3,072	74	0	28,854	4,672	635	74	Yes
Gestora Plan HF94, S.L.	3	0	0	0	84	3	0	0	Yes
Herrero International, S.A.R.L.	429	3,672	82	0	4,346	1,139	50	82	No
Hobalear, S.A.	60	394	47	0	519	414	394	47	Yes
Ibersecurities Holding, S.A.	31,581	35,050	13,150	0	79,906	54,922	(80,915)	13,150	Yes
Ibersecurities, Soc. de V., S.A., Soc. Unip.	3,000	26,892	16,830	0	62,386	76,794	21,927	16,830	Yes
Inmobiliaria Asturiana, S.A.	198	4,609	359	0	5,605	3,094	3,962	359	Yes
Multibarter Mexicana, S.A. de C.V.	187	479	76	0	767	212	547	76	No
Parc Eòlic Coll de Som, S.L.	643	0	0	0	643	2,685	0	0	No
Parc Eòlic l'Arram, S.L.	646	0	0	0	658	3,573	(85)	0	No
Promociones Argañosa, S.L.	812	617	17	0	1,501	1,460	230	17	Yes
Promociones y Financiaciones Herrero, S.A.	3,456	272	0	0	3,727	24,185	10	0	Yes
Promotora de Negocios y Representaciones, S.A.	2,705	81	(1)	0	2,785	2,786	0	(1)	Yes
Sabadell Asia Trade Services Ltd.	0	162	150	0	321	0	181	150	No
Sabadell Brasil Trade Services - Ass. Cial. Ltda.	1,314	(1,049)	(25)	0	237	250	(21)	(25)	No
Sabadell Corporate Finance, S.L.	70	27	572	0	2,977	357	133	572	Yes
Sabadell d'Andorra Borsa, S.A.	31	14	0	0	45	31	7	0	No
Sabadell d'Andorra Inversions Societat Gestora, S.A.	30	300	1,050	860	1,124	30	153	535	No
Sabadell International Capital Ltd.	1	1,247	75	0	301,744	1	1,247	75	No
Sabadell International Equity Ltd.	250,001	58	(14)	0	247,396	1	0	(14)	No
Sabadell International Finance, B.V.	2,000	0	275	486	606,127	2,000	17	275	No
Servicio de Administración de Inversiones, S.A.	6,010	783	(21)	0	6,772	6,793	(6,074)	(21)	Yes
Servicios Reunidos, S.A.	60	20	0	0	80	67	13	0	Yes
Solintec, S.A.	240	878	(16,228)	0	90,812	0	878	(16,228)	Yes
Solvia Estate, S.A.	60	0	0	0	60	60	0	0	Yes
Transatlantic Bank Inc.	2,038	34,800	2,650	0	386,377	6,115	(1)	2,604	No
Transatlantic Holding Corp.	2,038	5,858	(2,606)	0	9,921	123,266	0	(391)	No
Urquijo Gestión, S.G.I.I.C., S.A.	3,606	17,784	389	0	30,330	18,286	2,366	389	Yes
Urquijo Servicios Patrimoniales, S.A.	2,073	1,278	69	0	3,432	3,356	(6)	69	Yes
Total				**311,070**		**1,042,728**	**3,736,493**	**744,866**	

(1) Foreign-registered companies have been translated into euros at the exchange rate ruling on 31 December 2007.

(2) Results are subject to approval by the Annual General Meeting of each company.

(3) Includes final dividends for the previous year and interim dividends paid to the group during the year.

(a) Data shown for these undertakings under "financial data" are correct as of 30 November 2007.

Name of company	Principal business	Registered office	Proportional holding	
			Direct	Indirect
Proportionally consolidated companies				
BanSabadell Fincom, E.F.C., S.A.	Finance company	Sant Cugat del Vallès	50.00	-
Financiera Iberoamericana, S.A.	Finance company	Havana	50.00	-
Homarta, S.L.	Real estate	Sabadell	-	50.00
Tecnocredit, S.A.	Services	Barcelona	50.00	-
Total				
Equity-accounted companies (1)				
Aviación Regional Cántabra, A.I.E.	Services	Boadilla del Monte	26.42	
Aviones Alfambra CRJ-900, A.I.E.	Services	Madrid	25.00	-
Aviones Cabriel CRJ-900, A.I.E.	Services	Madrid	25.00	-
Aviones Gorgos CRJ-900, A.I.E.	Services	Madrid	25.00	-
Aviones Sella CRJ-900, A.I.E.	Services	Madrid	25.00	-
Banco del Bajío, S.A.	Banking	León (Mexico)	20.00	-
Biodiesel Aragón, S.L.	Chemicals	Altorricón	-	37.51
Centro Financiero B.H.D., S.A.	Financial services	Santo Domingo	20.00	-
Dexia Sabadell, S.A.	Banking	Madrid	40.00	-
EMTE Grupo Empresarial y Corporativo, S.L.	Holding company	Esplugues de Llobregat	-	20.00
FS Colaboración y Asistencia, S.A.	Services	Barcelona	-	35.00
Gaviel, S.A.	Real estate investment	Barcelona	50.00	-
General de Biocarburantes, S.A.	Chemicals	Marina de Cudeyo	-	25.00
Grafos, S.A. Arte sobre Papel	Graphic artists	Barcelona	-	45.00
Intermas Nets, S.A.	Chemicals	Llinars del Vallès	-	20.00
Parc Eòlic Veciana-Cabaro, S.L.	Electricity utility	Barcelona	-	40.00
Parque Eólico la Peñuca, S.L.	Electricity utility	León	-	40.00
SBD Creixent, S.A.	Real estate	Sabadell	23.01	-
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Investment company	Sant Cugat del Vallès	26.53	-
Telstar, S.A.	Services	Terrassa	-	20.00
Tolosa 161, S.L.	Services	Terrassa	-	23.00
Total				
Translation differences				
Consolidation adjustments				
Total				

(1) Accounted for by the equity method because the parent company does not exercise control over the management.

€'000

Name of company	Financial data (2) Capital	Reserves	Results (3)	Dividends paid (4)	Total assets	Group net investment	Contribution to reserves or losses of consolidated undertakings	Contribution to consolidated profit	Treated as consolidated for tax purposes
Proportionally consolidated companies									
BanSabadell Fincom, E.F.C., S.A.	35,520	(4,344)	(183)	0	356,189	17,860	(2,990)	(92)	No
Financiera Iberoamericana, S.A.	5,744	361	1,594	511	32,476	3,415	(337)	797	No
Homarta, S.L.	2,406	(2,371)	(1)	0	34	1,203	(1,184)	0	No
Tecnocredit, S.A.	60	153	24	0	810	30	88	12	No
Total				**511**		**22,508**	**(4,423)**	**717**	
Equity-accounted companies (1)									
Aviación Regional Cántabra, A.I.E. (a)	29,767	(2,678)	1,550	0	147,228	7,824	0	546	No
Aviones Alfambra CRJ-900, A.I.E. (b)	4,239	0	(832)	0	41,602	1,060	0	(150)	No
Aviones Cabriel CRJ-900, A.I.E. (b)	4,239	0	(831)	0	41,600	1,060	0	(150)	No
Aviones Gorgos CRJ-900, A.I.E. (b)	4,239	0	(835)	0	41,592	1,060	0	(152)	No
Aviones Sella CRJ-900, A.I.E. (b)	4,239	0	(832)	0	41,589	1,060	0	(151)	No
Banco del Bajío, S.A. (b)	126,473	270,623	39,185	2,979	3,405,837	72,009	6,839	8,566	No
Biodiesel Aragón, S.L. (b)	3,599	1,002	1	0	10,692	1,750	0	0	No
Centro Financiero B.H.D., S.A.(c)	78,034	14,786	28,634	5,892	1,099,937	25,661	(1,768)	5,164	No
Dexia Sabadell, S.A. (b)	124,061	35,897	15,638	0	9,543,496	56,026	14,431	6,575	No
EMTE Grupo Empresarial y Corporativo, S.L. (a)	12,500	95,126	8,411	0	650,241	23,177	0	875	No
FS Colaboración y Asistencia, S.A. (a)	600	390	328	0	2,649	887	(565)	153	No
Gaviel, S.A. (d)	1,203	11	0	0	2,216	630	2	0	No
General de Biocarburantes, S.A. (a)	6,000	1,283	(12)	0	16,610	0	(9)	(3)	No
Grafos, S.A. Arte sobre Papel (b)	1,800	7,851	(734)	(189)	34,505	3,781	9	(360)	No
Intermas Nets, S.A. (b)	24,581	4,089	4,447	0	99,382	22,213	0	65	No
Parc Eòlic Veciana-Cabaro, S.L. (b)	2,854	(8)	(2,583)	0	6,143	1,140	0	0	No
Parque Eólico la Peñuca, S.L. (b)	3,333	1,815	1,050	0	41,645	1,339	697	458	No
SBD Creixent, S.A.(b)	12,895	(70)	41	0	13,898	2,968	(12)	10	No
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	4,818	3,701	1,436	0	7,397	422	1,836	381	No
Telstar, S.A. (a)	700	22,904	361	0	87,048	6,110	0	697	No
Tolosa 161, S.L. (a)	3	0	(1)	0	4	1	0	0	No
Total				**8,682**		**230,178**	**21,460**	**22,524**	
Translation differences									
Consolidation adjustments								14,228	
Total				**320,263**		**1,295,414**	**3,753,530**	**782,335**	

(1) Accounted for by the equity method because the parent company does not exercise control over the management.
(2) Foreign-registered companies have been translated into euros at the exchange rate ruling on 31 December 2007.
(3) Results are subject to approval by the Annual General Meeting of the company.
(4) Includes final dividends for the previous year and interim dividends paid to the group during the year.
(a) Data shown for these undertakings under "Financial data" are correct as of 30 September 2007.
(b) Data shown for these undertakings under "Financial data" are correct as of 30 November 2007.
(c) Data shown for these undertakings under "Financial data" are correct as of 31 December 2006.
(d) Data shown for these undertakings under "Financial data" are correct as of 31 October 2007.

Companies in the Banco Sabadell group at 31 December 2006

Name of company	Principal business	Registered office	Proportional holding	
			Direct	Indirect
Fully consolidated companies				
Assegurances Segur Vida, S.A.	Insurance	Andorra la Vella	-	50.97
Auxiliar Barcelonesa de Servicios, S.A.	Holding company	Madrid	100.00	-
Axel Group, S.L.	Financial advisers	Madrid	100.00	
Axel Urquijo, S.L.	Financial advisers	Madrid	30.00	70.00
Ballerton Corporation Serviços, S.A.	Holding company	Madeira	-	100.00
Banco Atlántico Bahamas Bank and Trust, Ltd.	Banking	Nassau, Bahamas	99.99	0.01
Banco Atlantico Mónaco S.A.M.	Banking	Monaco	100.00	-
Banco Atlantico Services S.A.M.	Computer services	Monaco	-	100.00
Banco de Sabadell, S.A.	Banking	Sabadell	-	-
Banco Exelbank, S.A.	Banking	Madrid	100.00	-
Banco Urquijo Sabadell Banca Privada, S.A.	Banking	Madrid	100.00	-
BancSabadell d'Andorra, S.A.	Banking	Andorra la Vella	50.97	-
BanSabadell Correduría de Seguros, S.A.	Insurance brokers	Sabadell	100.00	-
BanSabadell Factura, S.L.U.	Electronic billing services	Sant Cugat del Vallès	100.00	-
BanSabadell Financiación, E.F.C., S.A.	Finance company	Sabadell	100.00	-
BanSabadell Holding, S.L.	Holding company	Sabadell	100.00	-
BanSabadell Inversió Desenvolupament, S.A.	Holding company	Barcelona	100.00	-
BanSabadell Inversión, S.A., S.G.I.I.C.	Investment fund managers	Sant Cugat del Vallès	100.00	-
BanSabadell Pensiones, E.G.F.P., S.A.	Pension fund managers	Sabadell	100.00	-
BanSabadell Renting, S.L.	Equipment leasing	Sabadell	100.00	-
BanSabadell Seguros Generales, S.A. de Seguros y Reaseguros	Insurance	Sant Cugat del Vallès	100.00	-
BanSabadell Vida, S.A. de Seguros y Reaseguros	Insurance	Sabadell	100.00	-
Colinas de Nueva Andalucía, S.A.	Real estate	Oviedo	100.00	-
Compañía Auxiliar de Transportes y Aparcamientos, S.A.	Real estate	Barcelona	100.00	-
Compañía de Cogeneración del Caribe, S.L.	Electricity utility	Barcelona	-	100.00
Compañía de Electricidad y Cogeneración de Uvero, S.A.	Electricity utility	Higuey (Dom. Rep.)	-	72.92
Difusión de la Propiedad Inmobiliaria, S.A.	Real estate	Oviedo	100.00	-
Dish, S.A.	Hotel management	Madrid	100.00	-
Europa Invest, S.A.	Investment fund managers	Luxembourg	22.00	78.00
Europea de Inversiones y Rentas, S.L.	Real estate	Madrid	100.00	-
Europea Pall Mall Ltd.	Real estate	London	-	100.00
Explotación Eólica la Pedrera, S.L.	Electricity utility	Murcia	-	80.00
Explotaciones Energéticas SINIA XXI, S.L. (a)	Holding company	Madrid	-	100.00
Gestora Plan HF94, S.L.	Services	Oviedo	100.00	-
Herrero International, S.A.R.L.	Holding company	Luxembourg	-	100.00
Hobalear, S.A.	Real estate	Sabadell	-	100.00
Iberatlántico Serviços e Participaçoes Ltda.	Representative office	Brazil	99.99	0.01
Ibersecurities Holding, S.A.	Holding company	Madrid	100.00	-
Ibersecurities, Soc. de V., S.A., Soc. Unip.	Stockbrokers	Madrid	-	100.00
Inmobiliaria Asturiana, S.A.	Real estate	Oviedo	99.63	-
Inmobiliaria Sil, S.A.	Real estate	Madrid	100.00	-
Inmobiliaria Sotecón, S.A.	Real estate	Sabadell	100.00	-
Multibarter Mexicana, S.A. de C.V.	Real estate	Mexico City	100.00	-
Parc Eòlic Coll de Som, S.L. (a)	Electricity utility	Barcelona	-	51.80
Parc Eòlic la Tossa la Mola d'en Pascual, S.L. (a)	Electricity utility	Barcelona	-	51.80
Parc Eòlic l'Arram, S.L. (a)	Electricity utility	Barcelona	-	51.80
Parc Eòlic Los Aligars, S.L. (a)	Electricity utility	Barcelona	-	51.80
Promociones Argañosa, S.L.	Real estate	Oviedo	-	99.63
Promociones y Financiaciones Herrero, S.A.	Holding company	Oviedo	100.00	-
Promotora de Negocios y Representaciones, S.A.	Property rentals	Madrid	100.00	-
Promotora Navarra para el Norte de España, S.A.	Real estate	Madrid	100.00	-
Sabadell Asia Trade Services Ltd.	Services	Hong Kong	100.00	-
Sabadell d'Andorra Borsa, S.A.	Investment company	Andorra la Vella	-	50.97
Sabadell d'Andorra Inversions Societat Gestora, S.A.	Investment fund managers	Andorra la Vella	-	50.97
Sabadell Internaional Capital Ltd.	Finance company	George Town	100.00	-
Sabadell International Equity Ltd. (a)	Finance company	George Town	-	-
Sabadell International Finance, B.V.	Finance company	Amsterdam	100.00	-
Sabadell International Finance Ltd.	Finance company	George Town	100.00	-
Servicio de Administración de Inversiones, S.A.	Holding company	Madrid	100.00	-
Servicios Reunidos, S.A.	Services	Sabadell	100.00	-
Solintec, S.A.	Computer services	Sant Fruitós de Bages	100.00	-
Totvent-2000, S.A.	Holding company	Barcelona	-	74.00
Urquijo Gestión, S.G.I.I.C., S.A.	Investment fund managers	Madrid	99.99	0.01
Urquijo Servicios Patrimoniales, S.A.	Financial services	Madrid	100.00	-
Total				

(a) 100% of the voting rights are held by the parent company.

Name of company	Financial data (1) Capital	Reserves	Results (2)	Dividends paid (3)	Total assets	Group net investment	Contribution to reserves or losses of consolidated undertakings	Contribution to consolidated profit	Treated as consolidated for tax purposes
Proportionally consolidated companies									
Assegurances Segur Vida, S.A.	602	15	16	0	38,395	602	7	8	No
Auxiliar Barcelonesa de Servicios, S.A.	150	570	1	0	721	600	126	1	Yes
Axel Group, S.L. (a)	26	80	531	0	398	6,435	0	0	No
Axel Urquijo, S.L. (a)	70	27	0	0	2,985	358	0	133	No
Ballerton Corporation Serviços, S.A.	50	22,490	375	0	23,318	3,140	(1,956)	375	No
Banco Atlantico Bahamas Bank & Trust, Ltd. (a)	1,519	0	801	0	3,280	2,439	25	801	No
Banco Atlantico Monaco S.A.M. (b)	11,250	8,088	326	0	21,658	19,498	(59)	326	No
Banco Atlantico Services S.A.M.	150	(848)	1	0	83	38	0	0	No
Banco de Sabadell, S.A.	153,002	2,839,941	856,563	229,502	71,296,929	0	2,954,285	856,563	Yes
Banco Exelbank, S.A.	45,473	2,370	(8,526)	0	538,884	42,312	0	(9,269)	No
Banco Urquijo Sabadell Banca Privada, S.A.	73,148	91,019	6,503	0	2,349,842	143,030	21,137	6,503	Yes
BancSabadell d'Andorra , S.A.	30,069	(606)	6,691	0	529,319	15,326	(880)	3,410	No
BanSabadell Correduría de Seguros, S.A.	60	18	2,648	5,213	9,345	588	(612)	2,648	Yes
Bansabadell Factura, S.L.U.	100	(535)	(443)	0	1,208	100	(536)	(443)	Yes
BanSabadell Financiación, E.F.C., S.A	24,040	26,988	205	440	546,592	24,040	26,988	205	Yes
BanSabadell Holding, S.L.	330,340	(38,863)	32,060	0	323,612	239,544	(4,454)	32,060	Yes
BanSabadell Inversió Desenvolupament, S.A.	15,025	34,968	11,581	0	120,891	15,025	29,444	11,581	Yes
BanSabadell Inversión, S.A., S.G.I.I.C.	601	29,880	20,510	0	143,221	607	29,874	20,510	Yes
BanSabadell Pensiones , E.G.F.P., S.A.	7,813	16,694	6,735	14,834	48,664	18,757	6,283	6,735	Yes
BanSabadell Renting, S.L.	2,000	3,234	668	0	132,725	3,861	1,171	668	Yes
Bansabadell Seguros Generales, S.A. de Seguros y Reas.	10,000	0	0	0	10,000	5,000	0	0	Yes
BanSabadell Vida, S.A. de Seguros y Reaseguros	43,858	88,569	24,892	0	3,554,872	54,212	79,427	24,892	Yes
Colinas de Nueva Andalucía, S.A.	1,052	318	0	0	1,369	1,495	31	0	Yes
Compañía Auxiliar de Transportes y Aparcamientos, S.A.	201	1,217	22	0	1,445	1,382	36	22	Yes
Compañía de Cogeneración del Caribe, S.L.	2,933	(1,563)	(228)	0	20,134	3,007	(2,369)	(228)	Yes
Compañía de Electricidad y Cogeneración de Uvero, S.A.	2,992	(570)	233	0	7,358	2,410	347	170	No
Difusión de la Propiedad Inmobiliaria, S.A.	60	85	2	0	148	142	(186)	2	Yes
Dish, S.A.	87	23	3	0	147	136	0	(23)	Yes
Europa Invest, S.A. (c)	125	144	158	0	508	336	0	158	No
Europea de Inversiones y Rentas, S.L.	53,633	40,283	(1,142)	0	115,452	87,557	13,277	(1,142)	Yes
Europea Pall Mall Ltd.	23,048	(4,258)	(625)	0	18,880	20,843	(4,132)	(625)	No
Explotación Eólica la Pedrera, S.L.	800	0	0	0	800	640	0	0	Yes
Explotaciones Energéticas SINIA XXI, S.L.	1,352	3,283	(211)	0	10,010	4,672	838	(211)	Yes
Gestora Plan HF94, S.L.	3	0	0	0	55	3	0	0	Yes
Herrero International, S.A.R.L.	429	3,644	28	0	4,240	1,139	21	28	No
Hobalear, S.A.	60	366	28	0	474	414	366	27	Yes
Iberatlantico Serviços e Participaçoes Ltda.	1,215	(951)	(19)	0	240	250	(109)	(19)	No
Ibersecurities Holding, S.A.	31,581	28,120	6,930	0	66,642	54,922	(77,657)	6,930	Yes
Ibersecurities, Soc.de V., S.A., Soc.Unip.	3,000	16,130	10,762	0	43,778	76,794	11,317	10,762	Yes
Inmobiliaria Asturiana, S.A.	198	4,507	101	0	5,203	3,094	3,861	101	Yes
Inmobiliaria Sil, S.A.	619	109	0	0	728	530	284	0	Yes
Inmobiliaria Sotecón, S.A.	60	552	7	0	626	58	554	7	Yes
Multibarter Mexicana, S.A. de C.V.	697	45	(56)	0	687	212	772	(56)	No
Parc Eòlic Coll de Som, S.L. (a)	3	0	0	0	76	2	0	0	No
Parc Eòlic la Tossa la Mola de'n Pascual, S.L. (a)	3	0	0	0	102	2	0	0	No
Parc Eòlic l'Arram, S.L. (a)	3	0	0	0	78	2	0	0	No
Parc Eòlic Los Aligars, S.L (a)	3	0	0	0	206	2	0	0	No
Promociones Argañosa, S.L.	812	620	(3)	0	1,476	941	231	(3)	Yes
Promociones y Financiaciones Herrero, S.A.	3,456	272	0	0	3,727	24,185	10	0	Yes
Promotora de Negocios y Representaciones, S.A.	2,705	85	(3)	0	2,786	2,786	0	(3)	Yes
Promotora Navarra para el Norte de España, S.A.	1,262	1,207	0	0	2,468	1,614	732	0	Yes
Sabadell Asia Trade Services, Ltd.	0	4	177	0	187	0	4	176	No
Sabadell d'Andorra Borsa, S.A.	31	15	(1)	0	45	31	7	(1)	No
Sabadell d'Andorra Inversions Societat Gestora, S.A.	30	213	567	0	1,018	30	109	289	No
Sabadell International Capital, Ltd.	1	1,013	233	0	317,309	1	1,016	233	No
Sabadell International Equity, Ltd. (d)	250,001	71	(14)	0	252,137	1	34	0	No
Sabadell International Finance, B.V.	2,000	296	207	0	609,508	2,000	296	207	No
Sabadell International Finance, Ltd.	1	1,251	212	0	455,054	1	1,210	212	No
Servicio de Administración de Inversiones, S.A.	6,010	783	0	6,294	6,793	16,690	(6,073)	0	Yes
Servicios Reunidos, S.A.	60	20	0	0	80	67	13	0	Yes
Solintec, S.A.	240	108	770	0	89,601	0	(1,121)	770	Yes
Totvent-2000, S.A.	1,000	(252)	(94)	0	800	1,681	(2)	(98)	No
Urquijo Gestión, S.G.I.I.C., S.A.	3,606	15,923	(2)	0	25,571	17,871	0	(1,048)	Yes
Urquijo Servicios Patrimoniales, S.A.	2,073	1,236	41	0	3,418	3,356	0	(6)	Yes
Total				**256,283**		**926,811**	**3,083,987**	**974,338**	

(1) Foreign-registered companies have been translated into euros at the exchange rate ruling on 31 December 2006.

(2) Results are subject to approval by the Annual General Meeting of each company.

(3) Includes final dividends for the previous year and interim dividends paid to the group during the year.

(a) Data shown for these undertakings under "Financial data" are correct as of 30 November 2006.

(b) Data shown for these undertakings under "Financial data" are correct as of 31 October 2006.

(c) Data shown for these undertakings under "Financial data" are correct as of 30 September 2006.

(d) 100% of the voting rights in the company are held by the group.

Name of company	Principal business	Registered office	Proportional holding	
			Direct	Indirect
Proportionally consolidated companies				
Aurica XXI, S.C.R., S.A.	Venture capital company	Barcelona	50.00	-
Banco Herrero, S.A. y "la Caixa", U.T.E.	Services	Oviedo	50.00	-
BanSabadell Fincom, E.F.C., S.A.	Finance company	Sant Cugat del Vallès	50.00	-
Financiera Iberoamericana, S.A.	Finance company	Havana	50.00	-
Homarta, S.L.	Real estate	Sabadell	-	50.00
Tecnocredit, S.A.	Services	Barcelona	50.00	-
Total				
Equity-accounted companies (1)				
Aquaria de Inv. Corp., S.A.	Portfolio company managers	Sabadell	-	20.04
Aviación Regional Cántabra, AIE	Services	Boadilla del Monte	26.41	
Banco del Bajío, S.A.	Banking	León (Mexico)	20.00	-
Berta Energies Renovables, S.L.	Electricity utility	Barcelona	-	24.67
Biodiésel Aragón, S.L.	Chemicals	Altorricón	-	37.60
Centro Financiero B.H.D., S.A.	Financial services	Santo Domingo	19.42	-
Dexia Sabadell Banco Local, S.A.	Banking	Madrid	40.00	-
FS Colaboración y Asistencia, S.A.	Services	Barcelona	-	35.00
Gaviel, S.A.	Real estate investment	Barcelona	50.00	-
General de Biocarburantes, S.A.	Chemicals	Marina de Cudeyo	-	30.42
Grafos, S.A. Arte sobre Papel	Graphic artists	Barcelona	-	22.50
Nisa Gav S.A.	Real estate investment	Barcelona	-	50.00
Parque Eólico la Peñuca, S.L.	Electricity utility	León	-	40.00
SBD Creixent, S.A.	Real estate	Sabadell	23.01	-
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	Investment company	Sabadell	26.52	-
Tarraco Eólica-Ascó, S.L.	Electricity utility	Barcelona	-	20.00
Tarraco Eólica-Les Garrigues, S.L.	Electricity utility	Barcelona	-	20.00
Total				
Translation differences				
Consolidation adjustments				
Total				

(1) Accounted for by the equity method because the parent company does not exercise control over the management.

€'000

Name of company	Financial data (2) Capital	Reserves	Results (3)	Dividends paid (4)	Total assets	Group net investment	Contribution to reserves or losses of consolidated undertakings	Contribution to consolidated profit	Treated as consolidated for tax purposes
Proportionally consolidated companies									
Aurica XXI, S.C.R., S.A.	14,200	3,108	583	0	17,899	7,100	(1,746)	292	No
Banco Herrero, S.A. y "la Caixa", U.T.E.	193	0	0	0	195	161	(681)	0	No
BanSabadell Fincom, E.F.C., S.A.	29,720	(1,848)	(2,443)	0	192,170	14,860	(951)	(1,221)	No
Financiera Iberoamericana, S.A.	6,169	311	1,300	238	24,993	3,192	287	650	No
Homarta, S.L. (a)	2,406	194	(2,552)	0	397	1.,203	97	(1,276)	No
Tecnocredit, S.A. (b)	60	134	51	0	1,259	30	45	25	No
Total				**238**		**26,546**	**(2,949)**	**(1,530)**	
Equity-accounted companies (1)									
Aquaria de Inv. Corp., S.A. (a)	112,629	143,362	21,735	1,322	631,157	49,129	3,542	4,572	No
Aviación Regional Cántabra, AIE	29,767	0	(2,648)	0	153,870	7,863	0	0	No
Banco del Bajío, S.A. (a)	109,688	184,214	42,076	2,061	3,270,938	52,904	2,247	9,480	No
Berta Energies Renovables, S.L. (a)	15	(4)	(6)	0	11	5	0	0	No
Biodiésel Aragón, S.L. (a)	1,795	0	0	0	1.765	1,750	0	0	No
Centro Financiero B.H.D., S.A.(c)	63,431	28,640	18,621	3,779	1,003,468	20,953	(438)	3,758	No
Dexia Sabadell Banco Local, S.A. (a)	102,061	22,897	12,485	0	7,413,227	47,226	8,906	5,650	No
FS Colaboración y Asistencia, S.A. (a)	600	(18)	310	0	2,748	887	(674)	118	No
Gaviel, S.A. (d)	1,203	0	5	0	2,210	630	0	2	No
General de Biocarburantes, S.A. (a)	4,960	750	(26)	0	8,554	2,250	0	(9)	No
Grafos, S.A. Arte sobre Papel (a)	1,800	7,602	806	0	29,030	1,891	0	198	No
Nisa Gav S.A. (d)	1,134	51	4	0	1,202	567	0	0	No
Parque Eólico la Peñuca, S.L.(a)	3,333	16	1,896	0	43,440	1,339	(158)	828	No
SBD Creixent, S.A. (a)	12,895	(16)	(36)	0	13,898	2,968	(3)	(9)	No
Sociedad de Cartera del Vallés, S.I.C.A.V., S.A.	2,408	4,790	1,714	212	8,956	421	1,453	455	No
Tarraco Eólica-Ascó, S.L. (b)	800	427	(181)	0	2,542	208	0	(48)	No
Tarraco Eólica-Les Garrigues, S.L. (b)	14	1,243	(38)	0	1,682	4	0	(10)	No
Total				**7,374**		**190,995**	**14,875**	**24,985**	
Translation differences							480		
Consolidation adjustments								(89,395)	
Total				**263,895**		**1,144,352**	**3,096,393**	**908,398**	

(1) Accounted for by the equity method because the parent company does not exercise control over the management.
(2) Foreign-registered companies have been translated into euros at the exchange rate ruling on 31 December 2006.
(3) Results are subject to approval by the Annual General Meeting of the company.
(4) Includes final dividends for the previous year and interim dividends paid to the Group during the year.
(a) Data shown for these undertakings under "financial data" are correct as of 30 November 2006.
(b) Data shown for these undertakings under "Financial data" are correct as of 30 September 2006.
(c) Data shown for these undertakings under "Financial data" are correct as of 31 December 2005.
(d) Data shown for these undertakings under "Financial data" are correct as of 31 October 2006.

Macroeconomic Environment

The global economy continued to show considerable buoyancy in 2007 thanks to the strength of the emerging markets and continuing robust growth in Europe. China grew at its highest rate for more than a decade, while the euro area benefited from positive labour market developments. Meanwhile, growth in the USA remained moderate as residential investment slowed. The Japanese economy also continued to show modest growth. Overall, however, the world economic outlook worsened as financial markets suffered bouts of turbulence and global credit markets tightened as a result of problems in the US sub-prime mortgage sector. On the inflation front, global price levels were pushed higher by rising food and energy costs in the latter part of the year.

The Spanish economy performed well over the year as a whole, growing at a rate similar to 2006, close to 4.0%. Activity slowed gradually as the year progressed, although the pattern of growth was more balanced. Weaker consumer spending and investment in construction contrasted with a less lacklustre contribution from exports and an excellent performance from investment in plant and equipment. Looking ahead, economic confidence on the part of businesses and consumers is likely to further weaken growth rates. On the labour market front, unemployment stabilized at around 8% of the workforce and job creation, although moderating, continued its positive trend. With regard to inflation, consumer prices accelerated in the last few months of the year, reaching annualized rates of more than 4.0%. Domestic inflation continued the pattern of the last few years, with rates remaining above those in the euro area as a whole. However, there was some slackening in the rate of growth of house prices, continuing a trend that began in 2004. On the fiscal front Spain's public finances remained healthy, with the Economics Ministry forecasting that the government would end the year 2007 with a budget surplus of 1.8% of GDP.

Financial market turbulence in the second half of the year impacted on the monetary policy of the main central banks, causing them to make further injections of liquidity to restore the markets to a state of normality. The Federal Reserve kept the Fed Funds rate at 5.25% throughout the first half of the year against a backdrop of fears over the inflationary outlook. In the second half of the year the Fed eased rates to 4.25% in three stages (18 September: 0.25%; 31 October: 0.25%; 11 December: 0.25%) with the aim of mitigating the adverse effects of tightening credit conditions and a slowing economy. In the euro zone, the European Central Bank (ECB,) continued the cycle of interest rate rises in the first half of the year, increasing its benchmark rate from 3.50% to 4.00%. From June onwards official rates remained unchanged despite annual eurozone inflation of 3.1% –its highest level since mid-2001– and the institution's admission that inflation risks were clearly on the upside. The ECB saw no reason to change its monetary policy, given the uncertainty over the potential economic impact of financial market turbulence. The Bank of Japan limited itself to a quarter per cent increase in interest rates to 0.5% in February, having left rates unchanged since July 2006. The process of returning to a normal monetary policy has been stopped in its tracks by the recent financial upheavals.

On the long-term government bond markets, an increase in yields in the first half of the year was followed by falling yields in the second half. From the end of the first half onwards, bond prices began to reflect a worsening growth outlook as bonds became a refuge in an environment of reduced financial stability. However, measures to curb liquidity in Asia, the trend towards diversification of global reserves away from government bonds and increased inflation expectations limited the fall in yields. In fact, in the year as a whole, US government bonds outperformed European as a consequence of economic cycles being out of phase and divergences in monetary policy in the two regions.

In the currency markets, the dollar weakened more sharply against the euro. The US currency fell to the lowest levels seen since the launch of the single European currency, trading at around USD 1.50 against the euro in late November. The dollar slide was driven by uncertainty over the US economy, as the US property market plunged and consumer spending looked vulnerable. News of diversification of central bank reserves and reduced euro zone/US interest rate differentials were further contributors to dollar weakness. The yen appreciated strongly against the dollar, especially in the second half of the year. The Japanese currency benefited from increased market volatility and heightened uncertainty, causing capital to return to Japan as speculative carry trade positions in the yen were unwound.

Most of the world's equity markets ended the year with positive returns. Support for equities in the first half of the year was provided by continuing low bond yields and high corporate earnings growth. In the second half, however, equity markets were affected by difficult conditions in the credit derivatives market. This led to significant losses for financial businesses with exposure to the US sub-prime mortgage market, and corporate earnings in other sectors also suffered as credit conditions worsened.

Business Review

2007, Banco Sabadell's 126th year of trading, has clearly shown the strength of the institution, which has achieved an excellent consolidated profit despite the instability that has characterized global financial markets in recent months. This growth in consolidated earnings can be seen not only in the overall group performance, but is manifest across all the main business areas (Commercial Banking, Corporate Banking, Banco Urquijo, Bancassurance and Asset Management), underscoring the success of the diversified and stable growth strategy put in hand by Banco Sabadell.

For Banco Sabadell 2007 was also a year of excellent progress on the organizational and operational fronts: the group's business performance and operational efficiency reaped the benefits of the swift merger and integration of Banco Urquijo in just five months in the second half of 2006, and Banco Sabadell quality of service was once again a key differentiating feature. Objective ratings of bank branch service quality prepared by specialist consultancy firm STIGA showed that the group maintained its position of pre-eminence in the domestic banking industry, achieving a score of 7.88 at the end of September compared with an average of 7.29 for the industry as a whole.

The group's strong performance in 2007 resulted in a pre-tax profit for the year of €989,840,000, an increase of 57.2% over the figure for 2006. For the attributable net profit the inter-year comparison is distorted by the profit on the sale of the Landscape group in December 2006.

Balance Sheet

At the end of 2007, gross loans and advances to customers totalled €63,219.33 million, an increase of 13.6% on the year.

Specialized financing solutions for business, a key area of lending for Banco Sabadell, showed significant growth compared to the previous year. The factoring business grew by 44.0%, while advances to businesses of the type known as "confirming" were up by 17.2%.

Mortgage lending also grew notably (16.6%), with loan-to-value ratios (the relationship between the amount of a loan and the value of the mortgaged property) standing at 52.4%.

Other components of gross lending also showed a year-on-year increase in nearly every case, with the "other secured loans" and "other loans" categories seeing particularly sharp increases of 24.2% and 12.0% respectively.

On-balance sheet customer deposits and issued securities were up by 10.7% on 2006, with term deposits showing particularly strong growth to a year-end total of €15,634.69 million – a rise of 71.4% – thanks to vigorous sales initiatives and targeted campaigns to attract deposits.

Pension funds, a key component of customer funds under management, reached a year-end total of €3,502.16 million, an increase of 5.6% compared with the end of 2006. A particularly strong performer was the "BS Pentapensión" pension plan, which saw plan assets increase by 18.8% over the year.

Assets held in mutual funds and open-end investment companies (OEICs), on the other hand, were affected by the economic environment and fell back by 5.7% as stock markets declined in the latter months of the year.

Total customer funds under management were at a year-end total of €86,578.09 million, increasing by €6,330.38 million, or 7.9%, compared with the previous year.

Margins and Profits

The group's consolidated income for 2007 showed good growth across all business areas, again thanks to successful sales campaigns and the resulting increases in business volumes, as well as group-wide efforts to hold down recurring costs.

Net interest income reached a figure of €1,317.24 million, up 20.0% on the previous year. This increase is partly due to the fact that in 2007 Banco Urquijo operations for the whole year were included in the accounts, while in 2006 only six months" operations were included. Even on a comparable basis, however (i.e. taking Banco Urquijo as being included from January 2006 onwards), the increase in the year would still be considerable (17.9%), thanks to steadily growing average volumes in both lending and deposits.

The contribution of equity-accounted undertakings to group profits increased by 12.8% over the year, with good growth in the results not only of the group's banking associates but also in the performance of its venture capital investments.

Net fee and commission income was up by 14.5% on the year (7.5% if Banco Urquijo is included from January 2006 onwards). Although the growth of fees and commissions from mutual funds was held back by declining stock markets, this item still grew by 20.2% over the year (7.6% with Banco Urquijo included from January 2006). Fee and commission income from pension funds increased by 23.7% (18.4% with Banco Urquijo included from January 2006), helped particularly by the steady growth of the BS Pentapensión plan, whose assets reached a year-end total of €987.92 million (€831.93 million in 2006). Fees and commissions on services, despite being adversely affected by the stock market downturn and the consequent fall in commissions on securities trading in the last part of the year, showed an increase of 11.5% (6.4% with Banco Urquijo included for the whole of 2006).

Income from the group's insurance businesses continued the upward trend shown in previous years, reaching a total of €78.40 million, up 31.1% on the figure for 2006, with margins on the *Plan Ahorro* and *Multinversión* products showing especially good growth.

Income from trading increased by 156.5%, thanks partly to larger capital gains on bond and equity portfolios and increased net revenues from derivatives trading.

All this contributed to a rise in gross operating income of €2,196.40 million, up 21.2% on the previous year (17.2% with Banco Urquijo included from January 2006).

Operating expenses were €1,025.04 million, an increase of 12.1% compared with 2006 (6.1% with Banco Urquijo included from January 2006). This figure includes a series of non-recurring costs related to a programme of taking opportunities to improve operating efficiency (consisting mainly of staff reorganization involving compensation payments and staffing changes).

Recurring personnel expenses, with Banco Urquijo included for the whole year, grew by 8.3%, while administrative expenses were down 1.3%, helped by efficiency optimization and cost control initiatives.

As a result, the cost:income ratio showed a significant improvement (declining from 50.47% in 2006 to 46.67% in 2007), reflecting the fact that the year's 21.2% increase in operating income was considerably greater than the increase in operating costs (12.1%).

A total of €128.39 million was allocated for depreciation and amortization charges, a 20% increase compared with the figure for 2006 (17.6% with Banco Urquijo included from January 2006). This increase was due largely to investment in computer software and equipment, furniture, and amortization of intangibles recognized on the integration and fusion of Banco Urquijo.

Net operating income in 2007 rose to €1,059.03 million, up 30.1% on the figure for 2006.

Impairment losses and net provisions were down by 13.9% overall compared with the year before, mainly as a result of the slower growth in lending.

The loan loss ratio – bad and doubtful loans as a proportion of total lending – ended the year at 0.47%. The loan loss coverage ratio was 394.29%.

The group's profit before tax was €989.84 million, up 57.2% on the figure for 2006. Apart from the factors outlined above, this was helped by sales of a number of private equity investments and high-value properties.

The year-on-year increase in the net attributable profit was, as mentioned earlier, affected by the gain on the sale of Landscape in 2006; the change with respect to 2006 is therefore not meaningful.

Expansion of branch network

At the close of the year Banco Sabadell was operating a total of 1,249 offices and branches compared with 1,204 at the same time in 2006 - a net increase of 45 branches. Of these 1,249 branches, 1,225 were in Spain and the remaining 24 formed the Bank's international network.

The number of domestic branches, which increased this year by 38, can be broken down as follows: 1,142 Commercial Banking branches (operating under the SabadellAtlántico, Banco Herrero and Solbank names); 66 Corporate Banking branches, and 17 Private Banking branches.

The Bank's international network now comprises 24 branches and offices, having added seven new branches since the end of last year. These new branches are all within the Miami metropolitan area and carry the Transatlantic Bank name, having been added to the network on completion of the acquisition of Transatlantic Bank by Banco Sabadell in the first half of 2007. Apart from these seven branches, the Bank's presence in foreign countries consists of three operating branches and 14 representative offices.

Divisional Review

Commercial Banking

Commercial Banking is a key area within the Banco Sabadell business structure. With its focus on providing financial products and services to individuals, SMEs and retailers, it has the degree of specialization required to ensure that customers receive personalized attention to suit their needs, whether from expert staff assigned to branches operating under the various group brands, or via other channels designed to support the relationship and give customers access to remote banking services.

Commercial Banking comprises the Spanish market sectors (small and medium-sized firms, retailers and private customers) addressed by the SabadellAtlántico, Banco Herrero and ActivoBank brands.

€'000

	2007	2006	Change y.o.y. (%)
Net interest income	**802,709**	**689,597**	**16.4**
Fees and commissions (net)	387,295	348,068	11.3
Gains or losses on financial assets and liabilities (net)	14,692	8,674	69.4
Foreign exchange differences (net)	20,984	19,885	5.5
Gross operating income	**1,225,680**	**1,066,224**	**15.0**
General administrative expenses	(406,853)	(361,017)	12.7
Personnel expenses	(333,579)	(297,168)	12.3
Other administrative expenses	(73,274)	(63,849)	14.8
Depreciation and amortization	(29,440)	(26,147)	12.6
Allocation of indirect costs	(261,458)	(234,454)	11.5
Other operating income	0	0	–
Net operating income	**527,929**	**444,606**	**18.7**
Impairment losses	(58,666)	(68,368)	(14.2)
Other gains/losses	0	0	–
Profit or loss before tax	**469,263**	**376,238**	**24.7**
Ratios (%):			
ROE	21.1%	17.6%	–
Cost:income ratio	52.0%	53.3%	–
Other information:			
Employees	6,627	6,532	1.5
Branches in Spain	1,142	1,107	3.2
Loans and advances to customers (€m)	28,691	25,955	10.5
Customer funds (€m)	33,084	31,383	5.4

The successful implementation of our business strategy, steady increases in all market segments and our policies for negotiating on prices and commissions combined to produce a year-on-year increase of 15% in gross operating income.

Finance income was up 37.4%, and careful management of balance sheet funding enabled us to increase net interest income by 16.4% on the previous year.

Productivity increases combined with strict cost controls were responsible for increases in business volumes, with operating costs rising by a mere 3.7% on a like-for-like basis, helping to increase net operating income by 18.7% year on year (27.2% on a comparable basis).

The improvement in recurring costs, combined with the reduced impact from bad debt provisions, helped to raise the profit attributable to Commercial Banking to €469 million, up 24.7% on the year before.

Throughout the year sales and promotion activities were strongly focused on new customer recruitment. Thanks to the success of campaigns such as *BS ClickOK, Contrato Directivos, Captación Nóminas, BS Júnior, Colectivos* and *Captación Pymes*, Commercial Banking was able to secure 164,000 new personal customers and close to 27,000 new corporate customers.

In our business with the micro-enterprise and small and mid-sized company segments we continued to pursue an active, sustained and sharply-focused market approach which helped to produce good growth in these segments. This remains the strongest growth area for Commercial Banking, with increases of 17.35% in lending and 6.80% in funding, including a healthy rise in deposits.

Within the SME sector, "confirming" and factoring, services specially designed to help firms manage their working capital requirements, increased by 67.11% and 18.28% respectively, a clear sign of the popularity of these products among small businesses. In the area of medium-term finance, the operating lease business showed excellent volume growth, particularly in contract vehicle and plant hire, increasing by 37.49%.

In the provision of subsidized finance to small firms, a total of €663 million was made available under the ICO Pyme 2007 scheme. The group's share of official funds distributed to banks under these schemes reached 7.78%, confirming our position as a key provider of finance for productive investment by SMEs, retailers and sole traders.

Promotional efforts in the area of international trade were intensified during the year, particularly with a view to growing our business in foreign exchange management for larger companies through campaigns based on exchange rate hedging instruments.

There was also a considerable increase in take-up of products specially designed for the SME, small retailer and sole trader market.

The *BS Microempresas* package of special services for retailers is now well established as a competitive offering which sets us apart from the competition and played a key role in attracting new accounts.

A newly-launched package of specialist products, *BS Autónomos*, offers a complete range of financial and non-financial services designed specially for sole traders, and includes an innovative income protection policy, *BS Protección Subsidio*, to provide a dependable source of income, thus offering protection against unforeseen circumstances.

BS Comercios offers a full range of financial and non-financial services specially designed to provide solutions for retailers. Since the product was launched, more than 37,400 customers throughout the country have signed up for the programme, a sure sign of the popularity and high quality of the package.

In the Personal Banking segment, efforts throughout the year were concentrated on growing the customer base and on capturing new deposits. This was rewarded with year-on-year increases in fixed-term and structured deposits, which were up by 32.5% and 75.1% respectively.

The Private Banking business continued to grow at an excellent pace, with year-on-year increases of 53% in funding and 53.8% in the number of clients.

Particularly encouraging was the good reception given to *BS Sports&Entertaintment* in the trade press; this recently-launched venture specializes in developing and managing relationships with customers from the world of celebrity sports, show business and the media.

A particularly successful example of our specialized product offering was the latest issue of the *BS Multiinversión Privada*, which has resulted in an inflow of €30 million and a steadily-growing uptake of customized structured deposits.

As with the "personal customer" category generally, promotional activity focused on the "mass market" or "retail" segment helped to bring in new customers and increase funding.

To secure funds available for lending, efforts were focused mainly on campaigns based on deposit and instant access accounts. One high-yield (5%) deposit account resulted in an inflow of more than €1,000 million from September to the end of the year; other highlights included the "multi-option" account (with rewards paid in the form of goods) and a campaign to open new accounts launched in the last quarter of the year based on a free Leo Messi watch.

The youth and sub-teen markets were boosted by customer recruitment and loyalty programmes. The *Clic OK* programme increased its range of products designed specially for young people; another sales campaign offered free gifts in exchange for depositing a certain sum of money into a junior account. Other developments included the design and launch of the "Project" account (a savings account paying interest at 3%) and an awareness-raising campaign for the "Youth Mortgage".

All this activity targeted on different market segments – SMEs, private customers (personal banking, wealth management and retail banking), non-residents and professional groupings – resulted in an improved cost:income ratio (down 1.3%) and ROE (up 3.5%) compared with the previous year.

Corporate Banking

Corporate Banking is the group business that addresses domestic and foreign companies and institutions with sales of more than €6 million.

For Corporate Banking, 2007 was one of the best of the last few years, with pre-tax profits rising by 65.5%. Of the various factors that helped in achieving this growth, the most critical were the huge efforts made to increase the customer base and the strong focus on developing lines of business that would have most impact on the ROE.

€'000

	2007	2006	Change y.o.y. (%)
Net interest income	**466,958**	**351,378**	**32.9**
Net fees and commissions	157,008	130,450	20.4
Gains or losses on financial assets and liabilities (net)	31,356	27,577	13.7
Foreign exchange differences (net)	24,497	22,023	11.2
Gross operating income	**679,819**	**531,428**	**27.9**
General administrative expenses	(90,667)	(74,531)	21.7
Personnel expenses	(75,999)	(61,932)	22.7
Other administrative expenses	(14,668)	(12,599)	16.4
Depreciation and amortization	(5,174)	(4,560)	13.5
Allocation of indirect costs	(59,743)	(52,958)	12.8
Other operating income	858	520	65.0
Net operating income	**525,093**	**399,899**	**31.3**
Impairment losses	(117,952)	(160,082)	(26.3)
Other gains/losses	(115)	6,053	–
Profit or loss before tax	**407,026**	**245,870**	**65.5**
Ratios (%):			
ROE	11.5%	8.2%	–
Cost:income ratio	21.2%	23.0%	–
Other information:			
Employees	1,156	1,140	1.4
Branches in Spain	66	63	4.8
Loans and advances to customers (€m)	31,340	26,554	18.0
Customer funds (€m)	13,712	11,862	15.6

Business highlights in 2007 included volume growth of 18.0% in lending and 15.6% in funding. These volume growth figures reflect the drive in 2007 to achieve a much more balanced growth in lending and in funding, and hence a more favourable funding ratio for the unit.

Growth was very evenly distributed across categories of lending, whether for the financing of working capital or the purchase of productive equipment, or for more specialized types of financing requiring a more sophisticated approach (Investment Banking). Particularly good growth was achieved in the areas of forfaiting (41%), factoring (45%), vehicle and equipment leasing (41%) and structured loans (20%).

On the funding side, efforts to attract new funds were again a key area of activity at branch level, and were pursued in close co-operation with the BS Patrimonios team. The result has been a substantial improvement in the unit's liability structure and considerably boosted profitability, with a year-on-year increase of 37.7% in the funding margin. This growth was achieved thanks to improvements in the quality of advice given to customers, and through a more sophisticated, higher margin product offering.

The increase in external funding reflects a shift of emphasis in the product offering from primarily working capital management products to the provision of advice to help customers manage their liability structures to make them more stable, and to manage their assets. This is reflected in the growth of such products as fixed-rate deposits (386%), structured deposits (73%) and mutual funds (15%).

Fees and commissions on products and services also saw good growth, as for example in the case of avals (14%), receivables management or factoring services (44%), and the specialist M&A, company valuation, capital market and fixed-income origination services offered by the group's subsidiary Sabadell Corporate Finance (63%).

All these factors contributed to a 27.9% year-on-year increase in gross operating income which, after deducting operating costs, resulted in a 31.3% rise in net operating income.

If we take account of the lower impairment provisions required in 2007 (down 26.3% on the previous year), the increase in pre-tax income rises to 65.5%. The reduced level of provisions was made possible by the slowdown in lending growth; this more moderate growth, however, was balanced by stronger growth in types of business not requiring provisioning of this kind.

The strong performance of the Corporate Banking business resulted in an excellent improvement in the cost:income ratio, which was 1.75 points lower, and added another 3.3 points to the ROE.

The group's London and Paris branches also made notable contributions to Corporate Banking results, with operating income up by 152.3%. The improvement in income was made possible by more effective sales promotion and faster business growth; this was helped by close cooperation between the branches and Corporate Banking offices in Madrid and Catalonia.

Banco Urquijo

Banco Urquijo is the result of a consolidation of the business of Sabadell Banca Privada with the private banking business that was transferred from the former Banco Urquijo.

The new bank was set up to serve private banking clients requiring a personalized, independent service to meet their special service and reporting needs.

All figures for 2006 were affected by the integration of business in December 2006, following the acquisition of Banco Urquijo that same year. It has therefore been necessary to restate the figures on a like-for-like basis so they can be compared with the figures for 2007 which do relate to a full year's activity.

€'000

	2007	2006	Change y.o.y. (%)
Net interest income	**26,328**	**9,802**	**168.6**
Net fees and commissions	46,580	14,740	216.0
Gains or losses on financial assets and liabilities (net)	168	43	290.7
Foreign exchange differences (net)	1,926	525	266.9
Gross operating income	**75,002**	**25,110**	**198.7**
General administrative expenses	(31,345)	(6,933)	352.1
Personnel expenses	(22,257)	(6,324)	251.9
Other administrative expenses	(9,088)	(609)	1,392.3
Depreciation and amortization	(4,984)	(1,260)	295.6
Allocation of indirect costs	(7,012)	(3,533)	98.5
Other operating income	58	0	–
Net operating income	**31,719**	**13,384**	**137.0**
Impairment losses	(652)	(2,304)	(71.7)
Other gains/losses	(1,223)	(558)	–
Profit or loss before tax	**29,844**	**10,522**	**183.6**
Ratios (%):			
ROE	20.8%	17.9%	–
Cost:income ratio	49.9%	40.2%	–
Other information:			
Employees	267	267	0.0
Branches in Spain	17	17	0.0
Loans and advances to customers (€m)	1,456	1,400	4.0
Customer funds (€m)	5,451	5,288	3.1
Securities	6,472	6,701	(3.4)

Net interest income showed an increase of 168.6% on the year. On a comparable basis, the increase would be 13.5% on the same period the previous year.

The substantial improvement in gross operating income is due in large measure to strong business growth in customized structured bond investments. Net fees and commissions also saw good growth, increasing by 216% on the previous year. On a comparable basis, this figure would be 14.8%.

Net operating income was up 137.08% on 2006 and continued to show the impact of intangible asset amortizations following the transfer of the private banking business and the consolidation of the recurring costs of the planned structure of the new Banco Urquijo. On a comparable basis, the increase in net operating income is 9.9%.

Profit before tax, at €29.8 million, showed a comparable basis increase of 14.7%.

At the close of the year Banco Urquijo had achieved a business turnover of €13,379 million.

Customer accounts at 31 December stood at €5,451 million, with funds under management increasing by 3%. On-balance sheet funds rose by 9% over the year and off-balance sheet funds (mutual and other funds and OEICs) remained broadly unchanged, increasing by 1%.

2007 was a year of consolidation and transformation. Changes were made to the product mix, with OEICs (or SICAVs) being reduced and investment funds, alternative investments and customized structured bonds being increased.

Banco Urquijo saw 40% growth in funds under external management, an indication of its firm intention to create an open product architecture.

Making the most of current market conditions, throughout 2007 Banco Urquijo was very active in designing made-to-measure solutions in the form of structured bonds and executing issues to a value of €400 million, an increase of 85% on the previous year. This activity generated high returns for clients and for the Bank.

In the area of alternative investments, Banco Urquijo sold two investment vehicles related to real estate assets in Berlin and co-managed an IPO for Lehman Brothers Private Equity Partners Ltd. on the Amsterdam stock market, the only Spanish bank to be involved in the transaction.

At 31 December 2007, Banco Urquijo was managing and distributing 192 SICAV-type vehicles with assets totalling €1,890 million. This made it the third largest Spanish player by volume and number of SICAVs.

Loans and advances for 2007 were up by 4%.

Banco Urquijo was ranked first in 13 categories for the Best Private Bank in Spain prize awarded by *Euromoney* magazine. This puts it among the world's top private banking entities and gives it second place among specialist private banking houses in Spain.

Categories in which Banco Urquijo was awarded first place included tax advice, estate planning, wealth management, structured products, corporate advisory services and specialized services for corporate executives and entrepreneurs.

Bancassurance

Bancassurance is a group business unit set up to offer life and non-life insurance and pension plans designed to meet the needs of the group's customers. Through the branch network, it markets a full range of provident/retirement products (savings and risk protection) designed and tailored to suit different customer segments including individual, corporate and institutional customers.

Business volumes in 2007 showed steady growth across all business lines, especially endowment policies and pension plans, with continuing improvements in both ROE and cost: income ratios.

€'000

	2007	2006	Change y.o.y. (%)
Fees and commissions on pension plans and general insurance	62,949	51,491	22.3
Insurance income	78,365	60,017	30.6
Sales commission expenses	(53,352)	(39,784)	34.1
Gross operating income	**87,962**	**71,724**	**22.6**
General administrative expenses	(10,589)	(10,632)	(0.4)
Personnel expenses	(5,117)	(4,449)	15.0
Other administrative expenses	(5,472)	(6,183)	(11.5)
Depreciation and amortization	(383)	(343)	11.7
Allocation of indirect costs	(7,303)	(7,581)	(3.7)
Other operating income	0	0	–
Net operating income	**69,687**	**53,168**	**31.1**
Other gains/losses	1,131	998	13.3
Profit or loss before tax	**70,818**	**54,166**	**30.7**
Ratios (%):			
ROE	30.2%	24.6%	–
Cost:income ratio	18.3%	22.9%	–
Other information:			
Employees	104	89	16.9
Pension plans	3,502	3,318	5.5
Endowment assurance	3,133	2,958	5.9

Savings under management at 31 December 2007 totalled €6,635 million, up 6% on the close of 2006. Of this total, €3,502 million consisted of pension plans and €3,133 million comprised endowment/cash value life policies.

Personal and group pension plans grew by 9% compared with 2006, with the *BS Pentapensión* plan up by an notable 19%. Assets in company pension schemes, at €1,196 million, remained practically unchanged from the end of the previous year.

According to the most recent published information we hold sixth place in the Spanish league table for both individual pension plans and employment-related schemes, and ninth place for pensions generally.

Individual savings/life assurance products showed an increase of 7%, with annuities, structured products (*Multinversión*) and guaranteed interest products (*Plan Ahorro*) the strongest performers. For company savings/life insurance schemes, year-on-year growth was 3%, with unit-linked products showing the biggest increase.

Gross income before sales commissions was €141.3 million, up by 26.7%, with business being fairly evenly balanced between life/protection, savings and pension products.

Commissions on personal pension plans, at €46 million, grew by a substantial 27% from the end of 2006, while commissions on individual general insurance products, at €10 million, were up by 11%.

With regard to insurance income, savings/life policies and annuities, at €45 million, were the strongest contributors, growing by 55% following the successful launch of the well-received structured product *Multinversión up front*. Income from free-standing life policies, at €30 million, increased by 6%.

Sales commissions paid to Banco Sabadell, at €53.4 million, were up 34.1% as a result of improving volumes and margins and also new agreements with other group business units.

The increase in operating costs was largely due to the launch of the new general insurance business.

The generally strong business performance outlined above was reflected in a 30.7% rise in the pre-tax profit for 2007 to a total of €78.8 million. ROE and cost:income ratios improved over the year, with the ROE rising from 24.6% in 2006 to 30.2% in 2007, and the cost:income ratio falling from 22.9% to 18.3% over the same period.

Asset Management

This business unit combines asset management with the distribution and management of collective investment schemes (CIS's); it also manages investments for other Banco Sabadell group businesses that hold portfolios of assets on behalf of customers.

€'000

	2007	2006	Change y.o.y. (%)
Gross operating income	**53,944**	**36,872**	**46.3**
General administrative expenses	(13,782)	(7,639)	80.4
Personnel expenses	(9,348)	(5,182)	80.4
Other administrative expenses	(4,434)	(2,457)	80.5
Depreciation and amortization	(542)	(342)	58.5
Allocation of indirect costs	(2,999)	(2,130)	40.8
Other operating income	605	(146)	–
Net operating income	**37,226**	**26,615**	**39.9**
Profit or loss before tax	**37,226**	**26,615**	**39.9**
Ratios (%):			
ROE	135.4%	145.5%	–
Cost:income ratio	30.0%	25.4%	–
Other information:			
Employees	155	144	7.6
Net assets in CIS's (managed)	12,516	14,184	(11.8)
Net assets in CIS (including CIS's sold but not managed)	15,549	16,482	(5.7)

The marketing of mutual funds managed by the Banco Sabadell group was successful in maintaining a net inflow of funds into guaranteed fixed-income and treasury management funds, both of which are characterized by their conservative investment bias. Overall, however, in 2007 the funds managed by BanSabadell Inversión saw a net outflow. This explains the fact that despite some notably high returns, assets under management in collective investment schemes was down by 11.8% on the year.

Equity funds showed positive returns on the year, but experienced the largest net asset outflows of the various types of investment vehicle. As a result, their share of the assets of all Spanish-regulated funds under group management fell from 18.3% at 31 December 2006 to 15.3% at the close of 2007.

During the year the range of guaranteed funds continued to be actively sold, with capital growth guarantees being issued in respect of seven guaranteed funds with a total value of €592.million at 31 December 2007 (€1,070 million at 31 December 2006). Guaranteed funds as a whole accounted for €2,845.4 million in assets at the close of the year, a fall of 6.8% compared with the end of 2006. The aggregate value of assets held by fixed-income and guaranteed funds at the end of 2007 accounted for 69.6% of total assets under management in Spanish-regulated investment funds, compared with 65.0% at the end of 2006.

One point worth mentioning is the positive balance of subscriptions/redemptions for real estate investment funds in 2007, despite this year seeing the start of a correction in the residential property market. Sabadell BS Inmobiliario FII, launched in early 2004, now has 11,131 fundholders and increased its assets by 13.9% in the course of 2007, making it the third largest Spanish real estate fund in terms of managed assets, and Spain's highest-returning real estate fund with an annual return of 6.7%, giving it first place in the league table compiled by INVERCO.

Many Banco Sabadell investment funds, and the group's fund management arm, BanSabadell Inversión, once again received resounding accolades and distinctions in 2007. The French business school EDHEC and specialist investment fund analysts Europerformance named BanSabadell Inversión, for the second year in a row, as the third best Spanish fund manager in terms of alpha returns. Ten of our funds were rated A or higher by Standard & Poor's Investment Services. BanSabadell Inversión is fast becoming a Spanish market leader in high-rated funds. For example, Sabadell BS Dólar Bolsa, FI was given a top AA rating, indicating very high quality management, and Sabadell BS España Dividendo FI, Sabadell BS España Bolsa FI, InverSabadell 25 FI, InverSabadell 50 FI, InverSabadell 70 FI, Sabadell BS Renta Fija Mixta España FI, Sabadell BS Renta Variable Mixta España, FI, Sabadell BS Tesorería Institucional, FI and Sabadell BS Selección Activa V2, FI all obtained A ratings, signifying high quality management.

An equity fund managed by BanSabadell Inversión was awarded the BME Ibex Medium & Small Cap 2007 prize by Spain's stock market operator Bolsas y Mercados Españoles (BME), for best manager of funds investing in Spanish small and medium cap stocks. Standard & Poor's and the business daily *Expansión* picked out four of our managed funds for

the prize for Best Investment Fund 2007 within their respective classes, and named BanSabadell Inversión as the year's second best of all the fund managers, both Spanish and foreign, that are selling investment funds in Spain.

The year's highest-returning managed fund was Sabadell BS América Latina Bolsa FI, which returned a cumulative 25.6% for 2007.

The year 2007 saw the completion of work to rationalize the fund catalogue undertaken following the incorporation of funds formerly managed by the Banco Urquijo group. The restructuring resulted in 22 mergers in which 28 funds were absorbed by other funds with similar investment objectives, in the interests of fundholders. Another development was to set up a treasury fund to hold cash on behalf of corporate and other major clients. At the close of the year, the group had 319 collective investment schemes in operation, with management split between BanSabadell Inversión S.A., S.G.I.I.C. Sociedad Unipersonal (161 funds) and Urquijo Gestión, S.A. S.G.I.I.C. (158 funds).

BS Gestión de Carteras de Fondos, the group's portfolio of funds management unit, has assets totalling €562 million under management, with close to 9,000 investor contracts. The more aggressive risk profiles catered for by BS Gestión de Carteras de Fondos are those that have produced the highest historical returns, amounting to 43.8% over 36 months at the most aggressive end of the spectrum.

The addition of 200 collective investment schemes from the former Banco Urquijo in December 2006 resulted in assets under group management increasing by 33.3%. This explains the considerable increase in operating costs within Asset Management in 2007. However, there were also increases of 46.3% and 39.9% in gross income and net operating income respectively. This clearly reveals the benefits brought to the business by economies of scale, which helped to drive pre-tax profits up by 39.9% in the year.

Research and development

Once again in 2007, innovation was brought into service for business ends as new multi-channel solutions were introduced to bring us closer to our customers and improve cost-effectiveness.

Banco Sabadell has launched a major programme of innovation with a view to providing its customers with solutions based on a wide variety of facilities including a high-priority programme named Instant Banking - technologies to abolish the time and distance between customers and banking services.

As a result of the Instant Banking programme work is now in progress, in cooperation with Telefónica, on a number of projects that will speed up the service to customers by using mobile devices and electronic signatures. These will offer integrated solutions based on electronic certification, natural interactions via mobile devices and new forms of interaction using bidimensional code and other technologies.

Banco Sabadell and IBM are leading the way in the introduction of Web 2.0 technologies in the financial services industry. Following an agreement with IBM, a project team has been set up and will start to roll out Web 2.0 solutions in the banking environment. The team posts regular news bulletins on LabsBancoSabadell.com; according to recent announcements from the team, Banco Sabadell is:

- the first financial services business to set up a service known as Instant Broker, providing market information based on natural interaction via mobile phone
- the first financial services business to make use of bidimensional code technology to enhance the banking service user experience
- the first financial services business to set up a public blog on innovation and private blogs to encourage employee and customer involvement
- the first financial services business to offer an internet TV channel to broadcast multimedia content
- the first financial business to offer a branch location facility using Google Maps.

Banco Sabadell is also working with other major world financial institutions (Lloyds TSB, HSBC, Wells Fargo, ABN Amro, CitiBank and others) to set up the Banking Innovation Forum, on which the person(s) in charge of innovation at each institution hold meetings to discuss and exchange ideas on optimizing productivity within their respective areas of activity.

Banco Sabadell's Instant Broker natural interaction solution was shortlisted for a prize at both the Internet Global Congress in Barcelona and the Financial Innovation Awards in London. Banco Sabadell also received the CATCert prize for best electronic signature initiative by a private sector organization.

The year saw progress in the introduction of an advanced framework for improving risk and capital measurement, based on meeting risk measurement needs through enhanced rating and balance management systems. Thanks to this project Banco Sabadell is now in a privileged position with regard to its ability to fulfil Basel II requirements.

In another development during the year, as part of a process of continuous improvement, Banco Sabadell developed a new Technology Security Master Plan based on the ISO 27002 standard (an updated version of the old ISO 17799). Roll-out will commence in 2007 and is expected to be completed in 2009. The plan embraces 24 separate projects and responds to the need for constant updating and enhancement in security protection.

Outlook

Optima '09 master plan

Optimizing sales productivity and operating efficiency, leveraging our strengths and driving business diversification and innovation – these are the principles underlying the new Banco Sabadell Master Plan for the next two years.

The aim of Optima '09 – the name makes clear reference to the plan's basic objective – is to ensure that by the end of 2009 Banco Sabadell is one of the most efficient and profitable businesses in the Spanish market and has strengthened is position as a leading provider of financial services to businesses and high- and medium-income individuals and a pace-setter in high-quality service provision.

Optima '09 - the new challenges

The new plan represents a change in the Bank's strategy in response to changing and more uncertain times, after six years in which the focus as been on organic growth combined with selective acquisitions. The focus will now shift to optimizing capabilities and operational models, prioritising efficiency and profitability, and boosting our leadership in business areas where Banco Sabadell has proven strengths.

The organization has plenty of scope for the achievement of excellent results, even in the present volatile conditions.

Optima '09 will seek to leverage the Bank's pre-eminent position in the SME and corporate markets to achieve above-average increases in both lending and funding and to substantially improve net interest and operating income by making good use of the management options afforded by the Bank's diversified and flexible balance sheet structure. Other plan objectives include increased rates of new customer and deposit capture, together with improved operational efficiency to ensure below-inflation increases in operating costs.

Optima '09 is organized into three priority action areas:

1) **Optimizing our operational model**
   Operating efficiency: reducing the administrative load on branch personnel to enhance the commercial effectiveness of account managers
   Sales productivity: providing tools to make sales management more efficient

2) **Leveraging our strengths**
   Risk management model: a special risk management unit, internal rating and scoring systems, excellent risk quality above banking industry average
   Diversified, flexible asset structure: solid customer and deposit base, diversified sources of funding, comfortable liquidity position

3) **Getting the most out of our businesses**
   Commercial Banking
   Higher value businesses (SMEs, private banking and personal banking): focus on the customer, portfolio-based management, multi-channel services and management by value.
   Mass market businesses: selective entry into higher potential and more product-focused segments; cross-selling and multi-channel distribution.
   Corporate Banking: making the most of the IT platform developed over the last ten years; focus on business and corporate banking; leveraging our enhanced position and market share nationwide.
   Other businesses: positioning Banco Urquijo as Spain's best private bank, boosting our treasury management services to customers; Bancassurance: a stable, recurring business; Asset Management as a key alternative investment solution.

By completing the actions and programmes set out in the master plan, and bearing in mind the likely economic scenario, Banco Sabadell aims to achieve the following by the end of 2009:

- 12% annual growth in lending and 14% in funding
- Operating income up by €500 million
- Cost increases held below inflation
- Cost:income ratio (before depreciation and amortization) down to 37.5%
- ROE (Return on Equity) increased to 20.5%

Risk management

The main financial risks faced by the Banco Sabadell group in operations involving the use of financial instruments are credit risk, market risk and liquidity risk.

The group is aware that the accurate and efficient management and control of risk ensures that shareholder value is maximized and that an appropriate degree of solvency is maintained in a context of sustainable growth.

With this in view, the management and control of risk has been embodied in a broad framework of principles, policies, procedures and advanced valuation methods, forming an efficient decision-taking structure whose aim is to achieve an optimum balance of return and risk.

Underlying principles

The Banco Sabadell group has laid down basic principles for the management and control of risk. These are described in the following paragraphs.

- **Solvency.** Banco Sabadell has opted for a prudent and balanced policy on risk to ensure sustained and profitable business growth in line with the group's strategic targets for maximum value creation. It is vital that the structure of limits and thresholds should be able to prevent concentrations of risk from building up in such a way as to compromise a significant proportion of the Bank's capital resources. For this reason, the risk variable is taken into account in decisions at every level and is quantified according to a single measure: economic capital.
- **Responsibility.** The Board of Directors is committed to maintaining processes for the management and control of risk: drawing up policies; setting limits and responsibility thresholds at lower levels of management; and approving a risk management model and procedures and a methodology for risk measurement, monitoring and control. At the executive level there is a clear separation of functions between risk-originating business units and the functions responsible for managing and controlling risk.
- **Monitoring and control.** The ongoing management of risk is supported by robust control procedures to ensure compliance with specified limits, clearly defined responsibilities for monitoring indicators and predictive alerts, and the use of an advanced risk assessment methodology.

Credit risk

Credit risk arises from the possibility that losses may be incurred as a result of default by obligors of financial instruments held by the group.

Credit risk exposure is subjected to rigorous monitoring and control through regular reviews of borrowers' creditworthiness and their ability to meet their obligations to the group, with exposure limits for each counterparty being adjusted to levels that are deemed to be acceptable. It is also normal practice to mitigate exposure to credit risk by requiring borrowers to provide security or other guarantees to the Bank.

The group makes provisions to cover against credit risk, both in respect of specific losses actually incurred at the balance sheet date and for other losses that could be incurred in the light of past experience. This is done in such a way as to ensure that losses could never exceed loss provisions even in the event of a major change in economic conditions or in borrower quality.

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

The relationship manager monitors the business aspect through direct contact with customers and by handling their day-to-day banking, while the risk analyst takes a more system-based approach based on his specialized knowledge.

The Board of Directors delegates powers and discretions to the Risk Control Committee, which then sub-delegates authority at each level. The implementation of authority thresholds on credit approval management systems ensures that

powers delegated at each level are linked to the expected loss calculated for each transaction of every business customer on the system.

The establishment of advanced methodologies for managing risk exposures, in line with the new Basel Capital Accord (NBCA) and best practice, also benefits the process in ensuring that proactive measures can be taken once a risk has been identified. Of vital importance in this process are risk assessment tools such as credit rating for corporate borrowers and credit scoring for retail customers, as well as indicators that provide advance alerts in monitoring risk.

Recovery of past-due accounts is the responsibility of a specialized function which coordinates initial out-of-court negotiations and, where necessary, legal proceedings conducted by the group's legal department or independent legal advisors, depending on the nature of the proceedings and the amount to be recovered.

Market risk

Market risk arises from the possibility of a loss in the value of a position or financial instrument held by the group due to changing market conditions such as movements in equity market prices, interest rates or exchange rates.

Different approaches are taken to the management of market risk, depending on which of the group's main business lines has originated the risk:

- Risks originated by the group's customer-focused commercial banking and corporate banking businesses, known as structural risk. This can be sub-classified into interest rate risk, currency risk and liquidity risk. These categories of risk are discussed separately below.
- Risks generated through proprietary trading or market making activities by group undertakings, including trading in equities, bonds or derivatives. Most risks of this kind originate from treasury and capital market operations, and it is with these risks that this section is specifically concerned.

Discretionary market risk is measured by the VaR (Value at Risk) method, which allows risks on different types of financial market transactions to be analysed together as a single class. The VaR method provides an estimate of the potential maximum loss on a position that would result from an adverse, but normal, movement in any of the above risk factors. This estimate is expressed in monetary terms and is calculated at a specified date, to a specified confidence level and over a specified time horizon.

Market risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits assigned to each unit are sent to the risk control functions. Limits are assigned by the Board of Directors for each risk monitoring unit (based on nominal amounts, VaR or sensitivity limits, as applicable). This makes it possible to keep track of changes in exposure levels and measure the contribution of each risk factor.

Risk control of this kind is supplemented by special 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 VaR estimates are consistent with the specified confidence level. Using the VaR methodology does not, however, rule out the possibility that losses will be above the set limits, as significant market movements may occur that exceed the confidence levels being used.

Interest rate risk

Changes in interest rates can affect financial instruments held by the group in two ways: through changes in their value and changes in their future cash flows.

As a holder of both these kinds of instrument, the group is subject to both of types of exposure to unexpected interest rate movements. Such movements may ultimately translate into unforeseen changes in net interest income if, as is common in banking, there is a temporary mismatch in the maturity or repricing dates of asset, liability or off-balance sheet positions.

Interest rate risk is managed on a consolidated basis for the whole group. This task is performed by the Asset and Liability Committee, although separate but coordinated risk management is also carried out within individual companies and areas of business such as insurance. The management of interest rate risk involves proposing alternative business or hedging strategies to ensure that business objectives are appropriate to market conditions and the group's asset position, and that the limits set by the Board are strictly observed.

A number of methodologies are used to measure interest rate risk, allowing a more flexible approach to be taken. One of these methodologies is to measure the sensitivity of net interest income to changes in interest rates over a one-year horizon on a maturity and repricing matrix. In this technique the carrying values of financial assets and liabilities are grouped according to their maturity dates or the dates on which their rates of interest come up for review, whichever is earlier. In this particular type of analysis the maturity or repricing dates are the same as those fixed by contract and no other assumptions are made. The analysis allows an estimate to be made of the effect that a change in interest rates would have on net interest income, assuming that all rates change by the same amount and in a sustained manner.

Sensitivity gap analysis is supplemented by a simulation technique which measures the effect of different interest rate movements at different maturities, i.e. 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 technique that is used is to measure the sensitivity of equity to changes in interest rates by duration gap analysis. This measures the effect of interest rate changes over a longer time horizon.

Currency risk

Currency risk is the possibility of losses being incurred due to changes in the prices of currencies in which financial instruments are denominated, and results from the taking of matched open asset and liability positions.

The group's structural foreign currency exposure remained stable throughout 2007 and comprised long-term investments in foreign branches and subsidiaries.

The group's foreign currency exposure is not significant and is generally incurred in order to facilitate customer business transactions. A summary of the group's exposure to the main foreign currencies is provided in note 26.

The Board of Directors sets overall daily limits for intraday positions (positions resulting from all transactions up to a certain moment in a single day) and overnight positions (positions reached at the end of the day). These limits are monitored on a daily basis.

Liquidity risk

Liquidity risk is defined as the possibility of the group being unable to meet payment commitments, even if only temporarily, due to a lack of liquid assets or of its being unable to access the markets to refinance debts at a reasonable cost. Liquidity risk may be caused by external factors such as a financial market downturn, systemic crisis or reputational issues, or internally, by an excessive concentration of maturing liabilities.

The group is exposed to daily demands on its available cash resources to meet contractual obligations related to financial instruments, such as maturing deposits, drawdowns of credit facilities, settlements on derivatives and so on. Experience shows, however, that only a minimum amount is ever needed and such needs can be predicted with a high degree of confidence.

Limits are set by the Board of Directors for the maintenance of minimum cash levels and for structural borrowing levels. The group monitors changes in its liquid asset position on a daily basis and holds a diversified portfolio of such assets. It also carries out yearly projections to anticipate future needs.

In addition, a review is carried out of gaps or mismatches between cash inflows and outflows over a short, medium and long time horizon using a maturity matrix based on the time remaining between the date to which the financial statements were made up and the contract maturity dates of assets and liabilities.

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 short, medium and long term. The Banco Sabadell group meets its cash needs in a number of ways and has programmes in place to raise finance on the capital markets to ensure diversified sources of funds.

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.

Banco Sabadell pays particular attention to operational risk and has developed a management approach based on a dual methodology.

To further enhance the group's awareness of potential risk before it occurs, a new methodology is being introduced based on the analysis of processes by the managers responsible for those same processes, to identify the associated risks and assess existing control levels - a quantitative analysis of actual loss events to support the process of learning by experience. The early detection of risk is further supported by the use of key indicators of causal or management-related factors, which provide a measure of potential risk exposure over which managers have some control.

This dual approach results in a measurement system which provides a level of operational risk associated with every Banco Sabadell group process.

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 help to ensure that casualty and liability insurance is used in the most efficient way.

Customer Service Department - update

The group's Customer Service Department is responsible for looking into and resolving claims or complaints from customers or other users of the group's financial services that relate to their statutory rights and interests under contracts, disclosure requirements, customer protection regulations or financial services industry best practice.

In addition to its primary function, the Department provides assistance and information to customers and users on matters that do not amount to complaints within the meaning of the Spanish Economics Ministry's Order 734/2004 of 11 March, and the Bank's own regulations for the protection of customers and users. A total of 1,123 cases of this type were handled by the Department in 2007, up from 1,083 in 2006.

Organizationally, the Customer Service Department is part of the control function within the Banco Sabadell group. The head of the Department is appointed by the Board of Directors and reports directly to the Comptroller General.

Average response times in dealing with claims and complaints were 27.57 days in highly complex cases (24.89 days in 2006); 11.45 days for cases of medium complexity (11.12 days in 2006); and 6.17 days in cases of low complexity (6.08 days in 2006). This compares with the 60-day maximum response time under the Economics Ministry's Order and our own regulations for the protection of customers and users.

In the last annual report published by the Bank of Spain's complaints department, which covers the year 2006, Banco Sabadell was specifically cited as an example of good practice, both within the industry and generally. According to the most recent report published by the Bank of Spain on 31 December, which related to the second quarter of 2007, Banco Sabadell continues to show the lowest ratio (number of complaints/turnover in €m) of complaints handled by the Bank of Spain.

Cases Handled

In 2007 the Customer Service Department received 1,843 cases (1,696 in 2006), of which 1,790 (1,659 in 2006) were looked into according to the procedure established by the Economics Ministry's Order 734/2004. A total of 1,809 were resolved or otherwise dealt with (1,608 in 2006), of which 53% were complaints and 47% were claims (55% complaints and 45% claims in 2006). At the end of the year 92 cases remained unresolved (110 in 2006).

Of the total number of cases examined by the Customer Service Department, 30% resulted in a decision favourable to the customer or user (30% in 2006); 5% were settled by agreement with the customer or user (6% in 2006), and 11% were resolved partly in the customer or user's favour (13% in 2006). The remaining 54% of cases resulted in a decision favourable to the group (51% in 2006).

Customer and Stakeholder Ombudsman

The group has a Customer and Stakeholder Ombudsman, a role which is performed by Esteban María Faus Mompart.

The Ombudsman deals with claims or complaints referred to him by customers or users of the Banco Sabadell group, either directly or on appeal from a prior procedure. He also adjudicates on cases referred to him by the Customer Service Department.

A total of 283 cases were received by the Ombudsman directly (259 in 2006) and another 37 were referred to him by the Customer Service Department (22 in 2006). Of the 320 claims received (281 in 2006), 303 were looked into and resolved by the Ombudsman (264 in 2006), with 46% being decided in the group's favour (46% in 2006) and 28% in the customer's favour (6% in 2006). Of the other cases where a decision or other settlement was reached, the Bank accepted the claim or complaint in 8% of cases (30% in 2006) and 11% resulted in decisions only partly favourable to the group (13% in 2006). In 1% of cases (5% in 2006), the Ombudsman declared the matter to be beyond his competence (without prejudice to the claimant's right to take his claim elsewhere) and a further 6% were settled by agreement with the customer or user (0% in 2006).

Complaints to Supervisory Authorities

Under Spanish law customers and other users of financial services are entitled to submit complaints or claims to the Bank of Spain's complaints department, to the stock market regulator (CNMV), or to the Directorate-General for Insurance and Pension Plans. To do so, however, they must first have sought a resolution of the issue by raising it directly with the bank or other institution involved.

Additional Information for listed companies

Capital structure

Details of the group's capital structure can be found in Note 29 of this Report, including details of any classes or series of shares, the rights and obligations attaching to any such classes or series and the proportion of the share capital they represent.

Restrictions on transferability of shares and associative agreements

Under Article 30 of the Bank's articles of association shares are freely transferable.

On 27 July 2006 an associative agreement was entered into by a number of shareholders, the purpose of which was to regulate certain limitations on the transferability of shares in the Bank held by them directly or indirectly. Clause 2.2 of the associative agreement reads as follows: *"Without prejudice to the relevant articles of the Articles of Association or to such Terms of Clause 2.1 as relate to transfers of shares, we, the Shareholders, hereby agree and bind ourselves to abstain from selling, transferring, assigning, surrendering up or otherwise dealing with or charging the rights in the shares or any voting or dividend rights attaching thereto without granting a preferential right of purchase to the others in respect of any shares to be so transferred."*

The agreement will remain in force for ten years, after which the agreement (unless expressly terminated) will be renewed automatically for successive periods of five years.

Significant shareholdings and restrictions on voting rights

Significant shareholdings in Banco Sabadell and restrictions on voting rights are set out in Note 29 to these annual accounts.

Rules on the appointment and removal of members of the board of directors

Under the Bank's articles of association, the Board of Directors must consist of not more than 13 or less than 11 members, made up of shareholders appointed by the General Meeting, who hold office for five years and may be re-elected; directors are not required to furnish any guarantee other than under article 54 of the articles of association, and are bound to perform their duties faithfully and with all due care and diligence; they are prohibited from disclosing any confidential information of which they become aware in the course of their duties, notwithstanding that they have ceased to hold office as directors.

On reaching the age of 70, a director may continue to serve out the term for which he was appointed, but is not eligible for re-election.

Any vacancies arising on the Board of Directors are filled by the General Meeting unless the Board of Directors, in the interests of the Company, avails itself of its power to co-opt under paragraph 2, article 138 of the SA Companies Act (*Ley de Sociedades Anónimas).*

The holders of any shares that are combined in the manner and subject to the requirements set out in Article 137 of the SA Companies Act may appoint directors in respect of those shares.

A director may be removed by the General Meeting at any time.

Holding office as a director is compatible with the holding of any other office or situation in or under the Company.

The Board of Directors may submit nominations for honorary directors to the General Meeting in respect of any directors who have retired by reason of age or have declined to offer themselves for re-election.

Honorary directors, if invited, may attend Meetings of the Board and speak but not vote at such meetings.

The appointment of a director will take effect on acceptance by the appointee.

In addition, article 19 of the Regulations of the Board of Directors requires that:

1. Directors shall carry out their duties in accordance with the articles of association and shall not be in any situation that would disqualify them from holding office, whether by law or under the articles of association.
2. Any director co-opted to serve on the Board shall hold office until the date of the next following General Meeting.

Rules on amendments to the articles of association

Amendments to the articles of association require a resolution of the General Meeting and the following rules apply:

a) The directors or, if applicable, shareholders proposing the amendment must prepare a written statement giving reasons for the amendment.
b) The proposed amendments must be clearly set out in the notice calling the General Meeting.
c) The notice calling the General Meeting must include a clear statement of the right of any shareholder to examine, at the Company office, the full text of the proposed amendment and the written statement setting out the reasons for it, and to have these documents delivered or sent to him free of charge on request.

d) A resolution to amend the articles of association must be adopted by the General Meeting in accordance with Articles 41 to 44 of the articles of association.

Any amendment to the articles of association that would impose new obligations on shareholders is subject to the shareholders concerned being willing to accept the amendment.

Powers of the Board of Directors, including powers in relation to the issue or repurchasing of shares

Article 58 of the Bank's articles of association states that, with the exception of those matters that require a resolution of the General Meeting, the Board of Directors is the highest organ of governance of the Company and is responsible under the law and the articles of association for managing the Company and acting on its behalf.

The Board of Directors is responsible, subject to the articles of association and any resolution of the General Meeting, for acting on behalf of the Company and its decisions are binding on the Company. The Board of Directors has the power to take such action as may be necessary for the realization of the objects of the Company in accordance with the articles of association.

Without prejudice to the aforesaid powers, the basic function of the Board of Directors is to act as an instrument of supervision and control and to delegate responsibility for the ordinary business of the Company to the executive functions and to senior management.

No powers which, by law or by these articles of association, are required to be exercised directly by the Board or are necessary for the responsible exercise of its overall supervisory function may be delegated as aforesaid.

Specifically, to ensure that the Board's overall supervisory function is performed in a proper and diligent manner, article 5 of the Bank's rules of procedure of the Board of Directors requires that the following duties be performed directly by the Board:

a) Those arising from the generally applicable regulations on corporate governance.
b) Approving the Company's overall strategy.
c) Appointing and removing senior executives of the Company and of other companies forming part of the consolidated group.
d) Appointing and removing directors of subsidiary companies.
e) Identifying the main risks to which the Company is exposed and implementing and supervising suitable internal control and reporting systems.
f) Establishing policies for reporting to and communicating with shareholders, markets and the general public.
g) Deciding on policy with regard to the holding of treasury shares in accordance with any guidelines laid down by the General Meeting.
h) Authorizing any transactions between the Company and directors or significant shareholders that could result in a conflict of interest.
i) Generally, deciding on business or financial transactions of particular importance to the Company.
j) Any other duties specifically assigned to the Board by these Rules.

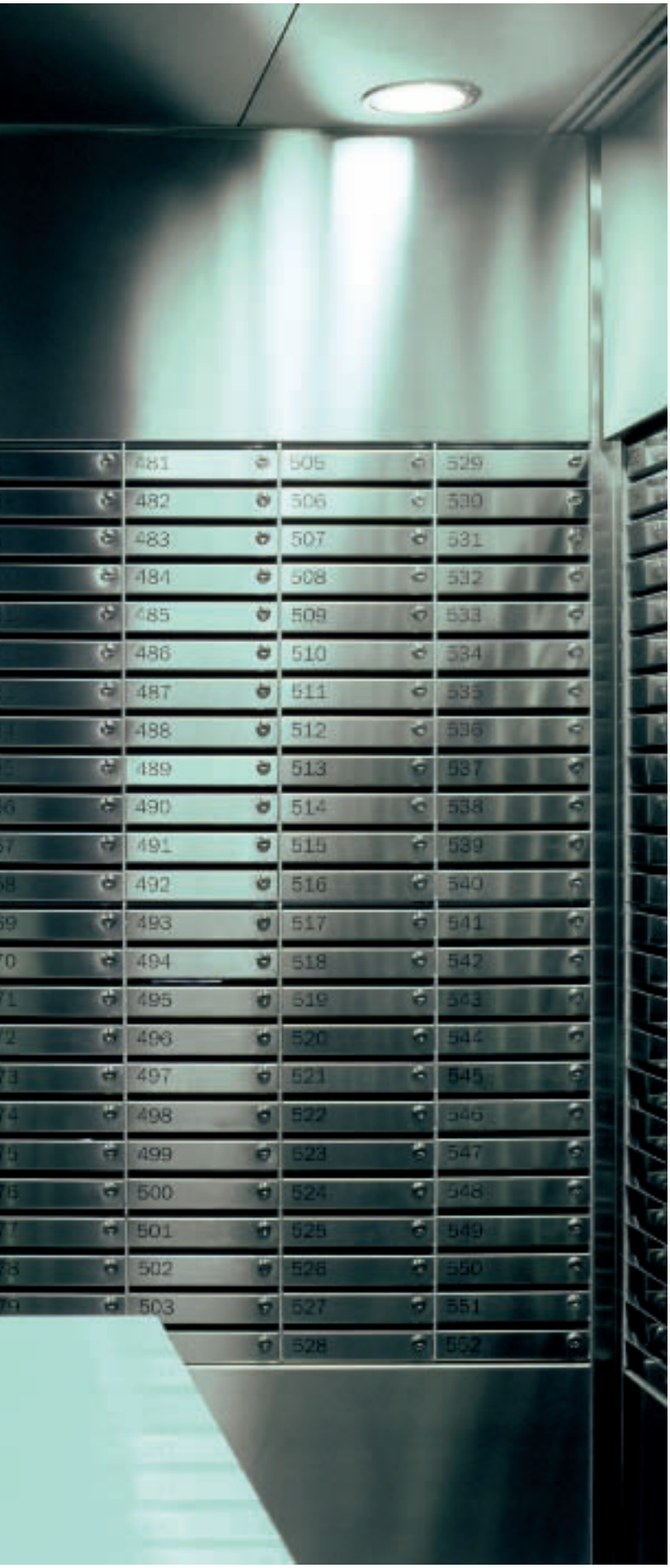
Agreements between the Company and directors and managers involving the payment of compensation on severance of their contracts

Contracts have been entered into with members of the senior management group that contain guarantee or protection clauses in the event of dismissal or of a change in the control of the Company, and provide for the payment of two years' basic salary plus any compensation payable under the terms of the collective agreement for the banking industry and the Workers' Statute (Consolidated Text).

Other information

For information on purchases of the Bank's own shares and post-balance sheet events, see Notes 29 and 43 respectively.

Banco Sabadell group contact details



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ECOLOGIC PAPER

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Elemental Chlorine-Free