

Sabadell Securities

Sabadell Securities USA Inc., an SEC-registered investment advisor, operates as a stockbroker and advisor to securities market investors. The business complements and enhances the Sabadell America strategy.

Sabadell Securities provides investment and wealth management services to commercial banking customers as well as to personal banking, corporate banking and private banking clients. Its business strategy is based on meeting the financial needs of customers by advising them on capital market investments.

Sabadell Securities is a member of the Financial Industry Regulatory Authority (FINRA) and the Securities Investor Protection Corporation (SIPC). It uses the services of Pershing LLC, a Bank of New York Mellon subsidiary, for clearing, custodian and administrative services.

Mexico

Sabadell Capital (a multi-purpose finance company, or SOFOM) gained in strength in 2015. The company's loan book is focused on the infrastructure, energy, industry and tourist sectors.

During the year, lending increased by over 125% to more than USD 1,000 million. In its first full year of operation, Sabadell Capital achieved over USD 5 million in pre-tax profit.

In August 2015, Banco Sabadell Institución de Banca Múltiple obtained a banking licence in Mexico with a view to commencing banking operations in 2016, first by attracting deposits and granting loans to customers who complement and diversify Sabadell Capital's existing business there.

Asset Transformation

A substantial reduction in problematic assets.
The reduction in non-performing loans
is accelerating while assets on the balance
sheet are improving.

Overview

The Asset Transformation unit manages the Group's non-performing and real estate exposure across all its businesses, and it sets and implements the strategy with regard to real estate investees, including notably Solvia.

The approach to non-performing and real estate exposure is to develop an asset transformation strategy based on a comprehensive vision of the group's real estate portfolio with the goal of maximising its value.

Key developments in 2015

The asset transformation strategy from prior years was deepened in 2015 with the main goal of optimizing value, either through management actions to enhance a property's appreciation potential, or divestment, where this is the optimal approach.

	2014	2015	% 15/14
Net interest income	(11.19)	(44.77)	300.1
Fees and commissions (net)	(0.66)	(1.58)	139.4
Other income	15.23	107.85	608.1
Gross income	3.38	61.50	1,719.5
Operating expenses	(135.82)	(143.18)	5.4
Operating profit/(loss)	(132.44)	(81.68)	(38.3)
Provisioning expense (net)	(1.85)	(0.07)	(96.2)
Impairment losses	(407.29)	(508.45)	24.8
Other profit/(loss)	(455.88)	(254.01)	(44.3)
Profit/(loss) before tax	(997.46)	(844.21)	(15.4)
Ratios (%)			
ROE (profit/average shareholders' equity)	(39.3)	(20.0)	
Cost:income (general administrative expenses/gross income)	—	—	
Loan loss ratio	61.9	64.9	
Loan loss coverage ratio	50.9	52.5	
Business volumes			
Loans and advances	12,394	8,413	(32.1)
Customer funds	484	301	(37.8)
Real estate assets (gross)	8,848	9,234	4.4
Other information			
Employees	668	712	6.6
Branches	—	—	—

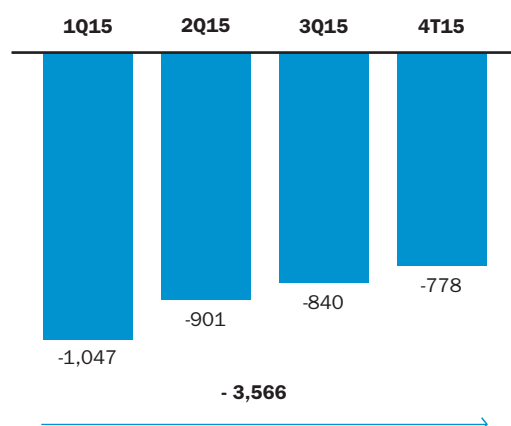
Non-performing exposures are managed by three specific units: Corporate Credit Restructuring focuses on recovering corporate and real estate exposure; Retail Debt Collection seeks to recover retail exposures, while being particularly sensitive to cases at risk of social exclusion; and Default Avoidance and Management implements policies and transformation decisions with respect to non-performing exposures. This organisation structure has proven its worth through a steady improvement and progressive reduction of the Group's doubtful balances in recent years (G5).

Sabadell Real Estate

Sabadell Real Estate manages the Group's real estate exposure in all its businesses, with the clear goal of reducing that exposure while maximising its value. Growth in the balance of foreclosed properties slowed in the first half of 2015 and stabilised in the second half. This is a sign that we are approaching a turning point, and is a clear improvement on the already-positive trend observed in 2014. In particular, sales of real estate amounted to €2,682 million gross, in addition to the €195 million book value of leased properties (G6), i.e. exceeding the goals set for 2015 in terms of both sales and the discount on sales.

The group divests properties through retail (Solvia) and institutional channels, by assessing which one will optimise value, depending on liquidity (demand) and the

G5 Reductions in doubtful assets in 2015
(€Mn.)



best fit to the asset in question. Notable property sales in 2015 included an office building on calle Príncipe de Vergara, in Madrid, and a combined residential and office building on Rue Victor Hugo, in Paris. The sale of plots of land also rebounded, to over €182 million in 2015, clearly indicating a recovery in investment capabilities among real estate developers.

The Spanish real estate business recovered in 2015, accompanied by a steady increase in prices, mainly in Madrid, Catalonia and the Mediterranean coast.

HIP

Hotel Investment Partners (HIP) was incorporated in 2015 to optimise management of the Group's hotel assets with a view to achieving greater flexibility in controlling collateral and tracking hotel assets (both hotels on the balance sheet and debt secured with hotels) on the basis of specialised knowledge of this business, which amounts to €850 million.

Solvía

Solvía is one of Spain's leading real estate servicing platforms. In 2015, it firmly established itself as the leader in the Spanish market throughout the property cycle; it achieved the highest brand recognition among bank property platforms, and ranked third in Spain among home purchase and construction sites (accumulated IOPE score Jan.-Oct. 2015); it was also the top internet brand in this segment, offering a complete range of property services (from development and construction through asset administration, and commercialisation—basically retail). After being awarded management of one of SAREB's property portfolios in November 2014, Solvía was the first property servicer to complete the process of migrating a SAREB portfolio, and it is one of the top property management platforms in Spain by asset volume, with

over €20,000 million under management. In 2015, Solvía concluded the carve-out process from Sabadell to become an independent subsidiary capable of providing flexible, effective and efficient services to numerous clients. During this process, the headcount rose to 500 at 2015 year-end (from 280 a year earlier) as the company developed and expanded its commercialization and service model. Solvía's sales began to diversify in 2015 in terms of both customer and product types, and sales to buyers with no connection to the Banco Sabadell group are gaining in prominence.

Other businesses

BS Capital

BS Capital manages the industrial subsidiaries, focused on acquiring temporary holdings in non-financial companies and/or projects with the goal of maximizing the return on investment.

In particular, the company made a number of divestments during the year. It also initiated new projects, such as creating Aurica Capital Desarrollo SGEIC, S.A., a closed-end collective investment scheme management company specialized in expansion capital, and Sabadell Venture Capital, S.L., a vehicle for investing amounts of €0.25-1 million in technology start-ups at the early or ramp-up stage.

BancSabadell d'Andorra

BancSabadell d'Andorra is ideally suited to the needs of individuals and businesses, whether they are already well established or resident in Andorra or have recently moved to the Principality as a result of its open economy policy, and is ready to help them develop their businesses thanks to its offering of value-added services and the high quality service to customers provided by its qualified, expert team.

It reported €7,600 in profit in 2015, i.e. an ROE of 10.59%.

