

Markets and Private Banking

Banco Sabadell has a comprehensive range of products and services to offer customers wishing to place their savings and investments under its management. These range from researching investment alternatives to trading in securities, active wealth management and custodian services. It encompasses the following businesses: Private Banking; Investment, Products and Research; Treasury and Capital Markets; and Securities Trading and Custodian Services.

Markets and Private Banking showed once again that it was well equipped to design value-added products and services to deliver good returns to customers, and increase and diversify the customer base. It also ensured that investment processes remained consistent and were based on disciplined research and acknowledged quality management, while transforming the relationship model towards a multi-channel approach using new digital environments.

The Bank has a design and approval process for products and services which ensures that the full range of offerings available to customers more than meets their requirements in terms of quality, returns and adapted to market needs. Constantly reviewed identification and “know your customer” procedures and practices ensure

that products are offered and investments are selected and managed with customers' profiles firmly in mind and that all investor protection measures are complied with as required by the Markets in Financial Instruments Directive (MiFID) and its provisions as transposed into domestic law.

The effort put into designing a range of products and services to meet the needs of each customer continued to strengthen and enhance the Bank's position in brokerage and as a provider of access to new markets and its ability to offer customers new services, create new opportunities in collective investment and raise the profile of the brand under which we operate in this business: SabadellUrquijo Banca Privada.

€ million

	2014	2015	% 15/14
Net interest income	51.10	44.88	(12.2)
Fees and commissions (net)	141.90	183.41	29.3
Other income	4.32	6.90	59.7
Gross income	197.32	235.19	19.2
Operating expenses	(96.03)	(104.45)	8.8
Operating profit/(loss)	101.29	130.74	29.1
Provisioning expense (net)	—	—	—
Impairment losses	1.00	(7.80)	—
Other profit/(loss)	—	—	—
Profit/(loss) before tax	102.29	122.94	20.2
Ratios (%)			
ROE (profit/average shareholders' equity)	94.7	125.2	
Cost:income (general administrative expenses/gross income)	48.7	44.0	
Loan loss ratio	3.4	4.3	
Loan loss coverage ratio	56.1	62.1	
Business volumes			
Loans and advances	1,029	981	(4.7)
Customer funds	16,896	16,854	(0.2)
Securities	7,326	6,231	(14.9)
Assets under management in CIS's	12,007	15,459	28.7
Total assets including CIS's sold but not managed	15,706	21,427	36.4
Other information			
Employees	529	529	—
Branches in Spain	12	12	—

T4 Markets and Private Banking

Overview

SabadellUrquijo Private Banking is the division of Banco Sabadell that concentrates on offering integrated solutions to customers requiring a specialized service tailored to their particular requirements; it combines the value of private banking advisory services with sound finances and the product capabilities of a universal bank.

The unit comprises a team of 183 private bankers working from 12 specialist branches and 19 customer service centres. It can also count on the support and assistance of product experts and skilled tax and wealth management advisors who can provide each client with efficient personalised solutions.

Key developments in 2015

SabadellUrquijo focuses on serving high net worth individuals, i.e. those with over €500,000 in funds and securities, and it deepened its commitment to this segment in 2015. With a view to higher quality service, it reduced the number of clients assigned to each account manager, thereby intensifying contact and strengthening the relationship between client and banker.

By adding value through personalized advice and the provision of specific private banking products, such as mutual funds, discretionary portfolio management and SICAVs, SabadellUrquijo reaffirmed its leading position among private banks. For example, its market share in SICAVs was 5.73% at 2015 year-end, exceeding expectations.

As a result of regulatory developments in 2015, commercial activity was tightly linked to a thorough analysis of clients' risk profile and tailoring products and services to them; it was the year in which suitability tests, investment recommendations and appropriateness tests became a part of day-to-day operation, along with ongoing exhaustive tracking of the documentation presented, signed and digitized in Banco Sabadell.

In tune with the guidelines of the "Triple" plan, the asset structure continued to be modified so as to increase the proportion of off-balance sheet funds as opposed to traditional liabilities such as deposits, commercial paper and sight accounts, which offered unattractive returns in 2015.

Another key factor in the year was specialization, with the resulting focus and growth in the volume of funds from specific investor segments. The number of clients referred by Financial Advisory Firms (AEFIs) increased, as did commercial relations with religious institutions and the number of clients in the Sports & Entertainment segment—yet another indicator of how well our business model meets current market demands.

In order to stay constantly up to date with developments on the financial, tax and legislation fronts, many

talks were organised in 2015 with notable speakers from the world of business and finance; our clients greatly appreciate this service.

In 2015, 563 new discretionary portfolio management contracts were signed amounting to €410 million, which raised the total amount under contract to €1,962 million, approximately 5,240 contracts. Mutual fund and SICAV investments under administration increased by over €1,173 million (17.7% higher than in 2014). Banco Sabadell ranks 6th among investment firms in terms of both volume of assets and number of SICAVs under administration.

A total of 199 SICAVs were under administration at 2015 year-end, with funds amounting to €1,953 billion, a 15.4% increase with respect to 2014 year-end. In 2015, Banco Sabadell was one of the banks that raised most funding under this heading, over €260 million, by adding new SICAVs and increasing its stake in existing SICAVs, which enhanced relations with its clients.

The unit saw its business volume reach €25,020 million as of December 2015. Its customer base rose to over 27,700.

Objectives for 2016

This promises to be the year of Digital Transformation for Banco Sabadell. In 2015, the Bank began working on new tools to enable it to be in touch with clients wherever they may be. Adapting to the latest technology will facilitate sales efforts and the acquisition of products and services. Communication will be smoother and more agile, without ignoring the importance of protecting the information that is exchanged.

Sales work, tailoring the product range to investors' profiles, and offering an ever-broader and varied range of products, coupled with financial and tax advisory services, are the key factors that must be maintained in 2016.

Overview

Investment, Products and Research is the unit in Banco Sabadell tasked with providing investment advice and managing the investment portfolios of private customers, companies and institutional investors. Within the department are other, more specialized areas: Sabadell Inversión, the parent company of the Bank's collective investment management companies, and the Research Department.

The Investment, Products and Research department is responsible for deciding on all information and content that is published by the Banco Sabadell Research Department. It is also responsible for the range of investment products offered by the Bank and for deciding how these should develop based on the investment opportunities that arise; it makes recommendations on distinctive, superior portfolio allocation as required to achieve the best risk/return combination for Banco Sabadell's clients. Part of its mission is to guide the investment management business conducted by Banco Sabadell's collective investment scheme management companies.

Key developments in 2015**Research**

The purpose of research is to assist in earning a return on investment for the Bank's clients by identifying and generating good investment ideas.

In 2015, the Research Department continued to increase its output of reports on equities and bonds from all over Europe. The Department increased the number of equities and bond issuers that it covered, both investment grade and high yield. The catalogue of research reports was expanded by probing both indices and segments of the equity market, and the credit metrics of government agencies, supranational bodies and Spanish autonomous regions, as issuers of debt securities.

Over six thousand investors received the reports, in paper and audiovisual format, during 2015. We contribute the vision born of our research to the specialized and general press by acting as a source of sound, well-informed financial opinion.

Banco Sabadell's research department earned a number of accolades and distinctions. In 2015, the Thomson Reuters StarMine awards named Banco Sabadell's research team third-best earnings estimator and stock picker for Iberia. In 2014, it won first place as earnings estimator in the materials sector, and was second-best stock picker for Iberia in 2013 and third in 2010.

The year 2015 continued to be dominated by low interest rates and volatility in the asset markets. In this context of low yields and high uncertainty, the Customer Strategy and Investment Products division focused on professional management of diversified asset portfolios and strict risk control. The asset allocation strategy continued to be the foundation for building investment strategies, and its preferences guided the development of long-term investment products with the goal of ensuring a focus on returns for clients.

Economic growth remained low in Europe, driving a continuation of quantitative easing in the Euro area. Elsewhere, attention shifted from the developed to the emerging countries, where growth projections were revised downwards steadily as the year advanced. The year could be divided into two distinct parts in terms of market performance.

During the first few months of the year, market performance was exceptional, driven by injections of liquidity by the ECB; however, from April onwards, events such as the political crisis in Greece and fears about China's growth performance led to a sharp increase in volatility. As a result, the markets continued to advance within a mature stage of the investment cycle and the main asset classes were very fairly priced. In this context, the investment strategy focused on diversification within a context of professional portfolio management, providing greater scope for seizing tactical opportunities, with risk control as an overarching factor in investment decisions. As the year advanced, positions in risk assets were gradually reduced and exposure to alternative assets not correlated with the financial markets was steadily increased.

In terms of products, the Bank favoured the development of, and a focus on, products with built-in asset allocation, taking advantage of the rare opportunities that arose to set up guaranteed capital funds. In the area of structured products, the Bank launched guaranteed capital products linked to underlyings with good prospects for appreciation, mainly indices. As for pensions, it launched life-cycle pension plans whose asset allocation evolves progressively as the investor ages.

The number of products reached a new high in 2015; 400 new investment products were proposed with the participation of 32 different functional managers. The principal product families include indexed deposits with guaranteed capital and non-convertible bonds issued by Banco de Sabadell, S.A., which accounted for 70% of total forecast product sales. The average maturity of investment products approved in 2015 was approximately two years and seven months.

The Bank engaged in intense communication of market-related information, sending alerts and company notes to clients and shareholders in addition to information on new developments and extraordinary market events, plus regular asset allocation strategy videos, reaching a total of more than 2 million client impacts.

The Group's Investment Management business encompasses collective investment management companies, including investment management and the distribution and administration of collective investment schemes (CIS's); its activities also include selecting, offering and recommending third-party funds and managing investments for other Banco Sabadell Group businesses.

The group's main investment management companies are BanSabadell Inversión, S.A., S.G.I.I.C., Sociedad Unipersonal, known as "Sabadell Inversión", which engages in a very broad spectrum of asset management, and Urquijo Gestión, S.A., S.G.I.I.C., Sociedad Unipersonal, also

known as "SabadellUrquijo Gestión", which specialises in bespoke asset management, particularly Spanish-domiciled SICAVs.

The Group's investment management companies ended the year with €13,088.0 million in assets under administration in Spanish-domiciled mutual funds, 31.5% more than at 2014 year-end, far exceeding the 12.5% growth rate of the industry as a whole. This volume of assets under management brought the Group's share of mutual fund assets to close to 6%, with its management company, Sabadell Inversión, being ranked fourth-largest manager of Spanish-domiciled mutual funds. The number of investors increased by 168,317 in 2015, a sizeable 38.4% increase year-on-year.

Assets under administration by the group approached 6% of total Spanish-domiciled mutual funds in 2015.

	2007	2008	2009	2010	2011	2012	2013	2014	2015
Assets under management (€Mn.)	9,102.4	5,844.5	5,609.6	4,312.4	4,203.3	4,443.2	6,356.7	9,952.6	13,088.0
Market share (%)	3.81	3.49	3.44	3.12	3.29	3.63	4.13	5.11	5.95
Number of investors	374,522	217,360	218,761	195,140	192,282	197,954	270,552	438,582	606,899

T5 Spanish-domiciled mutual funds

During the year, balanced funds were the fastest-growing category, increasing their assets 2.6-fold to €4,103.5 million. Notable in this category is the Sabadell Prudente FI fund, which belongs to a new range of funds with a predetermined constant target risk profile and achieved a net influx of €2,350.5 million in investment during the year. The Bank continued to offer new guaranteed funds during the year, with return guarantees being issued for a guaranteed fund amounting to €202.6 million at 31 December 2015. Guaranteed funds as a whole accounted for €3,336.3 million worth of assets at the close of the year. The proportion of assets held in guaranteed funds declined relative to the total value of financial assets under administration in funds subject to Spanish jurisdiction, to 25.5% (from 37.8% the year before).

Banco Sabadell mutual funds earned some outstanding accolades. UK financial publishing group Citywire paid tribute to the performance of two of Sabadell's fixed-income managers, awarding them AA ratings after analysing their returns over the last three years. In the

2015 mutual fund performance rankings organized each year by Expansión, two of Sabadell Inversión portfolios won first place, one in the aggressive category, having produced an annual return of 18.77% in 2015, and another in the conservative category, with an annual return of 5.96% in 2015. A total of 16 fund management companies participated in this edition, which included both Spanish and international firms.

The introduction of sub-segments in mutual funds by Sabadell Inversión offered greater flexibility and segmented the offer of products to investors, providing price competitiveness with respect to foreign funds and other Spanish fund managers that had already adopted this approach, thereby generating new business opportunities and adapting the product range to new regulations on commercialisation. This process also made it possible to reduce the number of mutual funds through a total of 13 mergers, eliminating the master/feeder fund structures; 35 mutual funds were absorbed by others with the same investment approach, all to the benefit of investors. At the

end of the year, a total of 267 collective investment institutions under Spanish law were being managed by Sabadell Inversión (67 mutual funds, one SII and one SICAV) and SabadellUrquijo Gestión (198 SICAVs).

The Investment Management business also operates as portfolio manager for customers of the Bank requiring comprehensive investment solutions, i.e., packages of services that give an integrated response to the needs of existing and potential customers. In this service line, BS Fondos Gran Selección achieved 20,282 contracts under management with assets totalling €1,904.4 million in 2015, up from 14,336 contracts and €1,235.8 million the previous year.

Another business worth mentioning is the management and administration of portfolios from other institutional investors, a business carried on by the Institutional Services unit, which had €6,807.9 million under administration at year-end.

Objectives for 2016

For the Investment, Products and Research department, the primary objective is to maintain the high success rate achieved in its research-based recommendations on equities of European listed companies and on government and corporate debt, and in the asset allocation strategy. The robust process of product development ensures that products are constructed in line with market opinion. As a result, new products are oriented towards client returns and must meet demanding quality standards.

In 2016, the focus will be on achieving two major objectives: assuring a satisfactory client experience throughout the cycle of information, acquisition, tracking and divestment in savings and investment products, and ensuring that products conform to clients' needs. The Investment Management business aims to encourage investment in mutual funds, not only by experienced regular investors but also by savers looking for winning solutions in a low interest rate environment and willing to accept a degree of risk and take a longer view. Winning new subscribers requires an improvement in the marketing of mutual funds, greater transparency and more help and support. The development of investment asset allocation products and solutions will add value to our customers' positions in mutual funds. The introduction of sub-segments into managed mutual funds should attract more large investors to our investor base. Ultimately, the aim is to grow, and to outpace the market.

Treasury and Capital Markets

Overview

The Treasury and Capital Markets Division is responsible for marketing Treasury Products to Group customers through the units to which that task has been assigned, be they bank branches or specialist distributors. The

Division is also responsible for the activities of the Capital Markets unit, which places corporate debt, either for third party issuers or for the Group.

In addition, it manages the Bank's short-term liquidity position and manages and oversees compliance with regulatory coefficients and ratios. It also manages proprietary trading risk and interest and exchange rate risk, mainly through transaction flows with both internal and external customers, arising from the activity of the Distribution units.

Key developments in 2015

During 2015, the financial markets continued to be driven by interest rates at record lows, with the European Central Bank keeping its deposit facility rate negative in order to drive a revival in lending and, consequently, in economic activity. This situation shaped the playing field for business development and market trading.

The economic recovery in Spain solidified in the final quarters of the year and analysts projected that this trend would continue in the immediate future. Employment also improved, though not exempt from downside risks for economic growth due to both internal and external factors.

In this context, management focused on implementing commercial initiatives planned for Treasury and Capital Markets under the "Triple" plan, with the result that the objectives for the year were attained.

Therefore, consolidation of the other mature activities and businesses in the Treasury area was combined with support for, and growth by, new proposals and improvement initiatives under that plan.

As a result of efforts to increase foreign exchange trading, transactions in this area expanded by 30.0% year-on-year.

The diversified offer of structured investment products was maintained, including the first public issue of a structured bond with guaranteed capital placed via the branch network.

Within its goal of developing and expanding the Capital Markets business, the Bank continues to identify potential deals and collect mandates from issuers and institutional clients who channel their funding and investment needs through the Bank.

The Bank played an active role as a joint book runner in issues by ACS (€500 million, 5 years), Grupo Antolín (€400 million, 7 years), ENCE (€250 million, 7 years) and APRR (€500 million, 9 years), and as joint lead manager in two issues by Colonial (€500 million, 4 years, and €500 million, 8 years).

In the Bank's trading and related processes, the aim was to meet liquidity management requirements and also to take a proactive approach to the management of the fixed-income portfolio and the sizeable currency trading business generated by orders from customers.

Objectives for 2016

The main lines of action in 2016 within the “Triple” business plan are to complete the roll-out and development of ongoing initiatives to boost product acquisition and rotation by implementing new trading platforms, adapting systems and processes to the new regulatory framework, developing corporate funding products, and maturing ongoing commercial actions and making them profitable, with a focus on diversification and internationalisation of end customers.

Additionally, any initiatives that allow for more efficient management of liquidity and capital will be particularly relevant.

Securities Trading and Custodian Services

Overview

As a member of the Spanish stock markets, the Securities Trading and Custodian Services Department performs the functions of broker for Banco Sabadell. These functions are to handle and execute sale and purchase orders directly via its trading desk, while also acting as product manager for equities at group level. It also designs and manages the Bank's offering of custodian and depository services.

Key developments in 2015

Market share increased sharply in 2015, and the Bank reached the number one position with over 14% of the market. In July, it attained a record 20.68% market share.

The year was characterised by major movements in the markets, particularly in Spain. Uncertainties, both economic and political, had a negative impact on trading volumes, particularly in the second half of the year.

The launch of the E-Bolsa on-line trading platform in 2015 resulted in a sharp increase in the number of retail clients. Over 34,000 new accounts, and more than €700 million, were added, resulting in strong growth in the custodian business. It was ranked as fifth best financial product in the Expansión 2015 awards.

**Banco Sabadell attained
the number-one spot in trading volume,
with 14% of the market.**

€ million

	2013	2014	%14/13	2015	%15/14
Trading volume - market total	1,407,362	1,767,737	25.61	1,926,505	8.98
Trading volume - BS	133,680	176,298	31.88	282,246	60.10
Share (%)	9.50	9.97	5.00	14.65	46.90

T6 Securities trading
(market volumes)