Banco Sabadell
Annual Report 2015
134th Year

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Key figures in 2015

K

Net attributable profit

+90.6%
2015/2014

708.4M€

ROTE

7.6%

Acquisition of TSB and larger international footprint

Increase in net interest income

+41.7%

Decline in loan loss ratio

-4.95%

Customers

Millions of customers

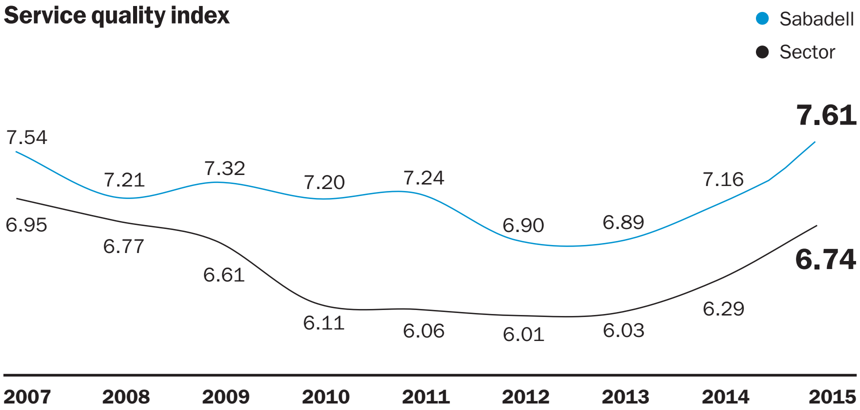
+78.1%
2015/2014

11.4

Branches

2,873

Service quality index



Source: STIGA, EQUOS RCB Analysis of objective quality in banking branch networks, Q4 2015.

Upward trend in profitability and acquisition of TSB: pillars for 2015.

Shareholders

265,935

+15%
2015/2014

Dividend yield 3%

Employees

26,090

98%
received training

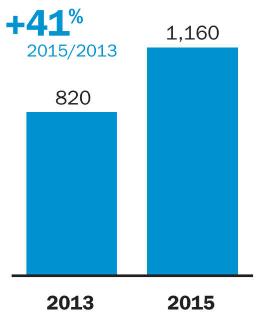
55.6% 44.4%

Transformation

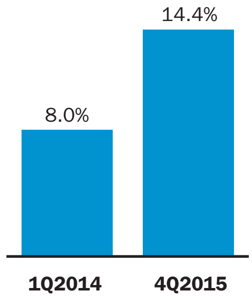
Digital transformation enhances and improves customers' experience

Sabadell Móvil, has been the best rated app by online Google and Apple stores for the fourth consecutive year

Total mobile customers
Customers (thousands)



Mobile only customers
% of active digital customers



Significant impacts

85% Of operations carried out outside of branches

18% Sales in digital channels

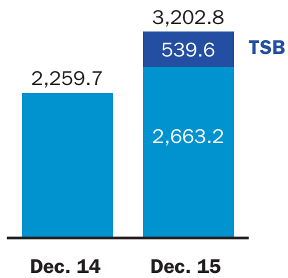
>15 Monthly connections per customer through Sabadell Móvil

Financial figures

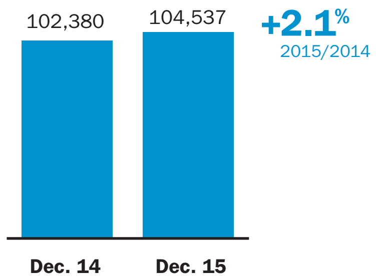
Balance sheet	**€ million**	**2015/2014**
Total on-balance sheet assets	208,628	27.7
Loans and advances to customers	153,425	29.4
On-balance sheet customer funds	131,489	39.2
Shareholders' funds	12,275	20.1
Income statement (solid results)		
Net interest income	3,203	41.7
Net attributable profit	708.4	90.6
Non-performing loans		
Non-performing loans	12,344	–22.4
Coverage ratio (%)	53.6	4.2
Solvency (capital at comfortable levels) (%)		
CET1 phase-in above regulator's requirements	11.5 (>9.25)	
CET1 fully loaded	11.4	
Liquidity (%)		
Loan to deposits (LTD) ratio	106.50	

Evolution of net interest income (€ million)

Net interest income has increased in a low interest rate environment



Evolution of loans and advances, excluding NPLs and ex TSB (€ million)



Chairman's letter

Josep Oliu Creus, Chairman

Dear shareholder:

Banco Sabadell has ended 2015 with a significant increase in earnings, a large decrease in doubtful balances and troubled assets. Banco Sabadell has also expanded its international footprint with the acquisition of British bank TSB. With this acquisition the objectives established in the second year of the Triple Plan 2014-2016, focused on profitability, transformation and internationalisation, have been fulfilled.

The group posted net profit of €708.4 million, a 90.6% increase compared to the figure for 2014. Excluding TSB, the group's net profit stood at €586.4 million, which in comparable terms to 2014 is a 57.8% increase.

The economic environment has not become fully consolidated, yet the positive expectations from the previous year have been marked by more erratic behaviour in financial markets, still modest global growth, a decline in oil prices to a ten year minimum, and a complex geopolitical situation.

In Europe, politics have taken the centre stage. In this context, it is worth highlighting the uncertainty as to whether Greece would leave the Eurozone in the first half of the year, and the decision to call an EU Membership referendum in the UK after the Conservative Party victory in the elections. In countries such as Spain and Portugal, the electoral processes and subsequent creation of more fragmented Parliaments have also opened the door to political uncertainty.

In spite of this, in terms of activity, the Spanish economy has undoubtedly shown a favourable evolution. GDP recorded more than 3.0% growth, a level not seen since 2007. The low price of crude oil, favourable financing conditions and neutral fiscal policies have all been factors that have boosted domestic activity. In this context, loans to companies and families have continued to normalise, and loan quality has also improved. In the United States, the economy has maintained growth levels similar to 2014, whilst in the United Kingdom the economy has shown a favourable evolution, backed by the good performance of the labour market.

In European construction, work on the Banking Union has continued, with a proposal from the European Commission to create a European Deposits Guarantee Mechanism. The creation of the Capital Markets Union has also continued, with the publication of the Action Plan, which establishes the specific measures to be implemented until 2017. Macroprudential policy has acquired relevance in the Eurozone in 2015, and work has continued in the regulatory field to increase solvency in the financial system. All this has been framed within the context of the European Central Bank continuing to relax its monetary policy with the implementation of its asset purchase program and a new reduction of the marginal deposit rate.

Banco Sabadell closes the year in a strong capital position. The capital ratio Common Equity Tier 1 fully loaded at 31 December stands at 11.4%, well above regulatory requirements of 9.25%. The CET1 ratio demanded by the regulator is in the lower range required in Spanish banking, which in Spain, means that Banco Sabadell has a relatively low risk profile. Common Equity Tier 1 phase-in ratio stands at 11.5% at 31 December 2015.

It is important to highlight that events in 2015 show an improvement in all of Banco Sabadell's margins. An excellent management of income in a low interest rate environment has led to a 41.7% increase in net interest income compared to the closing of the previous year and 17.9% year-on-year excluding TSB. Net interest income growth has come hand in hand with a heavy increase in commission based income, 16.5% higher than the previous year, boosted by a surge in asset management.

The extraordinary results from financial operations deriving from the management of the ALCO portfolio, and the negative goodwill generated by the acquisition of TSB, have allowed coverage levels to be strengthened through the allocation of additional provisions.

Operating expenses, i.e. personnel and administrative expenses, continue to be stable on a like-for-like basis. An increase in gross margin, along with the application of cost containment policies, have shown an improvement in effectiveness on a like-for-like basis.

Throughout the year, an increase in both individuals' and businesses' commercial activity has continued to improve in a highly competitive environment, reflecting growth in credit and funds volumes. Market shares continue to increase in all areas, maintaining the same high levels of quality and customer care. Hence, gross loans and advances to customers, excluding the temporary acquisition of assets and the balance of doubtful assets, rose at year end to €140,368 million, showing a 37.1% increase compared to the previous year, and 2.1% without including TSB. On-balance sheet customer funds have risen by 39.2% in 2015 and by 1.9% year-on-year excluding TSB.

This has allowed for an increase in shareholder remuneration, which will be proposed to the General Meeting of Shareholders, to be held on 31 March 2016. As established in the previous year, this remuneration will mainly be paid in scrip dividend, which allows the shareholder to decide whether to accept it in cash or in shares.

If profitability is the first strategic focus of the current Strategic Business Plan, the second is the transformation of the balance sheet. During 2015 important steps forward were taken in the restructuring of the balance sheet. On one hand, the group's NPL ratio significantly decreased by 495 basis points, stands at 7.79% at year end. The stock of doubtful assets fell faster than expected, declining by more than €5,500 million since the implementation of the Triple Plan. Coverage of doubtful balances has continued to improve, reaching 53.64% at 31 December. The volume of troubled assets has also fallen by €3,180 million during 2015, with properties on the balance sheet being marketed at a consistently high rate, with lower discounts.

2015 has been marked by the acquisition of British bank TSB, a milestone which is also a catalyst in the Bank's internationalisation process, which is the third pillar in the Strategic Plan. The international diversification achieved with the acquisition of TSB improves Banco Sabadell's risk profile, whilst also offering an attractive opportunity to operate in a banking market with a stable regulatory framework, attractive yields and good growth prospects. TSB has a strong franchise, a well-respected brand and a well-defined retail bank strategy, in line with Banco Sabadell's strategy and a high growth rate. The fulfilment of the current business plan, the launching of digital services in the United Kingdom, the consolidation of synergies and the upcoming integration onto Banco Sabadell's technological platform, are currently the keys to expanding our Group's capacities in the United Kingdom, and these processes are developing in line with the expected timeframe. Sabadell's experience in business banking and in the SME sector is a value added tool that will widen the range of services offered in this country.

Throughout the year we have also increased our presence in Latin America. In Mexico, solid growth of financing operations in corporate banking, and structured financing via Sabadell Capital have allowed us to reach our annual budget objective six months earlier than anticipated. Last August we also obtained the relevant banking licence to operate in this country, which allows us to begin our work in the business sector.

Furthermore, we have also recently opened representative offices in Colombia and Peru, which are markets with high growth potential, representing another step forward in our expansion into new markets to accompany the Group's corporate customers in each country.

During 2015 Banco Sabadell has maintained the same high level of quality and commitment to its customers during its entire trajectory, with a transparent attitude which leads to long term relationships built on trust. We have made significant achievements in digital transformation, improving our customers' experience. All this is the base of our reputation, which is an asset and an essential part of our Group's business culture and a distinguishing principle in business development. Under the premise of our ethical values and principles Banco Sabadell will continue working to build a future that can guarantee a positive impact on society.

The annual report includes detailed financial information on the development of our business's and our financial results, as well as our business model and the Group's risk and strategic management. The daily contribution, dedication, and professionalism of all the employees at Banco Sabadell have been fundamental in building what is now one of the reference financial institutions in Spain, and these same characteristics are still vital in continuing to develop and achieve our objectives.

Banco Sabadell enters 2016 focused on fulfilling the objectives laid out in the Triple Strategic Plan, whilst also continuing to work on the business plan model for 2017-2019 and strengthening sources of income, whilst maintaining the same high levels of service which the bank is renowned for.

Josep Oliu Creus
Chairman

Banco Sabadell Group

Banco Sabadell
Corporate governance
and General Management
Triple Plan
Share performance and shareholders
Customers
Human resources
Corporate Social Responsibility

G

Banking since 1881

Banco Sabadell is currently one of Spain's leading banks, with a prominent position in personal and corporate banking. The year 2015 was a decisive one for internationalization.

With a young, highly qualified workforce equipped with the most modern technology and sales resources, Banco Sabadell's business model focuses on being its customers' main bank, with a relationship based on quality and commitment.

By building lasting profitable relationships, Banco Sabadell works with its customers throughout their financial lifecycle, with proposals that meet their needs using the appropriate channels and with a comprehensive range of products and services that enhance the long-term relationship, under the principles of professionalism, ethics and transparency. *

Adaptation to market needs is achieved through a range of plans and businesses that represent distinctive value propositions, can be clearly identified by the markets and are reflected internally in organizational and management differences.

Banco Sabadell establishes its strategy in the form of three-year plans. The current strategic plan, the "Triple" plan, which runs from 2014 to 2016, focuses on leveraging the value of the customer base, extracting profit from the newly acquired size and capabilities, laying the foundation for internationalization in terms of structure and teams, and entering new markets.

Landmark developments

G1 Landmark developments (G4-3)

1881 A group of 127 businesspeople and merchants in Sabadell founded the bank, with the goal of financing local industry.

1965 Commencement of expansion into nearby towns.

1996 Acquisition of NatWest Spain Group and Banco de Asturias.

2001 Banco Sabadell is floated. Acquisition of Banco Herrero.

2003 Successful bid for Banco Atlántico.

2004 Capital increase and entry in the IBEX-35. Banco Atlántico integrated in technological and operating terms.

2006 Acquisition of Banco Urquijo.

2007 Acquisition of TransAtlantic Bank (USA).

2008 Acquisition of BBVA's private banking business in Miami. Sale of 50% of the insurance business.

2009 Acquisition of Mellon United National Bank.

2010 Takeover bid for 100% of Banco Guipuzcoano.

2011 Acquisition of the assets and liabilities of Lydian Private Bank (Florida) and announcement of the adjudication of Banco CAM.

2012 Acquisition of Banco CAM and creation of Sabadell Urquijo BP.

2013 Acquisition of the network of Caixa Penedès, Banco Gallego and the Spanish business of Lloyds Banking Group.

2014 Commencement of operations in Mexico.

2015 TSB acquisition.

Banking licence obtained in Mexico.

(*) **Consult the Corporate Values in the CSR - Code of conduct section of the website.**

In 2015, Banco Sabadell stabilized its size in Spain and significantly increased its international footprint.

The Bank expanded its international footprint in 2015 with the acquisition of UK bank TSB. As a result, at 2015 year end, 68% of the Group's lending was in Spain, 27% in the United Kingdom and 5% in America. In 2015, Banco Sabadell also opened two new representative offices, in Peru and Colombia, and obtained a licence to operate as a commercial bank in Mexico.

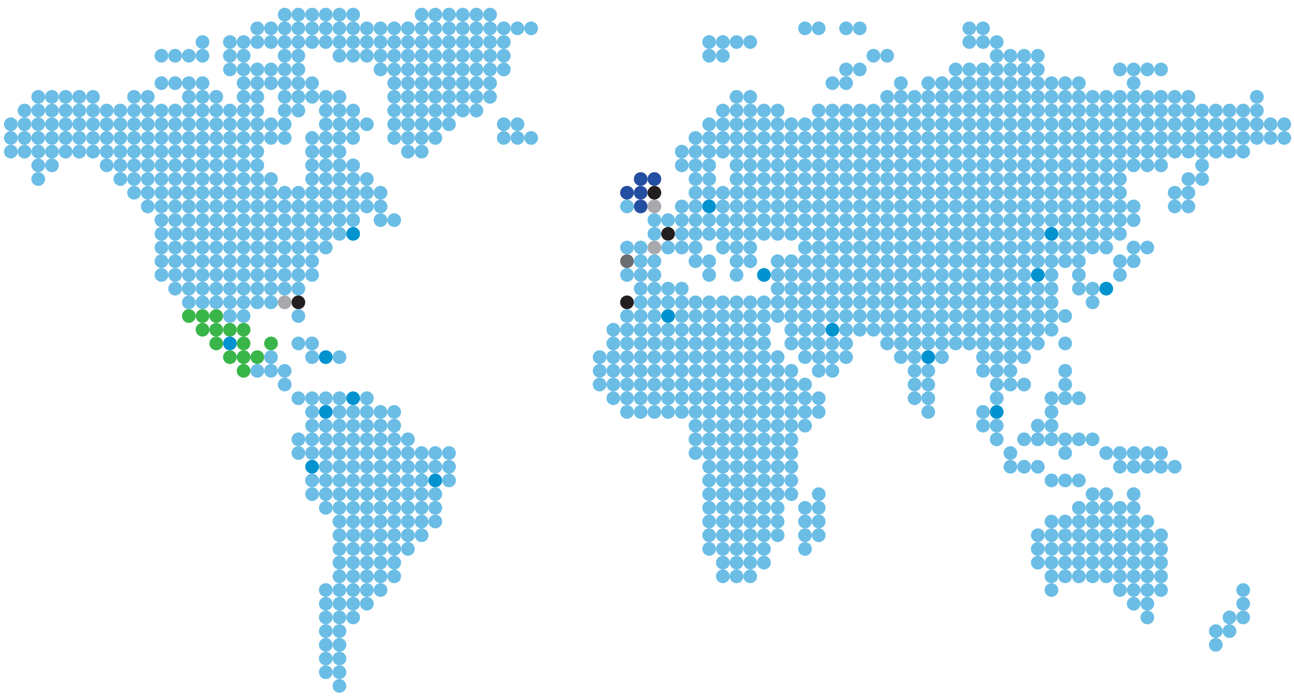
Banco Sabadell operated in 19 countries through branches, representative offices, subsidiaries and investees at 2015 year-end (G2).

T1 Banco Sabadell — changes in key numbers
(€Mn.)

	2007	2010	2015	2015/2007
Assets	76,776	97,099	208,684	**X 2.7**
Lending (*)	63,165	73,058	152,646	**X 2.4**
Deposits (**)	34,717	49,374	131,489	**X 3.8**
Branches	1,249	1,467	2,873	**X 2.3**
Employees	10,234	10,777	26,090	**X 2.6**

(*) Gross loans excluding repos.
(*) Customer funds on the balance sheet.

G2 Banco Sabadell worldwide



● **Branches**
UK
USA
France
Morocco

● **Representative offices**
Algiers (Algeria)
Sao Paulo (Brazil)
Beijing (China)
Shanghai (China)
New York (USA)
Dubai (UAE)
New Delhi (India)
Mexico City (Mexico)
Warsaw (Poland)
Singapore (Singapore)
Istanbul (Turkey)
Caracas (Venezuela)
Santo Domingo (Dominican Republic)
Colombia (Bogota)
Lima (Peru)

● **Banking subsidiaries**
London (UK)
Andorra
Miami (USA)
Mexico City (Mexico)

● **Associated banks**
Portugal
Colombia

Corporate governance and General Management

Jaime Guardiola Romojaro, Managing Director

2015

Board of Directors

E Executive
IC Independent coordinator
I Independent
P Proprietary
NE Non executive

Chairman
Josep Oliu Creus (E)
Deputy Chairman
José Javier Echenique Landiribar (IC)
Managing Director (CEO)
Jaime Guardiola Romojaro (E)
Director–General Manager
José Luis Negro Rodríguez (E)
Directors
Aurora Catá Sala (I)
Héctor María Colonques Moreno (I)
Joaquín Folch-Rusiñol Corachán (NE)
M. Teresa Garcia-Milà Lloveras (I)
José Manuel Lara García (I)
Joan Llonch Andreu (I)
David Martínez Guzmán (P)
José Manuel Martínez Martínez (I)
José Ramón Martínez Sufrategui (I)
António Vítor Martins Monteiro (P)
David Vegara Figueras (I)
Secretary
Miquel Roca i Junyent
Deputy secretary
María José García Beato

Board of Directors

With the exception of matters falling within the remit of the Shareholders' Meeting, the Board of Directors is the highest decision-making body in the Company and is responsible under the law and the Articles of Association for managing and representing the Bank. The Board of Directors acts mainly as an instrument of supervision and oversight, and delegates the management of ordinary business matters to the executive organs and management team.

The Board of Directors is subject to defined, transparent rules of governance, particularly the Articles of Association and the Regulation of the Board of Directors.*

On 28 May 2015, the General Meeting of Shareholders of Banco Sabadell adapted the Articles of Association to the amendments introduced by Act 31/2014, of 3 December, amending the Capital Companies Act to enhance corporate governance, Act 10/2014, of 26 June, on ordering, supervision and solvency of credit institutions, and the Code of Corporate Governance for listed companies dated February 2015.

The changes include notably the creation of an Appointments Committee and a Remuneration Committee, each with the corresponding functions, in place of the Appointments and Remuneration Committee.

The Board of Directors comprises 15 members: three executive directors, two proprietary directors, nine independent directors and one external director. Three independent directors were appointed in 2015: Ms. Aurora Catá Sala, Mr. José Manuel Lara García and Mr. David Vegara Figueras.

* **See the Bank's Articles of Association, Regulation of the Board of Directors and Annual Report on Corporate Governance on the Bank's website (www.grupobancosabadell.com).**

Delegated Board Committees

At present, there are five committees to which the Board of Directors delegates its functions by making use of the powers conferred on it by the Articles of Association; meetings of the committees are attended by members of senior management.

Executive Committee

The Executive Committee is comprised of five members and the Chairman of the Board of Directors, who chairs the Committee; its composition in terms of director categories is similar to that of the Board itself. This Committee is responsible for adopting any resolutions and decisions under the scope of the powers granted to it by the Board of Directors, and overseeing the Bank's ordinary activities; it must report the decisions adopted at its meetings to the Board of Directors, without prejudice to the other functions attributed to it by the Articles of Association and the Board of Directors Regulation.

Name	Position	Category
Josep Oliu Creus	Chairman	Executive Director
José Javier Echenique Landiribar	Member	Independent
Jaime Guardiola Romojaro	Member	Executive Director
José Manuel Martínez Martínez	Member	Independent
José Luis Negro Rodríguez	Member	Executive Director
David Vegara Figueras	Member	Independent
María José García Beato	Secretary	

Audit and Control Committee

The Audit and Control Committee comprises three independent directors and meets at least once per quarter. Its main function is to oversee the efficacy of the Bank's internal control, internal audit and risk management systems, supervise the process of drafting and presenting regulated financial disclosures, advise on the Bank's financial statements, liaise with the external auditor, and ensure that senior management and other executive levels take suitable measures to address improper conduct or methods by persons in the organization. It is also a watchdog, ensuring that the measures, polices and strategies defined by the Board are duly implemented.

Name	Position	Category
Mª Teresa Garcia-Milà Lloveras	Chairman	Independent
Joan Llonch Andreu	Member	Independent
José Ramón Martínez Sufrategui	Member	Independent
Miquel Roca i Junyent	Secretary	
Nuria Lázaro Rubio	Deputy Secretary	

Appointments Committee

The main functions of the Appointments Committee, which comprises four non-executive directors, three of whom are independent, are to oversee the qualitative composition of the Board of Directors, assess whether directors meet the suitability, competency and experience requirements for the position, make proposals as to the appointment of independent directors and advise on the appointment of other directors. It must also establish a target for representation of the gender that is less represented on the Board of Directors and draw up guidelines on how to achieve that target; and advise on proposals for the appointment and removal of senior executives and members of the Designated Group, as well as on the basic contractual conditions for executive directors and senior executives.

Name	Position	Category
Héctor María Colonques Moreno	Chairman	Independent
Aurora Catá Sala	Member	Independent
José Javier Echenique Landiribar	Member	Independent
Joaquín Folch-Rusiñol Corachán	Member	Non executive
Miquel Roca i Junyent	Secretary	

Remuneration Committee

The main functions of the Remuneration Committee, which comprises four non-executive directors, three of whom are independent, are to make proposals to the board of directors regarding the policy for remuneration of directors and general managers, and the individual remuneration and other contractual conditions for executive directors, exercising oversight to ensure that they are complied with. It advises on remuneration in the form of shares and/or options and regarding the annual report on director remuneration, and also reviews the general principles of remuneration and the remuneration of all employees, ensuring transparency in remuneration.

Name	Position	Category
Aurora Catá Sala	Chairman	Independent
Héctor María Colonques Moreno	Member	Independent
José Javier Echenique Landiribar	Member	Independent
Joaquín Folch-Rusiñol Corachán	Member	Non executive
María José García Beato	Secretary	

Risk Committee

The functions of the Risk Committee, which comprises four independent directors, are to supervise and oversee proper acceptance, control and management of all the risks of the Bank and its consolidated group, and to report to the Board of Directors on the performance of its duties, as provided by law, the Articles of Association and the Regulation of the Board of Directors.

The Bank has published the Annual Corporate Governance Report, which is attached to the 2015 financial statements, and the Report on Director Remuneration on the websites of the CNMV and of Banco Sabadell.*

Name	Position	Category
José Manuel Martínez Martínez	Chairman	Independent
Joan Llonch Andreu	Member	Independent
Mª Teresa Garcia-Milà Lloveras	Member	Independent
David Vegara Figueras	Member	Independent
María José García Beato	Secretary	

The Board of Directors self-assessed its composition and performance in 2015 and those of its subcommittees, and found them to be satisfactory.

* See the Annual Corporate Governance Report and the Annual Report on Director Remuneration on the Bank's website (www.grupobancosabadell.com).

General Management

Management Committee

Chairman
Josep Oliu Creus
Managing Director (CEO)
Jaime Guardiola Romojaro
Director–General Manager
José Luis Negro Rodríguez
General Secretary
María José García Beato
General Manager (CFO)
Tomás Varela Muiña
General Manager and Corporate Development Director
Miguel Montes Güell
General Manager and Commercial Banking Director
Carlos Ventura Santamans
General Manager and America & Global Corporate Banking Director
Fernando Pérez-Hickman
Deputy General Manager and Markets and Private Banking Director
Ramón de la Riva Reina
Deputy General Manager and Asset Transformation and Industrial and Real Estate Holding Director
Enric Rovira Masachs
TSB Managing Director
Paul Pester

Central Service Divisions

Internal Audit
Nuria Lázaro Rubio
Corporate Operations
Joan M. Grumé Sierra
Communication and Institutional Relations
Ramon Rovira Pol
Human Resources
Javier Vela Hernández
Risk management
Rafael José García Nauffal
Legal
Gonzalo Barettino Coloma
Financial Management
Sergio Palavecino Tomé
Organization and Services
Federico Rodríguez Castillo

Commercial Banking
Business Banking
Eduardo Currás de Don Pablos
Marketing and Retail Banking
Manuel Tresànchez Montaner
Bancassurance
Silvia Ávila Rivero
Catalonia Regional Division
Luis Buil Vall
Central Regional Division
Blanca Montero Corominas
Eastern Regional Division
Jaime Matas Vallverdú
Northestern Regional Division
Pablo Junceda Moreno
Northern Regional Division
Pedro E. Sánchez Sologaistua
Southern Regional Division
Juan Krauel Alonso

Markets and Private Banking
Investment, Products & Research
Cirus Andreu Cabot
Treasury and Capital Markets
Alfonso Ayuso Calle

Triple Plan

G3 Cornerstones of the "Triple" Plan

Transformation

Sales

Balance Sheet

Production model

Profitability

Leveraging greater scale into profit

Internationalisation

Preparing for the group's international expansion

Entering new markets

In 2014, Banco Sabadell launched its new business plan for 2014-2016, the "Triple" plan, whose aim is to leverage the sound balance sheet and strong sales platform, with a nationwide footprint, to lead the recovery in lending in the medium and long-term (G3).

The first priority of the business plan is to improve profitability. Having taken a huge leap in scale, Banco Sabadell's focus is now on consolidating its domestic business and increasing the profitability of its newly acquired businesses. To do this the Bank has set out two strategies for different regions according to its market position in each one. In the Catalonia and South-east (Valencia and Murcia) regions, the Bank has now reached a suitable scale and its business focus will therefore be on profitability and closing the performance gap in the newly-acquired businesses.

In the rest of the country, the focus is on increasing customer numbers and market share. The Bank also intends to continue improving customer relationships so as to become the customers' banker of choice and to grow its market shares in mutual funds and insurance.

The second key action area for Banco Sabadell has to do with transformation. To this end, it has designed and begun to implement a Transformation Plan with the goal of stepping up our commitment to a long-term relationship with our customers. This involves modifying our current customer-bank relationship model by increasing productivity and efficiency in order to enhance the customer experience.

As for transforming the balance sheet, which consists of reducing NPLs and divesting real estate, the Bank has designed new management programmes which combine early warnings (to avoid loans becoming non-performing) and recovery (accelerating the pace of recoveries). To reduce its real estate holdings, the Bank will continue to leverage the expertise of its asset transformation division and Solvia's leading position, while benefiting from an improving real estate market.

The transformation of the production model includes boosting productivity without impairing the Bank's hallmark quality of service.

The third main focus of the business plan is internationalization, entering new markets. Internationalization enables Banco Sabadell to leverage its strength and experience in integrating mergers and acquisitions and its information technology know-how. The entry into the UK market through the acquisition of TSB is part of this thrust (more details below).

Triple in 2015

Profitability

Strong net interest margins; we are the bank with the best customer spread performance in Spain. Growth in fees and commissions driven by asset management, reflecting stepped-up commercial activity. Product market shares in Spain are rising while a high level of service quality is being maintained. And the Bank has a sound capital and liquidity position (G4).

Net interest income

Sabadell (ex-TSB)

+17.9%

Group

+41.7%

Fees and Commissions

Sabadell (ex-TSB)

+7.4%

Group

+16.5%

ROTE

7.6%

G4

Market shares in Spain

● 2015
● Dec. 2014

	Corporate customers			Individual customers		
	Loans and advances to corporates	Documentary credit	POS invoicing	Credit cards invoicing	Life insurance products	Household deposits
2015	11.20%	30.45%	17.91%	8.22%	5.10%	5.75%
Dec. 2014	10.56%	29.79%	14.54%	7.64%	4.17%	5.31%

Transformation

As part of the Sales Transformation, we spearheaded the digital transformation by creating new capabilities and enhancing the customer experience (trust, service delivery, transparency and convenience).

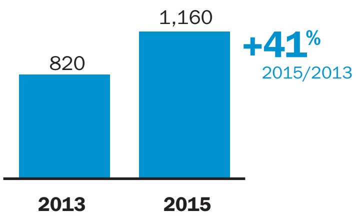
As for the Transformation of the balance sheet, the volume of doubtful assets is falling faster than expected (resulting in an increase in our guidance for 2016), the NPL ratio is down to single digits, and real estate sales are rising.

In the transformation of the production model, efficiency is improving in like-for-like terms.

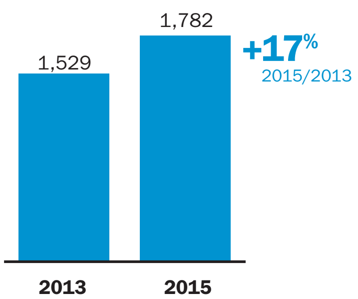
Sales transformation

We have led the digital transformation and improved customers' experience (trust, delivery of service, transparency and convenience).

Mobile customers (thousands)

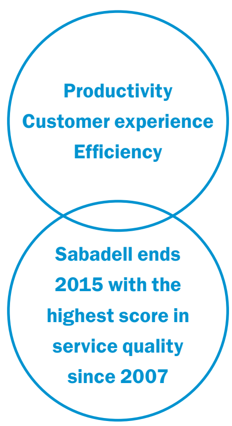


Online customers (thousands)



Transformation Plan

There, wherever you are



The Bank has decided to focus on customer experience as a lever to gain a competitive edge.

Transformation of the balance sheet

Reduction in balance of doubtful assets
(Dec. 2013 – Dec. 2015)

5,500M€
-22.4%

Reduction of problem assets
(Dec. 2013 – Dec. 2015)

4,500M€
-12.8%

Sale of real estate assets
16% more than in the previous year and with lower discounts

1,902 units

Funds (ex-TSB)
Deposits

+1.9%

MMF

+36.4%

Credit activities
Loans and advances
(ex. non-performing loans and TSB)

+2.1%

Mortgages (new loans ex-TSB)

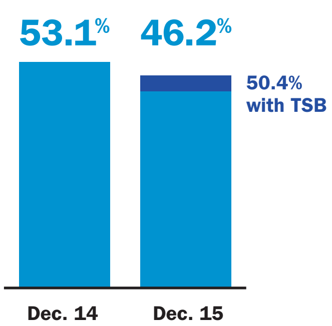
+39%

Reduction in NPL ratio

-4.95%

Transformation of production model

Evolution of cost / income ratio



The Group's cost/income ratio (ex-TSB) stands at 46.2%

The customer changes.
We change.

The world is changing... society, technology and, in particular, customers are changing. The bank therefore has to update its current business model. This involves adjusting the model for our customer relationships by introducing new digital alternatives, improving the sales approach and adapting the branch network to their needs.

Transformation towards the bank of the future

The Banco Sabadell Transformation Plan is an ambitious project, a challenge driving our commitment to maintain a long-term relationship with our customers.

To this end, the existing customer-bank relationship model is being changed by improving productivity and efficiency in order to enhance the customer experience.

7 pillars of transformation

1

Closeness

Our customers should always feel that we are friendly, attentive and, most importantly, available and able to respond to their needs.

Active management and appointments, together with convenient opening hours and easy access to our managers, allow us to advise our customers. By using new tools, the manager can now carry out operations that are normally carried out at a branch wherever the customer wants.

2

Transparency

It is important for us to communicate with our customers in a clear and straightforward way in order to gain their trust.

We are constantly improving and simplifying our contract and procurement documents and creating new documentation sections on the online banking part of our website (such as e-documents), in which documents can be signed and the status of certain transactions can be checked.

3

Flexibility

We must adapt to changing environments and our customers' needs whilst building long-term relationships.

With our proven capacity of integrating different working cultures (sixteen in fourteen years), we are working to make our protocols for the closure of operations more flexible in order to reduce the approval time of mortgage loan requests. We have introduced a Digital signature, adapting the process used in online transactions, which allows customers to operate securely, quickly and easily using the internet.

4

Excellence

A willingness to provide the highest quality of service at all times, through proactiveness and a commitment to exceed customers' expectations, is what will set us apart.

By the Sales Development Plan (which unify the sales approach), the Companies Commitment Plan – *Plan Compromiso Empresas* – (ability to establish, in writing, the financial needs of a company and the commitment to respond to any request for loans or credit within seven working days) and Sabadell Móvil (our newly created mobile app, which has been rated as the best mobile app on the market for the fourth consecutive year, according to Apple Store and Google Play).

5

Simplicity

Products that are easy to understand and to contract. The process for registering new customers has been simplified, with umbrella contracts that allow various products to be activated at the same time (Expansión Account Pack) and that allow customers to maintain the same account, even if they change branches.

6

Trust

The basis of our customer relationships is long-term relationships based on mutual trust and on our ability to foresee their needs and requirements at all times.

New distribution models have been developed in the bank's branch network in order to bring us closer to our customers, creating a stronger bond and consolidating the relationship. The relationship manager will assist the customer and improve their experience, and there will be more specialised managers in Personal Banking to offer a service that is tailored to each customer.

7

Convenience
We want to get to know our customers, understand their needs and how they think in order to give them the best possible answers and become a bank that is truly convenient for them.

The number of customers using remote channels due to their convenience has increased: over 50% of services and products are contracted through Banco Sabadell Online; Sabadell Móvil, our mobile banking app, has a million users.

Internationalisation

The TSB acquisition was a milestone in 2015, enabling Banco Sabadell to improve its risk profile. 32% of performing loans are outside Spain (27% of United Kingdom and 5% in America) (G5).

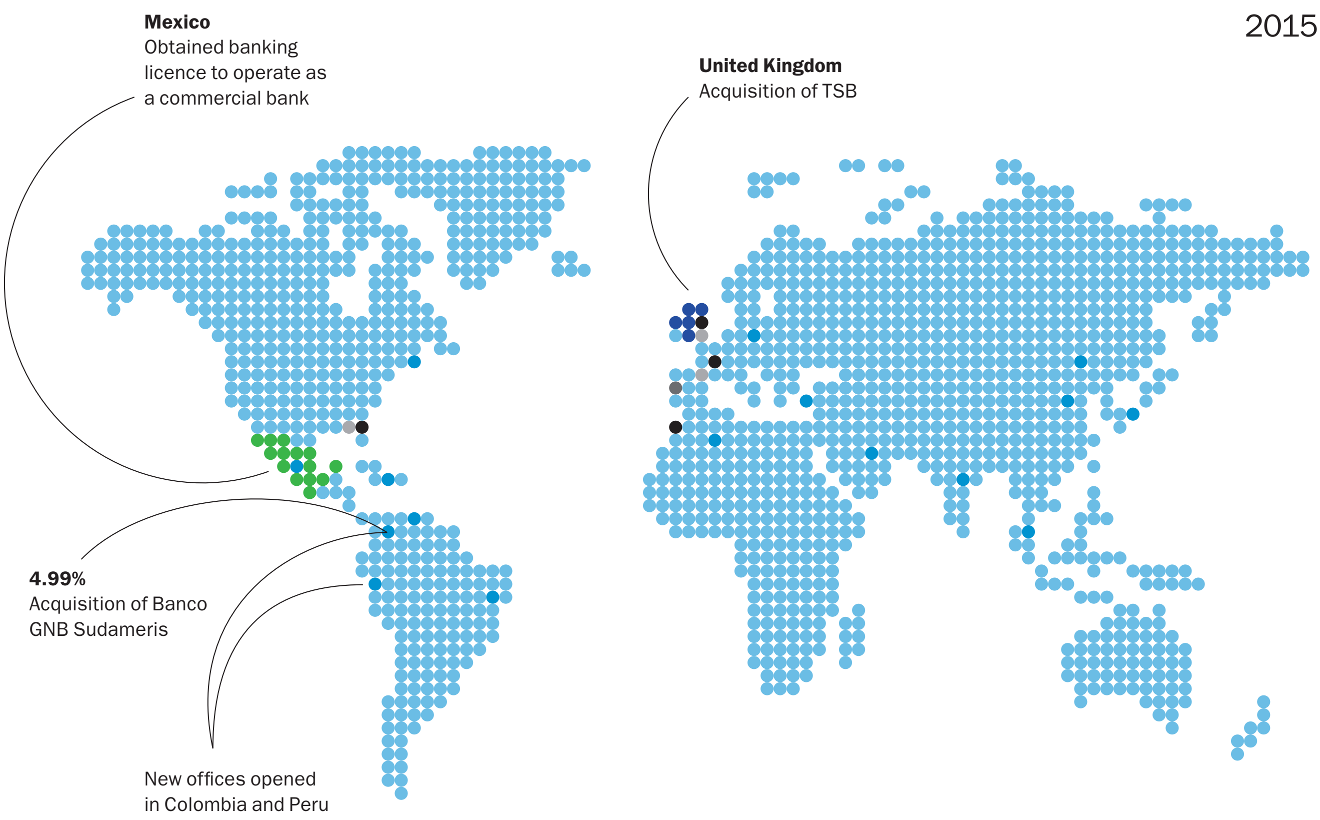
TSB acquisition

TSB (TSB Banking Group PLC) was acquired by the Banco Sabadell group in June 2015 following a takeover bid. TSB was created to bring more competition to the UK banking market, with a strategy to meet as many of its customers' needs as possible and improve their banking experience.

TSB is focused clearly on retailers and small businesses through a nationwide multi-channel distribution model based on a branch network in England, Scotland and Wales and digital (Internet and mobile) and phone channels.

TSB's broad range of products includes personal current accounts, savings products, mortgages, personal loans, credit cards, loans to companies and insurance products.

G5



TSB is a sound challenger bank and has placed Sabadell in a position for future growth in the UK market.

Key figures in 2015

Contribution to the net interest income of the group in 6 months
540M€

Common Equity TIER 1
17.8%

Net loans and receivables
35,970M€

Millions of customers
4.8

Customer deposits
35,249M€

Rationale of the TSB transaction

International expansion:
In order to continue expanding successfully, where internationalization is a key part of the strategic plan, the acquisition of TSB provides Banco Sabadell with a significant footprint in the United Kingdom, a country outside the Euro area which is at a different stage of the macroeconomic cycle and has interest rates at a different level.

Entrance into the United Kingdom:
An attractive banking market with a stable, well-defined regulatory framework, stable returns and good growth prospects.

The retail and SME segments in the United Kingdom offer attractive growth potential and the management of Banco Sabadell believe this will create opportunities to increase TSB's market share.

TSB franchise:
TSB has a well-defined banking strategy as a retail bank, which is perfectly in line with that of Banco Sabadell. TSB's branch structure is appropriate and offers clear opportunities for organic growth. Additionally, TSB has a strong franchise, a respected brand and a good team of managers and staff.

The Banco Sabadell management team's experience:
May accelerate TSB's strategic and financial development. There is significant scope for revenue synergy by applying our extensive experience and leading position in customer service. Banco Sabadell's high market share among SMEs in Spain, coupled with its international experience, represent a solid source of added value for developing efficient services for SMEs in United Kingdom.

TSB and Banco Sabadell:
We believe that the combination of TSB with Banco Sabadell will create substantial shareholder value. The acquisition is neutral in terms of capital but will be strongly accretive in terms of earnings per share in the medium term.

For more details of the TSB acquisition, see the consolidated financial statements (note 2); for more details of its results, see the section on the United Kingdom in the Group Businesses chapter.

Share performance and shareholders

During 2015, the markets focused mainly on the macroeconomic situation, central banks' monetary policy decisions and the political situation in Spain.*

The Banco Sabadell share outperformed the rest of the sector in the early part of the year due to prospects of a recovery in Spain, the commencement of asset purchases by the European Central Bank, and the good response to the Bank's earnings reports.

The announcement of the bid for TSB and the rights issue in March and April influenced share performance in 2015. The market was affected by the Greek crisis between May and July.

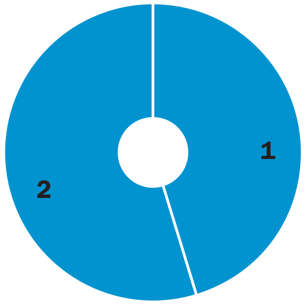
In the second half of year, equity market performance in general was shaped by uncertainties regarding a slowdown of the global economy and also by political instability. The closing share price at the end of 2015 was clearly influenced by these negative factors (G6).

At the end of the year, close to 70% of the analysts who cover Banco Sabadell share had an overweight or marketweight recommendation on the stock (T4).

One of Banco Sabadell's goals is to respond to the trust placed in us by our shareholders by giving them an appropriate return, a balanced and transparent governance system, and careful management of the risks associated with our activity.

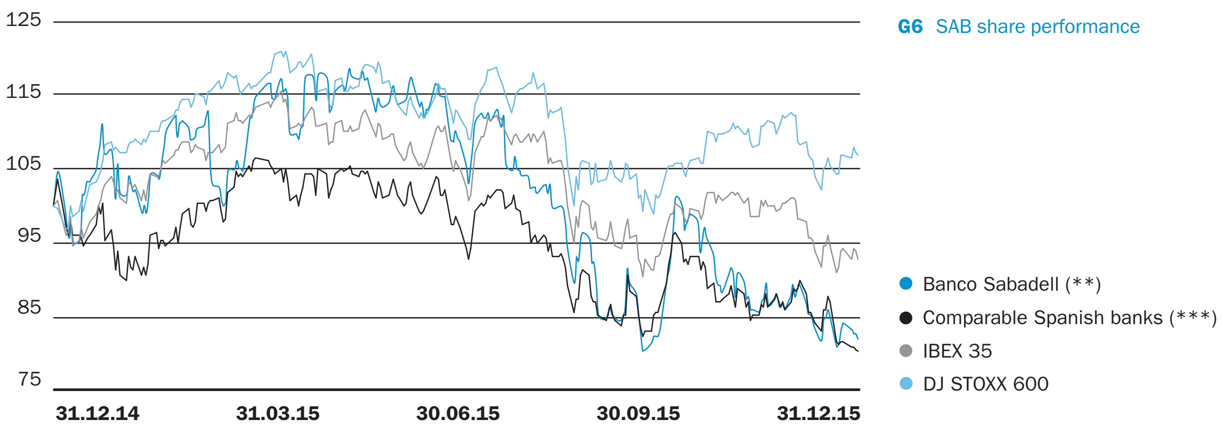
During 2015, individual investors increased their share of Banco Sabadell's capital, from 52.0% at 2014 year-end to 54.7% at the end of 2015 (G7, T2 and T3).

As part of the ongoing effort to ensure transparency and communication with the market, in March the management of Banco Sabadell organized a specific roadshow to describe the TSB deal to the investor community.



G7 Ownership structure
31.12.2015 (%)

1	Institutional	45.3%
2	Others	54.7%



G6 SAB share performance

(**) Including the warrants in the April 2015 rights issue significantly improves share performance.
(***) Includes Caixabank, Banco Popular and Bankia.

More information can be found in the Macroeconomic section

T2 Analysis of shareholdings at 31 December 2015

Number of shares	Shareholders	Shares in tranche	% of capital
1 to 12,000	216,514	635,297,645	11.68%
12,001 to 120,000	46,515	1,392,570,665	25.60%
120,001 to 240,000	1,746	281,819,626	5.18%
240,001 to 1,200,000	984	437,297,970	8.04%
1,200,001 to 15,000,000	146	498,572,762	9.17%
More than 15,000,000	28	2,193,686,324	40.33%
TOTAL	**265,935**	**5,439,244,992**	**100.00%**

T3 Analysis of shareholdings at 31 December 2014

Number of shares	Shareholders	Shares in tranche	% of capital
1 to 12,000	196,380	507,853,029	12.62%
12,001 to 120,000	33,095	974,338,672	24.21%
120,001 to 240,000	1,172	191,390,723	4.76%
240,001 to 1,200,000	701	312,497,888	7.76%
1,200,001 to 15,000,000	108	336,901,273	8.37%
More than 15,000,000	25	1,701,479,029	42.28%
TOTAL	**231,481**	**4,024,460,614**	**100.00%**

T4 Profit and book value per share 2013–2015

	In million	€Mn.	In euro	€Mn.	€
	Number of shares	**Income attributed to the group**	**Income per share attributed to the group**	**Shareholder's equity**	**Book value per share**
2013	4,011	146	0.036	10,227	2.55
2013(*)	4,299	146	0.034	10,227	2.38
2014	4,024	372	0.092	10,224	2.54
2014 (**)	4,290	372	0.087	10,224	2.38
2015	5,439	708	0.130	12,275	2.26
2015 (***)	5,472	708	0.129	12,275	2.24

(*) Includes the dilution effect of 287.13 million additional shares resulting from issues of convertible bonds.
(**) Includes the dilution effect of 265.27 million additional shares resulting from issues of convertible bonds.
(***) Includes the dilution effect of 33.01 million additional shares resulting from issues of convertible bonds.

Also, as part of the significant moves by Banco Sabadell in recent months to enhance transparency and communication, in keeping with the Group's larger size, Banco Sabadell management maintained a high degree of interaction with institutional investors by attending a large number of international conferences and investor meetings. In 2015, Bank representatives attended 12 international conferences and met with close to 550 investors in a period of 49 days.

Banco Sabadell has stepped up communication and enhanced transparency by steadily improving the information it releases to investors at regular intervals (T4).

At 2015 year-end, Banco Sabadell's market capitalization stood at €8,893 million, and the price-to-book ratio was 0.72.

In 2015, the Bank distributed €0.05 per share out of 2014 earnings, as follows: a scrip dividend against reserves for an amount estimated at around €0.04 per share, offering the shareholders the opportunity to receive that amount in cash and/or in new shares, and a supplementary dividend equivalent to €0.01 per share, in the form of a distribution of treasury shares.

The General Meeting of Shareholders is also being asked to approve the payment of a dividend out of 2015 earnings in the amount of €0.07 per share, with a similar breakdown to the 2014 dividend: a scrip dividend charged to reserves for an amount estimated at around €0.05 per share, offering the shareholders the opportunity to receive that amount in cash and/or in new shares, and a supplementary dividend of €0.02 per share in the form of a distribution of treasury shares.

The investor communication policy is available on the website.

Customer

Banco Sabadell has a customer-centric relationship-based business model with distinct personal management standards that are focused on value creation. Sale processes are based on high quality advice and materials. The relationship model is supplemented with specific product campaigns designed with a focus on the customer.

Banco Sabadell believes that the relationship with customers should be a long-term one based on trust and authenticity. For that reason, Banco Sabadell focuses on the customer experience as a means of standing out from its competitors and achieving profitable growth. This approach is a logical consequence of the excellent quality of service that is part of Banco Sabadell's DNA.

The customer experience attributes that Banco Sabadell wishes to be recognized for are: trust, excellence in service delivery, transparency and convenience.

Banco Sabadell aspires to be the leader in customer experience in all segments. To achieve this, the Bank has implemented a continuous improvement methodology based on measurement and, particularly, on provoking and assuring action; it revolves around the account manager, whose task is to support the customer and offer the best service to meet the customer's needs.

The Bank is also working to include customer service quality as a metric in personnel incentives throughout the organization and has commenced an ambitious programme of internal communication and training in order to raise awareness throughout the organization of the need to put the customer at the centre of our day-to-day.

Banco Sabadell conducts regular surveys to identify areas for improvement, both overall and in each customer relationship channel. These surveys reflect the Bank's focus on customer service quality in the form of the steady increase in all indicators. G4-PR5 (G8).

Banco Sabadell seeks to protect the interests of its customers and has control mechanisms in place to supervise the products and services it offers. Before a product or service is offered for sale, its suitability is evaluated in the branch network and pre-contractual information sheets are produced for complex financial products; in compliance with the European directive on markets and financial instruments (MiFID), the Bank conducts suitability and appropriateness tests (G4-S011, GR-PR8).

Our customer relationship model is based on quality, commitment and transparency. The Group's customers and users may contact the Customer Service Department (CSD) with any complaints or issues that have not been resolved satisfactorily at their local branch. The CSD is independent from the business and operational side of the group and is governed by the Banco Sabadell Group's own rules and procedures on the protection of customers and users of financial services. Customers and users may also appeal to the Customer Ombudsman, an independent organ that is competent to resolve any issues referred to it either directly or on appeal. Decisions of the CSD or the Ombudsman are binding on all the Bank's units.

In 2015, the CSD handled 19,650 complaints and claims, 25% less than in the previous year. The CSD also provides assistance and information to customers and users with regard to matters that are not formal complaints or claims. In 2015, it handled 408 requests for assistance and information, compared with 769 the previous year.*

G8 Customer satisfaction with Banco Sabadell (G4-PR5)

Source: STIGA, Customer satisfaction surveys. Data corresponding to December 2014 and December 2015.

* **For more details, see note 47 in the 2015 consolidated financial statements.**

BS strengths

The strengths of Banco Sabadell are set out in the chapters of this annual report, apart from those that are detailed below.

- Organization by business
- Multibrand and multichannel strategy
- Cutting-edge technology and Innovation
- Quality of service
- Focus on company and personal banking
- Major player in the international arena
- Strict management of capital and risk
- Corporate Governance defined and transparent

Organization by business (G4-8)

The banking business is divided into the following business units:

Commercial Banking
Offers both lending and savings products. Lending products include mortgage loans and credit facilities. The product range for savers includes demand and term deposit accounts, mutual funds and pension plans.

Other key business areas are insurance products and payment means, such as credit cards and transfers.

Markets and Private Banking
Offers and designs value-added products and services to deliver good returns to customers, increase and diversify the customer base and ensure that investment processes remain consistent, based on disciplined analysis and proven quality. There is a also move towards a multi-channel approach to customer relationship management.

UK banking business (TSB)
The TSB franchise includes retail banking in the United Kingdom (current and savings accounts, personal loans, cards and mortgages).

Global Corporate Banking
Offers specialized financial services to large corporations and financial institutions, together with a comprehensive range of solutions, from transactional banking to more sophisticated, tailor-made solutions in such areas as structured financing and treasury services, among others.

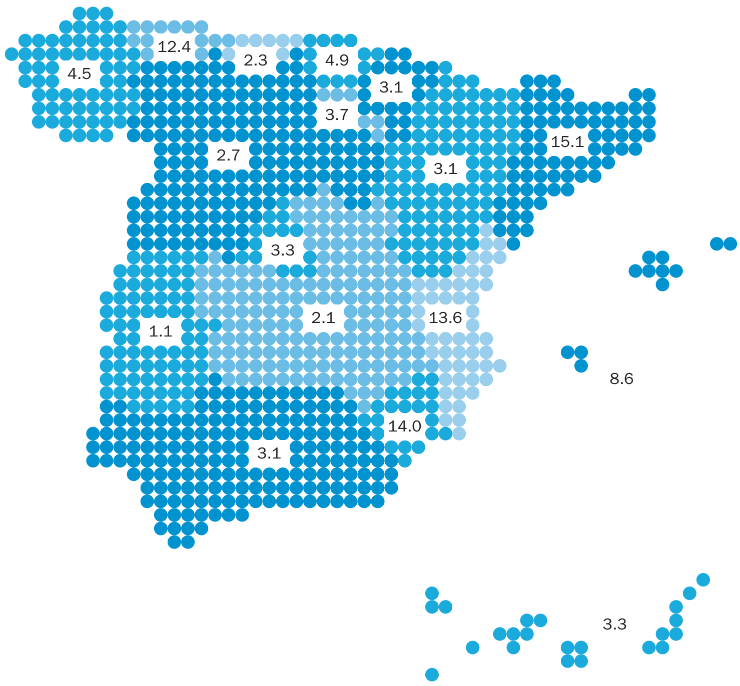
Banking business America
Provides all types of banking and financial services, from the most complex and specialized for large corporations, including project finance, to offerings for individuals, covering all products and services that professionals and companies of all sizes might need.

Asset Transformation
Manages the Group's non-performing and real estate exposure across all its businesses, and sets and implements the strategy with regard to real estate investees, including 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.

G9 Market share by region

Banco Sabadell market share in Spain

7.2%



Multibrand strategy

The Bank operates with a number of brands in Spain, all under the Banco Sabadell umbrella (T5).

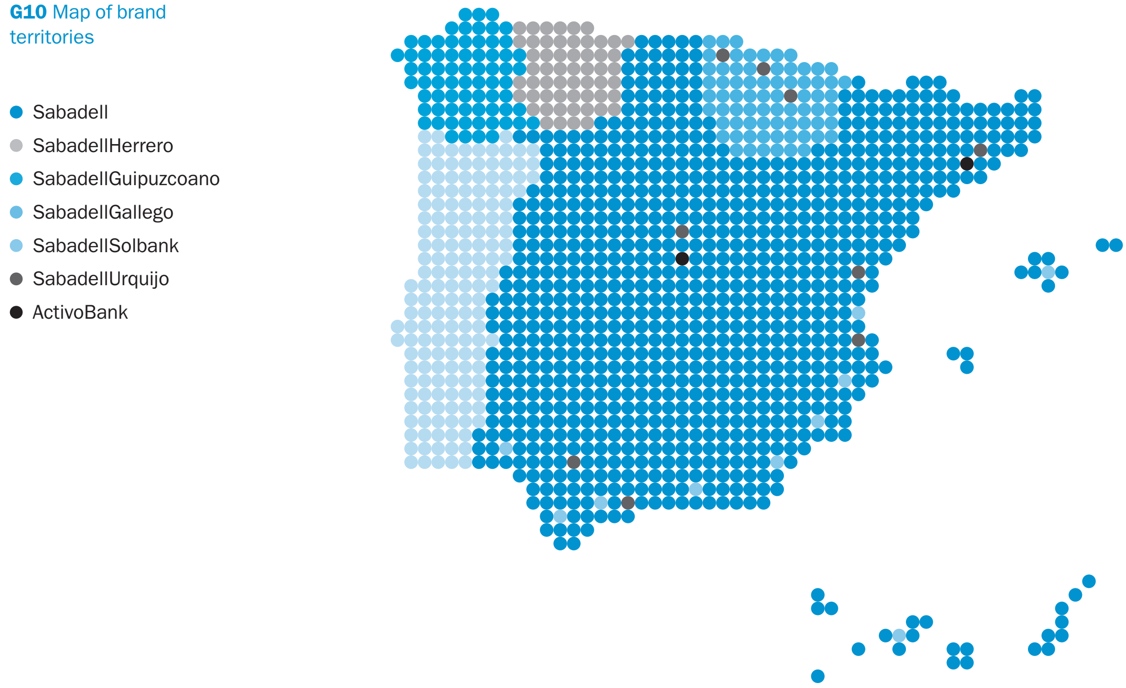
In 2015, Banco Sabadell began to unify its territorial brands in order to enhance its potential nationwide and internationally under a single marque. Initially, the SabadellAtlantico and SabadellCAM brands were replaced by Sabadell (G10).

Banco Sabadell is a well-known name in international banking. With a specialized offer and an effective value proposition, Banco Sabadell is present in strategic locations and works with organizations that promote foreign trade, supporting customers as they grow and expand internationally.

T5 Brands under which Banco Sabadell operates in Spain

Sabadell	— Commercial Banking and Corporate Banking — Serving: all of Spain except territories covered by other brands
SabadellGuipuzcoano	— Commercial Banking and Corporate Banking — Serving: Basque Country, Navarra and La Rioja
SabadellHerrero	— Commercial Banking and Corporate Banking — Serving: Asturias and León
SabadellSolbank	— Commercial banking for European residents in Spain's tourist zones — Serving: the Mediterranean coast and the islands
SabadellUrquijo Banca privada	— Private Banking. Merger of Sabadell Banca Privada and Banco Urquijo — Serving: all of Spain
SabadellGallego	— Serving: Galicia

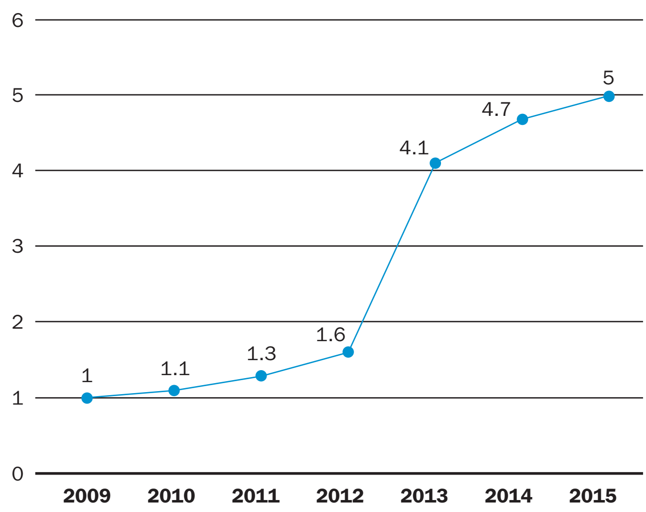
G10 Map of brand territories



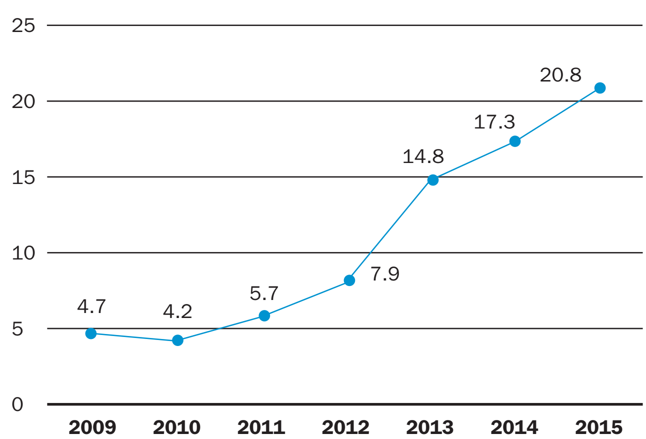
Indicators of BS brand perception

During 2015, the Bank continued its successful policy of raising brand awareness, which is necessary to increase the capacity for growth in the retail market in Spain, the aim being to match the brand recognition achieved by the main competitors. As a result, in five years, Banco Sabadell's brand awareness has risen from 1.1% to 5% in terms of top-of-mind and from 4.2% to 20.8% in terms of total visibility, and it ranks fifth among Spanish financial institutions, according to the annual FRS Inmark survey, which is a benchmark in the industry (G11 and G12).

G11 Top-of-mind recognition



G12 Total brand recognition



Advertising campaigns and actions to enhance the Bank's image in 2015

The Bank's advertising in 2015 maintained its specific personality, which distinguishes it from the rest of the sector, conveying an image of professionalism, earnestness, modernity, innovation in customer service and entrepreneurship.

The "company commitment" ("Compromiso Empresas"), which was launched in the first quarter, conveyed our commitment to offering companies everything they could ask of their ideal bank. Closeness, trust, relationship, service, ... everything a company needs under a single umbrella agreement. In writing.

In April, in an analogy to the relationship between account manager and customer, we launched the second instalment of the "Close" (Cerca) project with Rafa Nadal and John Carlin. The campaign enhanced the image of our key asset, the account manager.

And in the final campaign of the year, we revisited conversations between personalities with two clear goals: transmit our competitive position as a go-to bank for funding needs, and launch our new slogan, "Sabadell. Wherever you may be", which defines us as a different bank that aspires to closer and more beneficial relationships with its customers because of its commitment, convenience, transparency, quality and service based on a supportive approach.

Multi-channel strategy

Service channels

The Bank maintains a set of channels—both physical (branch network throughout Spain and in other countries) and digital (BS online, Sabadell móvil, Oficina directa and social media)—for communicating with customers and responding to their needs.

In 2015, under the Transformation Plan, Banco Sabadell continued working to combine the best features of traditional banking, such as personal relationships, with the best of digital technology; this was effected through the Digital Transformation, to which the Bank devoted considerable efforts in order to be able to respond to our customers' mobility and growing demand for convenience.

This process entails a major cultural change both in relations with customers and within the bank itself. The change must start within and, to this end, employees were selected as "Ambassadors of change" to drive the necessary culture change from inside.

A new customer relationship model has been developed which is more sophisticated and offers more access channels, through the Instant Banking programme, extending the idea of offering access via every possible channel. The branch office is no longer the hub of transactions; rather, customers are at the centre of the process and have a wide range of points of contact. This made it necessary to simplify processes as much as possible and change the distribution model to one of multiple locations, hub and spoke and an Active Management Approach. This business transformation is fully aligned with the digital transformation.

In 2015, internal efforts focused on developing new remote purchasing capabilities ("Instant Selling"), implementing digital signatures for private individuals, and developing the Sabadell wallet. These services are currently being rolled out to all customer segments. Innovation and a forward-looking approach to new digital experiences lead to a constant search for ways to improve the customer experience, e.g. with push notifications.

Practically 40% of active customers use digital channels, 85% of transactions are now digital, and 15% of customers use their mobile device as their main access channel.

The number of customers with a distance banking arrangement rose from 62% to 69% in 2015.

The Bank is very interested in learning about digital media from entrepreneurs and universities. To this end, it has established a web environment for external developers to develop a production version of an API that will allow apps to make use of the Bank's services, which will contribute to expanding its capacity and driving innovation.

T6 Number of branches per region

Region	Branches	Region	Branches
Andalusia	143	Valencia	387
Aragón	38	Extremadura	6
Asturias	146	Galicia	129
Balearic Islands	65	La Rioja	8
Canary Islands	30	Madrid	209
Cantabria	6	Murcia	148
Castilla-La Mancha	23	Navarra	19
Castilla y León	64	Basque Country	107
Catalonia	674	Ceuta & Melilla	2

Branch network

Table T6 shows the branch network in Spain. Including the 669 branches in the international network, the Group had a total of 2,873 branch offices at the end of 2015.

ATM network

A total of 104 million ATM transactions were performed in 2015 (10% more than in 2014), of which 65% used cards and 35% used passbooks.

At the end of the year, the Banco Sabadell Group in Spain had 3,224 ATMs and 379 passbook updating machines. The number of ATMs fell by 71 in the year while the Group added five passbook updaters.

In 2015, the Group commenced a plan to upgrade 800 ATMs in Spain in parallel with the new approach to ATM location at the branches, the main novelty being the Minivestibule; this upgrade programme is expected to continue in 2016. A number of actions were implemented during the year, including ATM system upgrades to shorten response times, improve cash management and standardise processes. The goal was to enhance ATM service in order to improve the customer experience.

Remote-access channels

BS Online
At the end of 2015, BS Online had over 3.7 million customers, of whom just over 3 million were private individuals and nearly 700,000 were companies, i.e. an 11% increase on 2014. The number of active users increased by 6%.

A total of 1,523 million transactions were performed online, an increase of 14% year-on-year.

The percentage of digital servicing operations (transactional) reached 85% in 2015.

At the end of the year, BS Online ranked fourth in terms of availability of web services for private users of Spanish banks, according to measurements by EUROBIT, a company specialized in monitoring Internet banking services; it also ranked first in web services for companies.

During the year, a number of new products and services were introduced, including notably the digital signature, an innovative system that replaces the current code card with the use of a mobile phone; this not only simplified online transactions for customers but also responded to the security requirements of the European Banking Authority (EBA). Also noteworthy was the launch of several new features in BS Online, such as the ability to open a demand account, securities account or mutual fund account without having to visit a branch.

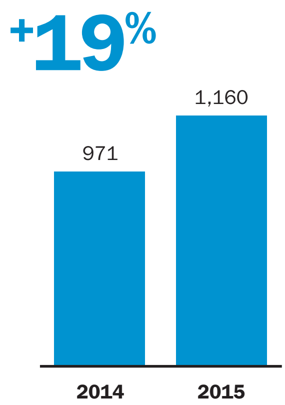
Sabadell Móvil
In 2015, the number of active users of Sabadell Móvil increased by over 19% year-on-year, to more than 1.16 million (G13).

In order to improve service, the application for phones and tablets was upgraded early in 2015 with a new design focused on ease of navigation, to make it more intuitive. The upgraded app places the user's overall balance at the centre of the screen for navigating to products and services. Moreover, queries about card transactions and balances were made simpler and more visual.

The user experience was enhanced in other important ways in 2015, such as the new message and alert mailbox, which groups all customer impacts, sorted by type. It provides the customer with a single area for signing transactions and pending documents. Customers are encouraged to sign up for push notifications instead of SMS.

Sabadell Móvil is constantly evolving to integrate the latest technologies so as to give the user a smoother experience. Initially, authentication using TouchID was introduced; the Digital Signature functionality, the new method for signing remote banking transactions, was added subsequently. In 2015, the Banco Sabadell app achieved fourth position in the Apple Store and seventh on Google Play, among the top 10 financial apps in Spain. The Banco Sabadell brand is a benchmark in terms of both digital capabilities and Internet presence, according to a survey by Kanvas Media.

G13 Sabadell Móvil active customers
Thousands



Sabadell Mobile has been Spain's top-rated bank mobile app for the last four years.

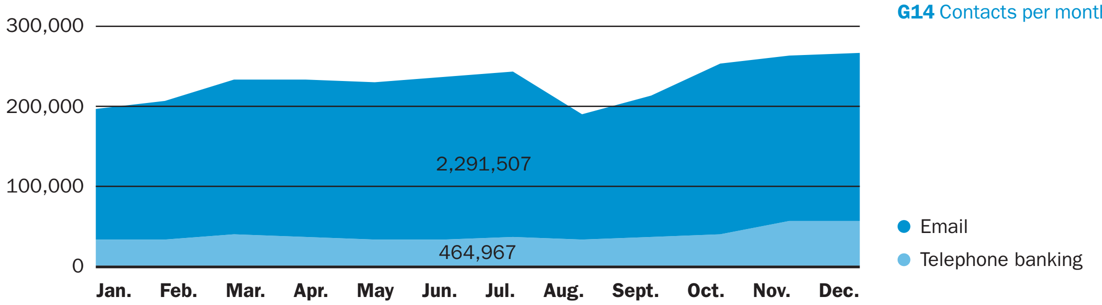
Oficina Directa
In 2015, Oficina Directa achieved over 2,810,000 contacts (G14), an increase of over 3% with respect to 2014.

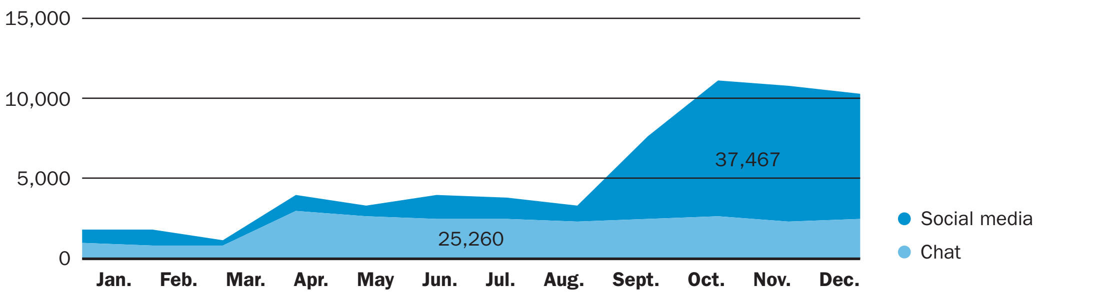
Although usage of email, chat and social media increased rapidly during the year, the bulk of contacts were still by telephone (81%).

Nevertheless, telephone's share fell by five points with respect to 2014. Incoming emails increased by over 50%, social media messages by almost 70%, and chat conversations by 134% in the last 12 months (G15).

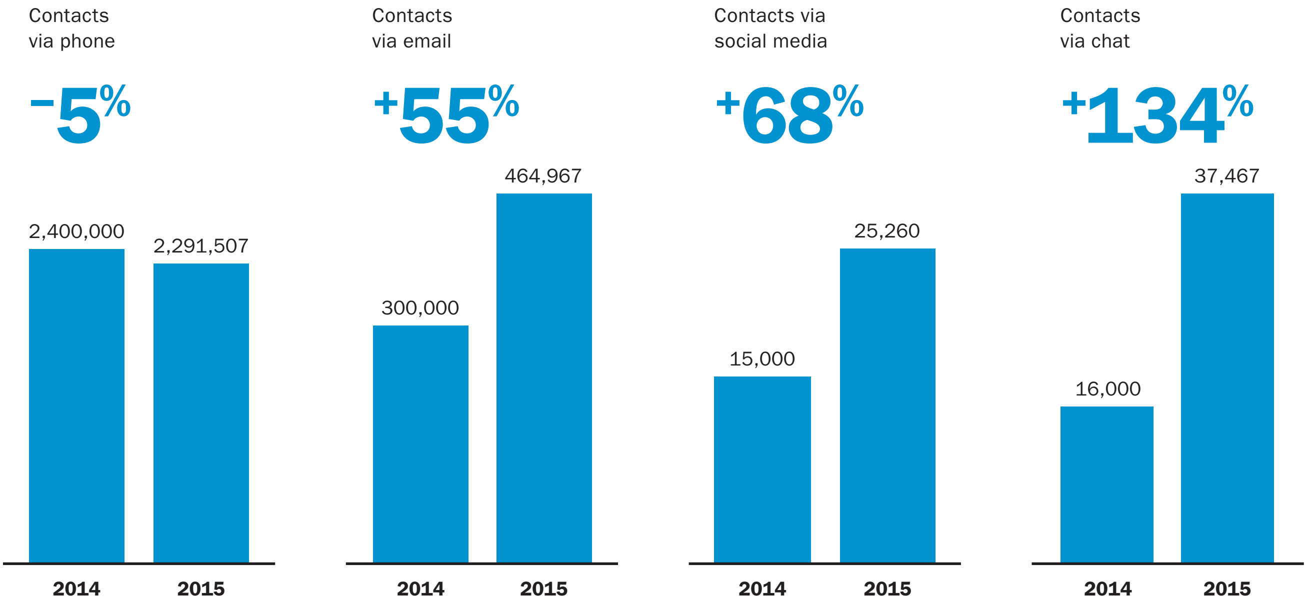
These data show that our customers use a multitude of channels and that they are increasingly resorting to alternative channels.

G14 Contacts per month





G15



Service levels were similar to those of the previous year, and the SLA (Service Level Agreement) metric was 96% in telephone banking and close to 92% in e-mail. The SLA metric in online chat improved steadily from month to month, approaching 93% in December. We received over 388,000 mentions in social media (compared with 75,000 in 2014) and there were over 25,000 interactions, with an SLA of 97%.

During 2015, we continued to make improvements and launch new initiatives to enhance the various relationship channels. Online chat was introduced on the Bank's website for both individuals and businesses, and it achieved an SLA ratio of over 90% by responding in less than 1 minute. Speech analytics were implemented on the telephone channel to recognize customer's messages.

Social media

Social media play an increasingly important role in our relationship with our customers; their use is expanding exponentially and strengthening our presence there is a priority for the Bank. A large number of events—both institutional and organized by third parties in which the Bank participated—were publicized via social media. For example, earnings presentation were relayed via *Twitter*.

Banco Sabadell changed its social media presence in 2015. On the one hand, @bspress, the Twitter channel for news about the Bank, was rebranded @Sabadellprensa. And additional news channels were established in Catalan (@Sabadellpremsa) and English (@Sabadellpress). On the other, publication of new content on @SabadellCAM ceased and the account was frozen after this brand was regrouped under the Sabadell brand; its Facebook identity was merged with that of the Bank, which thereby gained 4,000 additional followers in just a month.

The number of followers on social media increased by 39% year-on-year to approach 200,000 followers combined in all the channels in which the Bank is present: Twitter, Facebook, YouTube, LinkedIn and Google+. The Bank continued to produce its own content in 2015, with 323 blog posts and 113 videos. It also made a firm transition towards streaming events online via BancSabadell-TV with the aim of providing customers and non-customers alike with real-time access to the Bank's activities. The number of live broadcasts for employees, such as the presentations of the challenges in BS Idea, also increased.

Innovation and entrepreneurship

In 2015, the Bank continued to distribute content on the subjects of innovation and entrepreneurship. In February, the second Banco Sabadell “Hackathon” was held in Alicante, with 100 programmers participating in the challenge to develop ideas that would “revolutionize the bank of the future”. The event could be followed via social media, where a large number of photos and videos were posted.

In the area of entrepreneurship, Banco Sabadell maintained the BStartup10 programme to support and encourage startups. Through this programme, the Bank participated in numerous events such as the first “Health & Bio Team Dating”, in Barcelona. This innovative event sought to bring science and business together with the aim of creating new business projects. Additionally, Venture Network Events were organized throughout Spain.

Barcelona Open Banc Sabadell

The Barcelona Open Banc Sabadell tennis tournament was the event of the Bank that achieved most followers in social media. In fact, it achieved an unprecedented 275 million impacts on Twitter. Almost 30,000 tweets were published during the tournament using the #bcnopenbs hashtag. Some 11,000 users posted their own tweets under that hashtag. Internet users were able to follow the tournament on its official website and via Twitter. Among the players most mentioned were the champion, Kei Nishikori, with over 11,000 mentions, followed by Rafa Nadal, with over 7,000, and Pablo Andujar, the finalist in this edition, who garnered more than 3,500 Twitter mentions.

Cutting edge technology and innovation

In the area of pure innovation, the Bank continues to launch novel services that enrich the customer relationship and accelerate the Bank's digital transformation under a long-term vision of the bank of the future.

Big Data - Kelvin Retail

With a view to leveraging the Bank's data assets, a project with Kelvin Retail was implemented in the second half of 2015.

Kelvin Retail is an information service aimed at small and medium-sized shops; it consists of a private website for shops plus a monthly email report summarising activity. The goal of this new service is to provide shops with the information that the Bank has regarding the performance of their business, customers and industry. All the information is first anonymized and aggregated, and is presented only in the form of statistics. Business managers can use this information to make decisions in their day-to-day.

On 21 December 2015, a pilot of this service was rolled out involving 82 participants with a total of 165 shops in 20 different sectors, the goal being to validate the usefulness of the service, improve the indicators and validate the channels for communication with the shops.

Sabadell Digital & Agile Lab

In 2015, Banco Sabadell built and launched Sabadell Digital & Agile Lab, a disruptive space located at the corporate headquarters in Sant Cugat which will enable the Bank to advance its commitment to digital and commercial transformation.

From a technological point of view, Digital & Agile Lab has all the necessary tools, and the latest in mobile devices, to facilitate efficient project development and to replicate the different types of relationships with customers and users and their digital devices.

Open API & Sabadell Developers Portal

Open API is a library of methods by which third parties can access and interact with some of the main features and digital services that the Bank offers its customers. This interface makes it possible to create applications that can be integrated seamlessly with Banco Sabadell services.

By implementing its own API, Banco Sabadell:

— Facilitates experimentation and development of new services by third parties.
— Increases the number of interactions with customers and potential customers.
— Attracts talent and identifies new business opportunities.

This initiative is aimed at developers who are Banco Sabadell customers but it is also open to anyone interested in the business opportunities offered by the Bank's API. The relationship with these communities is managed via the developers.bancsabadell.com portal, which was created specifically for this purpose.

Banco Sabadell does not wish the API to be confined to the design, development and optimization of applications to make it easy to perform banking tasks and expedite day-to-day bank transactions for its customers; in fact, it wants to build new bridges to the fintech world, such as integrating banking services with cutting-edge devices (e.g. smartwatches, VR goggles, etc.).

cuBS Project

The cuBS project, developed in 2015, is one of the Bank's first disruptive innovation initiatives.

Through a cube-shaped device connected to the Internet, cuBS proposes a new experience that makes the Bank tangible in customers' homes.

It aims to provide new services, initially managing savings targets, and integrating them into family dynamics, which has a positive impact on children's financial education.

The results of this experiment have been compiled and the Bank is analysing a number of avenues for continuing with the project, which include producing the device on an industrial scale.

Quality of service

For Banco Sabadell, quality is not just a strategic option; rather, it is a whole approach to doing business, whether in delivering value to stakeholders or in the execution of each and every process forming part of that business. This natural affinity with excellence helps to enhance the Bank’s capabilities in all areas, transforming threats into strengths and challenges into opportunities for the future.

Consequently, the Bank makes use of existing standards and benchmarks to judge its own actions and satisfy itself that its way of doing business is the right one, and it sets itself new goals based on continual self-criticism.

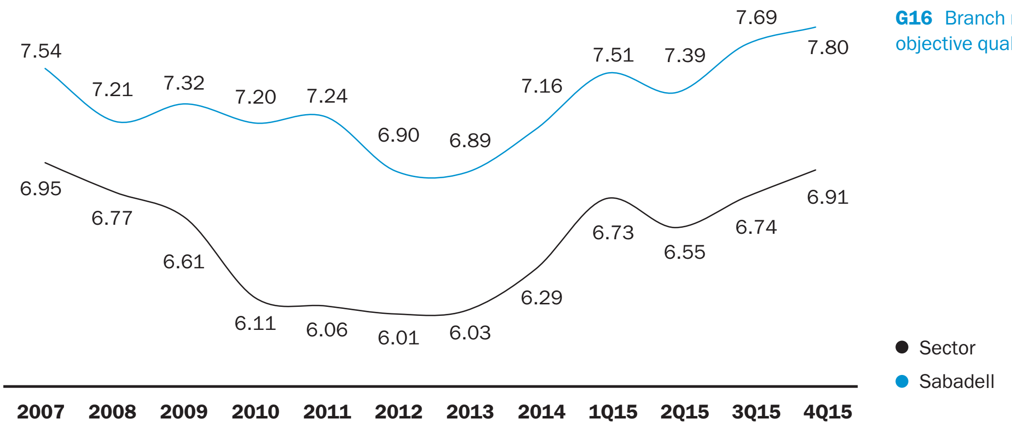
A key benchmark against which to measure and improve management practices is the European Foundation for Quality Management (EFQM) excellence model, against which the Bank is independently assessed every two years. The assessment carried out in November 2014 resulted in the Bank's EFQM Gold Seal (>500 points) being renewed, with a score of over 700 points being awarded according to EFQM's very demanding standard. That was an increase of almost 100 points with respect to 2012, a truly extraordinary achievement that is within the reach of very few organizations.

Moreover, Banco Sabadell is still the only Spanish credit institution with 100% of its financial operations certified to the ISO 9001 standard, providing further proof of its customer-centred philosophy and diligent approach to process management. Banco Sabadell's ISO 9001 certification was renewed in 2015.

The Bank's "Madrid Excelente" quality mark was also renewed in 2015 for another three years after it successfully passed the evaluation.

The actions implemented under the commercial plan have been successful: customer satisfaction surveys ratify the improvement in service quality with respect to the industry average and also in absolute terms; Banco Sabadell is the top-rated bank in this respect (G16).

Concentration of tasks provides synergies and frees up time for branch staff, contributing to greater operating efficiency and enabling them to focus on improving the customer experience.



G16 Branch network objective quality survey

* *Source:* EQUOS, STIGA, Estudio de calidad de redes bancarias.
2015 data reported with consolidation scope at each quarter-end.

Accolades

EUROPEAN FOUNDATION FOR QUALITY MANAGMENT	MADRID EXCELENTE	ISO 14001 CERTIFICATION	ISO 9001 CERTIFICATION	EFQM EUROPEAN EXCELLENCE

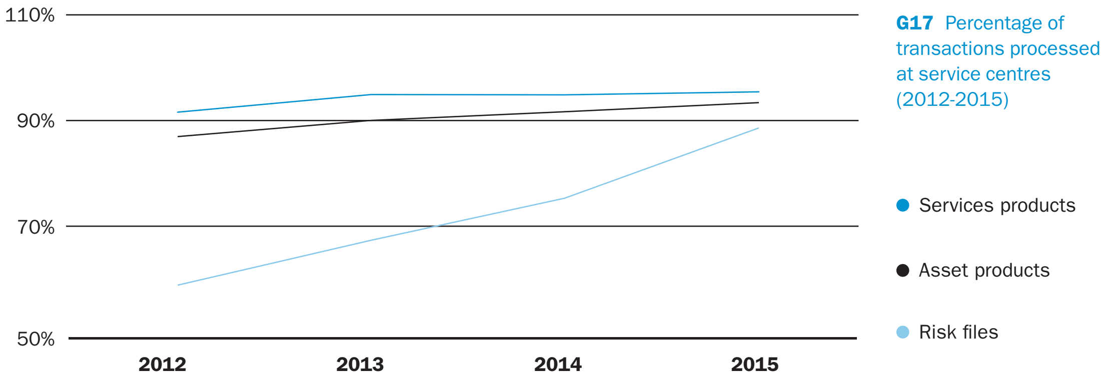
The environment (society, technology and, ultimately, consumers) is changing and this requires the Bank to evolve its current business model. This evolution entails adjusting the customer relationship model by incorporating new digital capabilities, improving business systems and adapting the branch network to customers' needs. The Transformation Plan currently under way at Banco Sabadell is an ambitious project, a challenge that drives our commitment to a long-term relationship with our customers.

The ongoing transformation of the Bank's operating model is aimed at key business activities in order to increase productivity and profitability while guaranteeing our hallmark quality of service.

This transformation involves industrialising administrative activities, enabling staff to devote more time to value tasks and critical business processes, leaving non-core activities to operational factories. The merger synergies provide shorter average turnaround times, greater responsiveness and amalgamation of processes, as well as the possibility of implementing improvements to expand traceability and oversight.

During the year, the plan to consolidate regional administrative centres took shape and additional transfer possibilities were identified, thereby enhancing concentration ratios, which are now quite close to the target set in the transformation plan. As for improvements in the customer experience, a new front-office model was tested that promotes the use of digital channels and moves administrative tasks to back-office centres. In this area, initiatives were adopted to improve communications with customers from specialized centres, making it possible to address solutions tailored to their needs. Automation has made processes simpler and more agile, resulting in greater operational efficiency (G17).

The optimized model allows for exhaustive tracking of expenditure, which is essential to achieving the cost reduction goals, considering the increases in capacity resulting from acquisitions in recent years.



G17 Percentage of transactions processed at service centres (2012-2015)

Rafa Nadal
Doha

"Sometimes it is good to have your own criteria."

Being closer is knowing you well enough to know when you need advice and, more importantly, when you don't. And that is just what your Banco Sabadell Relationship Manager does. Get to know yours through the Pre-Arranged Appointment Service at bancosabadell.com

Advertising document

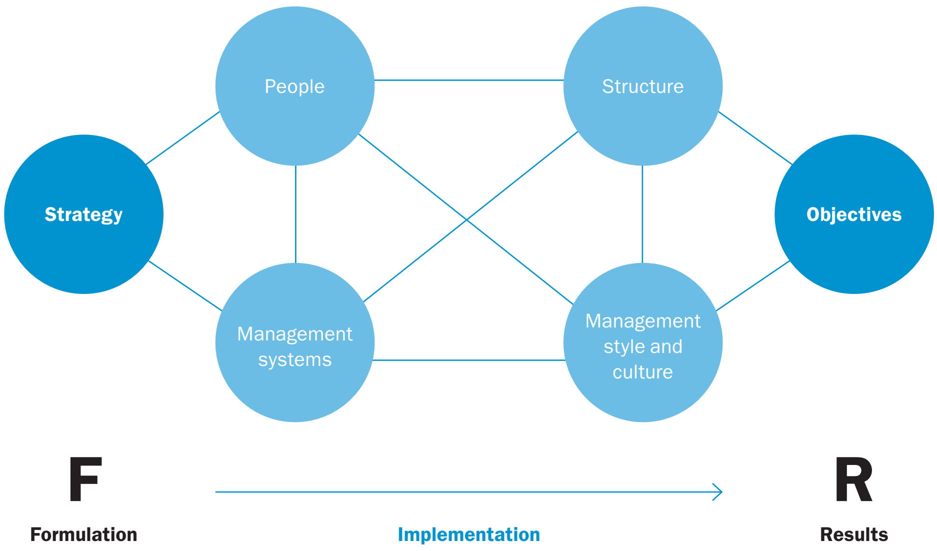
Closer is a private conversation between Rafa Nadal and John Carlin.

Sabadell

Human resources

The Bank has a young, qualified and gender-diverse workforce. The human resources model follows a clear strategy based on four key levers for achieving the objectives (G18).

G18



Four essential premises underpin the group's human resources management approach:
— The Bank has human resources policies and regulations in place that apply throughout the organization.
— People are a distinctive asset and a critical success factor for Banco Sabadell.
— People belong to the entire organization and form part of a single team: Banco Sabadell.
— The Bank believes it is necessary to constantly reinforce the emotional contract between the Bank and its people.*

Human resources management strategy under the "Triple" plan, and lines of action in 2015

The capabilities that were built in the first year of the "Triple" plan were implemented in 2015. Management of talent and human capital are now a key component of the plan.

Sweeping changes were made in the Human Resources department structure, including notably the creation of three new roles:

HR Business Partners (HRBPs)

A new position for liaison with the business units. The HRBP is an adviser with decision-making capacity in the area of planning, prioritising and managing specific needs relating to people that arise from the business strategy.

* For more details of Human Resources policies and principles, see the Directors' Report in the Financial Statements.

Centres of Excellence

These are product specialists (Training, Compensation, Recruitment, ...) who centralise the functional knowledge required by the business.

Shared Services Centre

Its mission is to execute operational tasks and transactions. It is the back office for HR processes.

In the area of organizational change and development, three strategic priorities have been identified with regard to personnel:
— Manage talent transversely to respond to the group's growth.
— Raise performance benchmarks for all employees.
— Get all employees involved with, and committed to, the group's plan for the future.

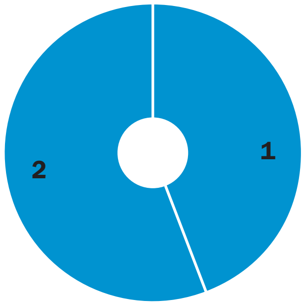
This transformation is underpinned by a sizeable investment in technology, implementing IT solutions for all HR processes.

The five core initiatives (Integrated talent management, Performance management system, Segmented people management, The brand as employer, and Transforming training) defined in order to achieve this transformation continue to be implemented and will culminate in 2016.

These initiatives refer to "how", but it is equally important to focus on "who". To this end, three additional initiatives were defined, centred on enhancing human resources capabilities of key components of the organization - (Management quality, Multi-generational management of talent and flexibility, and International HR model).

Composition of group employees

At the end of the 2015, the Banco Sabadell group employed a total of 26,090 people, an increase of 8,561 on the year before. The average age of employees was 43.54 years and the average length of service was 17.42 years. The gender split was 44.4% men and 55.6% women (G19).



G19 Workforce breakdown by gender 31.12.2015 (%)

1	Men	44.4%
2	Women	55.6%

Projects in the Human Resources area

Training and leadership development

The performance appraisal model, the cornerstone of people management in the group, has been strengthened by simplifying the process of competency assessment and integrating it with Management by Objectives. This was accompanied by the first steps to transform the learning model.

During 2015, the Group worked on designing a learning model that supports growth by our professionals. The approach to training is informal, flexible, person-oriented, innovative and aligned with business needs. As part of this transformation, a new learning platform will be implemented in 2016 which will expand employees' access to training, enable them to plot a training plan, and recommend courses, among other features.

Employees registered on the new platform

4,233

The new learning model will also make it easier to identify the business impact of training by measuring subsequent outcomes.

New informal learning methodologies have been implemented. For example, coinciding with the pension plan sales campaign, an app with the format of a general knowledge quiz was produced to train staff in this product.

New English language learning model: flexible, technological, for all levels, and personalized

We implemented a new language learning model that is more flexible and adaptable to all levels. This new model provides access to the best content to improve English proficiency at the individual and organizational level.

Tools associated with this model provide real-time information on the progress in the KPIs established each year and on the acquisition and improvement of language language skills on an organizational level and for individual participants.

Creation of the Business School as a model for transformation and sustainability of the Business Development Programme: Branch manager development

The structure and objectives of the future Business School were defined with the goal of aligning people's learning with business challenges and the Bank's ongoing business transformation.

At the same time, the Business School should be a key lever to lend sustainability to the branch business system approach that was implemented with the Business Development Programme. A first example of this new approach to learning at Banco Sabadell, and which will form part of the School, is the "Grow Up" programme for newly-promoted branch managers, the aim being to develop and transform the new branch manager into a business leader and team leader in the context of the branch.

Leadership development with a new people-oriented approach: Leading the future

The core human resources plan entails major changes in the way managers and executives manage people and teams. In talent management, one of the immediate challenges is to attract, develop, retain and transmit talent in accordance with the expectations of each of the generations currently coexisting within the Bank (baby boomers, generation X and millennials); the objective of this line of action is to recognize the different generations so as to manage them differently in accordance with their expectations.

Leading the future is a comprehensive leadership development programme for executives to achieve a common leadership style in Banco Sabadell that fosters cooperation and team development, with a strong focus on the share and the business.

This programme, based on a cutting-edge integrated methodology, encourages executives to adopt a common vision and leadership pattern, and favours growth and professional development in accordance with the Bank's culture, using personal change to facilitate organizational change. The programme has a synergistic trickle-down effect from participants to their teams, coupled with a more human approach. These attitudes position our executives as leaders in quality and closeness, both internally and with respect to the external market.

Another related objective is to outfit the organization and its people with the work flexibility tools and solutions that the business needs to improve productivity and competitiveness.

BS Business School: Public recognition as a benchmark

This is a digital platform exclusively for Banco Sabadell executives which, in 2015, established itself as a channel of value and executive development.

Its main objectives are to enhance the big picture approach through self-development and building a personal and professional bond between the members of the group by sharing expertise, resources and information.

The main achievements this year were attaining a usage rate of 91% among executives (more than 60,000 page views).

Mobility

An ambitious internal recruitment programme was created to provide opportunities for professional growth and promote internal mobility by Group employees. For positions that are not covered internally, the positions vacant site on the web has been enhanced in terms of both appearance and usability.

Under the defined human resources model and policies, the number of staff being transferred internationally continues to increase. Work is continuing on developing a pool of professionals that can selectively drive future expansion, and on incorporating international experience into the executive career path.

Human Resources Management

In order to foster efficiency and specialization, a transverse unit covering the operational tasks connected with human resources was created. The pre-existing Employee Service Office was merged into the Shared Services Centre. This Centre focuses on serving other departments by enhancing efficiency through specialization.

The main services it handles include producing the monthly payroll for over 18,900 employees; it also handled more than 41,000 queries from employees during the year.

Prizes and distinctions

‘Capital Humano’ award in the 'Integrated Management' category for our 'Talent and Human Capital Management Programme'

The prize was awarded in recognition of the organizational change and development levers and the renewed vision of the HR function embodied in the programme.

Honourable mention for BS Business School in the Talent Mobility awards

Recognition of a pioneering digital, growth-oriented leadership initiative that is positive for the company.

Gold SAP Award in the ‘Innovation Projects’ category, for the project to implement Success Factors in Human Capital Management

The jury was particularly impressed by the fact that the innovation project was entirely in the cloud, eliminating over 150 separate installations in different countries, with a variety of processes and approaches to managing employee talent, recruitment, management by objectives, and development and training.

CEO/DCH award for excellence in people management, for Jaime Guardiola

Candidates (internal and external) for the 138 vacancies advertised since June.

2,957

Corporate Social Responsibility

Banco Sabadell carries on its business in a transparent, ethical way in response to society's concerns. Banco Sabadell accepts its role as a driver of the economy while also ensuring an appropriate impact on society and the environment. Through a rigorous professional approach, each and every person in the organization has a part to play in respecting and applying the corporate social responsibility principles and policies while also ensuring quality and transparency in customer service.

Principles and policies in the area of corporate social responsibility are aimed at responding to the expectations of stakeholder groups in order to establish a long-term relationship and create shared value.

In 2015, the Bank continued to develop its Corporate Social Responsibility Plan, articulated around five general principles: responsible banking, a healthy organization, environmental sustainability, a CSR-supportive culture and shared ethical values.

Responsible banking

Banco Sabadell complies with the applicable laws as well as the policies, internal standards and codes of conduct that guarantee ethical and responsible conduct at all levels of the organization, using a range of tools throughout the organization and in all Group activities.

— Code of Conduct: applies generally to all persons directly involved with the Group, whether as employees or as members of its governing bodies.
— Internal Code of Conduct in connection with the Securities Markets.
— Suppliers' Code of Conduct.
— Ethics and human rights policy.
— Corporate social responsibility policy.
— Policies related to stakeholders (shareholders and investors, customers, suppliers, employees, the environment and the community).
— Plan to foster genuine equality between women and men at Banco Sabadell.
— Code of conduct governing the use of social media.
— Membership of Autocontrol, a self-regulatory body on advertising.
— Adopting the Code of Good Banking Practice.

In 2015, the Bank expanded the Internal Code of Conduct in connection with the Securities Markets by adding new measures to avoid conflicts of interest in securities research.

The Bank has a standing Corporate Ethics Committee whose chairman and five other members are appointed by the Board of Directors to advise the Board on the adoption of CSR-related policies. Any employee may contact the Corporate Ethics Committee, in complete confidence, via a special email address, to raise any issue relating to ethical business practices in the organization.

Banco Sabadell also encourages responsible investing and offers customers a number of ethical investment products which also contribute to solidarity projects:

— Sabadell Inversión Ética y Solidaria, FI —a mutual fund.
— UrquijoCooperación SICAV — an investment company.
— Plan de Pensiones Ético y Solidario — a pension plan.
— Plan de Pensiones BanSabadell 21 F.P — a pension plan.

BanSabadell Pensiones EGFP, S.A., a pension fund operator, has adopted the United Nations Principles for Responsible Investment in the “investment manager” category. Those principles cover social, environmental and governance criteria in management policies and practices.

Banco Sabadell's corporate social responsibility is also visible in its support of international initiatives and in the form of certifications and qualifications.

— Adoption of the ten principles of the United Nations Global Compact, which refers to human rights, labour, the environment and the fight against corruption.
— Signing the Equator Principles, which requires it to take account of social and environmental issues in financing major projects and in loans to large corporates.
— Integration of CSR policies into business practice in accordance with ISO 26000 guidance.
— A signatory of the United Nations Principles for Responsible Investment in the “investment manager” category.
— Party to an agreement between the Spanish Banking Association (AEB), the CNMV and the Bank of Spain to carry out a programme of activities as part of the National Financial Education Plan.
— Banco Sabadell is among the stocks included in the FTSE4Good, FTSE4Good IBEX, Euronext Vigeo Europe 120 and Euronext Vigeo Eurozone 120 sustainability indices.
— Awarded the European Foundation for Quality Management (EFQM) Gold Seal of Excellence.
— ISO 9001 certification for 100% of financial processes and activities in Spain.
— A signatory of the *Carbon Disclosure* Project (CDP) for action against climate change and its *Water Disclosure* programme. Banco Sabadell has been disclosing its CO2 emissions since 2009.

Social commitment

Banco Sabadell contributes to the creation of wealth in the Spanish economy in a context of sustainable growth. In 2015, Banco Sabadell directly employed 26,090 people and paid out more than €1,457 million in wages and social welfare contributions.

Banco Sabadell also has a strong commitment to society, as manifested in specific initiatives, both educational and in response to emerging social needs.

Financial education

In 2011 Banco Sabadell became party to an agreement with the Spanish Banking Association (AEB), the CNMV and the Bank of Spain to carry out a programme of activities as part of the National Financial Education Plan. The aim of the Plan is to help the general public become better educated in financial matters by providing people with the basic skills and tools to manage their financial affairs in a well-informed, responsible way. The plan conforms to the recommendations and principles of the Organization for Economic Co-operation and Development (OECD). The website offers a direct link to the www.finanzasparatodos.es site, where visitors will find a set of information sheets providing basic advice on household finances, investment, and so on.

Banco Sabadell is a member of the Spanish Banking Association (AEB) working group on financial education, which was established in 2015. The group meets every two months with the aim of sharing best practices in financial education and implementing joint actions within the framework of financial education week.

Each year the Bank holds a drawing competition for children with the title "What's money for?"; for each drawing that is submitted, Banco Sabadell donates €1 to UNICEF.

For young people, Banco Sabadell participates in the Schools Financial Education Programme in Catalonia (EFEC), which covers 20% of all schools in Catalonia and aims to help schoolchildren learn how to handle money and understand the basics of financial management. Additionally, in March 2015, it implemented a programme entitled "Your Finances, Your Future" at more than a hundred schools across Spain, with the participation of 6,500 young people. This initiative is in collaboration with the AEB and the Junior Achievement Foundation in the framework of European Money Week, which took place simultaneously in 31 European countries. Banco Sabadell participated in 15 programmes with a total of 30 volunteers in 11 cities across the country.

The Bank offers customers a "Personal Finance" tool which gives them access to full details of their income and expenditure, organized by category, enabling them to manage their household finances.

For the elderly, Banco Sabadell launched an advertising campaign entitled "How long are we going to live?" The campaign is organized around four full-length talks in which four highly regarded scientists seek to answer that question. The scientists set out reasons why life expectancy in the Spanish population is set to increase significantly in the future. Given this foreseeable trend, the Bank invites viewers to think about the need to plan for retirement. The initiative is complemented by a retirement guide entitled "How to build the future day by day", which raises awareness about the need to save for retirement.

For SMEs, Banco Sabadell, AMEC, Arola, CESCE, Esade and Garrigues launched a programme called "Export to grow" in order to support small and medium-sized enterprises in the process of internationalization as a means of overcoming the crisis. In 2015, 9 seminars for business people were held, which were attended by close to 1,000 people.

Equality, integration and work-life balance

Banco Sabadell guarantees and is committed to equality of opportunity in all areas of employee relations: recruitment, training, promotion and working conditions. The commitment in each of the aspects of this list is set out in the equality plan, human resources policy and Code of Conduct.

Human resources policy is grounded in respect for human dignity, fair and competitive remuneration, transparency and truthfulness in reporting, and lasting cooperation.

In 2014, Banco Sabadell signed a cooperation agreement with the Spanish Ministry of Health, Social Services and Equality on adapting measures to increase the presence of women in executive positions and management committees. This commitment seeks to actively ensure equality and to recognize and value women's merits and capabilities in internal training, hiring and promotion processes.

Banco Sabadell promotes employee diversity and integration in the workplace and non-discriminatory recruitment policies. The Group takes measures to adapt job briefs where needed. The Bank also assists employees with paperwork in their dealings with municipal, regional and national governments, thus helping to improve employees' well-being outside the strictly professional sphere. In 2015, a total of 254 employees had some form of disability.

Employees are provided with a series of benefits agreed by Banco Sabadell and union representatives in relation to work-life balance, often in excess of the legal requirements. All employees have been properly informed of these benefits and full details are available on the intranet, the employee's online guide, and the Bank's website.

Benefits include time off from work, paid (e.g. to nurse an infant) or unpaid; unpaid leave (to care for a child or relative); leave in special circumstances; paternity leave; and flexitime arrangements.

Assistance in cases of mortgage default

Banco Sabadell has delegated to Solvia Sociedad Gestora Vivienda Social S.L (SOGEVISO), a company created in 2015, the task of managing and administering affordable/social housing.

At the end of the year, the Banco Sabadell Group had 4,858 homes let at reduced rents to customers facing financial hardship as a result of mortgage foreclosure, repossession in lieu of payment, or squatting.

In 2015, the Bank confirmed its support for the Code of Good Banking Practice to mitigate the effects of indebtedness and facilitate the rehabilitation of debtors at risk of social exclusion; it approved 450 mortgage restructuring agreements and 13 cases of repossession in lieu of payment.

Also in 2015, the Bank increased the number of homes allocated to the Social Housing Fund ("FSV") and signed amendments to the agreement to relax the eligibility requirements for FSV housing and allow the reduced rents payable by occupants of repossessed homes to be covered by FSV rules. The 400 homes contributed by Banco Sabadell to FSV had an 82% occupancy rate.

The Bank also assigned 98 properties to 50 charitable and not-for-profit organizations with a mandate to assist and support the underprivileged and the needy.

To address these policies with the right information, Banco Sabadell is in regular contact with charities and other organizations (Caritas, ICAV, IGVS, Ofideute, local social services, etc.), as well as Plataformas de Afectados por la Hipoteca (an organization that supports people with mortgage difficulties), central government and local authorities.

Banco Sabadell is also a member of several working groups created by autonomous regional governments or municipalities to address social emergencies in housing.

Environmental sustainability

Banco Sabadell has an environmental policy in place and promotes a commitment to the environment globally. The Bank's environmental policy is to minimize the potential impacts of processes, facilities and services, to effectively manage the environmental threats and opportunities inherent in its business, and to promote a global commitment to the environment. The Bank adheres to a number of global initiatives, including the Equator Principles and the Carbon Disclosure Project (CDP).

Banco Sabadell promotes the development of a more sustainable energy model by investing directly in, and providing funding for, renewable energy projects (lending over €157 million), investing in power generation projects using renewable energy and advising on this type of project. At year-end, the Bank had financed 488.86 MW of facilities of this type. It has also participated as a speaker at the main fora in Spain: these included events organized by the Spanish Wind Energy Association, the Association of Renewable Energy Producers...

The Bank has an environmental management system (EMS) which was set up in 2006 in accordance with the ISO 14001:2004 standard and has been certified for six Central Services buildings. With regard to environmental training and awareness-raising, all Group employees have access to an on-line training course which is obligatory for staff at Central Service facilities certified to ISO 14001. Employees also have an online guide, "Connect with the Environment", which gives them ready access to information about the Bank's environmental footprint, resource consumption and waste management at branches or Central Services buildings.

The Bank also informs all suppliers of the Group's environmental policy and uses a range of mechanisms to incorporate environmental and social responsibility into its supply chain. Banco Sabadell's basic contract with suppliers includes specific clauses on compliance with environmental criteria, human rights and the Ten Principles of the United Nations Global Compact, as well as acceptance of the Supplier Code of Conduct.

Shared values and cultural action

Banco Sabadell nurtures and gives recognition to people's talent and transformative potential through such awards as the UPFemprèn Prize for entrepreneurial initiatives by students, Imagine Cultura Barcelona, and the ESADE Alumni-Banco Sabadell Prize for Best Business Start-up.

The Bank also works to channel the capacity for innovation shown by employees, customers and consumers so as to add value to society as a whole. In this regard, the BStartup 10 high performance programme focuses on young Spanish digital companies with great potential; the Bank invests €100,000 each in ten chosen start-ups in order to drive their growth and internationalization.

Banco Sabadell's culture policy is underpinned by the Group's commitment to society and to value creation. Its activities in these areas are conducted in cooperation with Banco Sabadell Foundation. The Foundation maintained its system of awards, such as the SabadellHerrero Award for Economic Research and the Banco Sabadell Award for Biomedical Research.

Employee engagement and volunteer programme

Banco Sabadell has an internal website, SabadellLife, which agglutinates all the actions involving our employees in the field of health, solidarity and sport.

Community action and corporate volunteer initiatives are posted on this site. The successes achieved year after year led to a substantial increase in the number of volunteers and in the activities organized in 2015, many of which were proposed by the employees themselves.

Below is a summary of the some of the main activities in 2015:

— Intermón Oxfam Trailwalker. A total of 324 people represented Banco Sabadell in the 2015 event, making us the company with the largest number of employees taking part and raising more than €90,000 to be used for Oxfam's water management projects in the Sahara.
— Sant Jordi Solidari at CBS, 901-SC and Torre Diagonal. Associations such as Escuela Taiga (special-needs education), the Sabadell rescue shelter, Ayuda en Acción and the order of Saint John of God, among others, garnered a high level of employee participation in raising funds for their projects.
— Collecting toys and school supplies for children at risk of social exclusion in the various regions.
— Working with the food bank. With the result that over one ton of food was collected for distribution to the needy, in all the Bank's regions.

- With the Catalonia Blood and Tissue Bank, Banco Sabadell organizes the blood donation drive, with donor numbers rising from year to year.
- For the third consecutive year, 120 volunteers from the Bank participated in workshops for secondary school students as part of the Schools Financial Education Programme in Catalonia (EFEC). The collaboration agreement with Catalonia's regional government and the Instituto de Estudios Financieros covered 20% of schools. In Catalonia in 2015 Banco Sabadell also participated in the AEB's "Your Finances, Your Future" programme, in which 30 volunteers shared knowledge of basic finance with students in 2nd and 3rd year of compulsory secondary school.
- In 2015, a number of corporate volunteer programmes were implemented related to entrepreneurship through the senior segment in cooperation with foundations with considerable social impact and relevance: Fundación Emprèn, Fundación Princesa de Girona, Proyecto Cecrem, ADEIT Generalitat Valenciana, Fundación Novia Salcedo, Fundación Cares-Codec, Mes que Emprenedors-COTM and Proyecto Hombre de reinserción laboral.
- A total of 475 "letters to Santa" from children at risk of social exclusion were sponsored through the Magone Foundation by employees of Banco Sabadell, who responded with gifts.
- In 2015, 120 volunteers participated in the TV3 Telethon, which raised funds for cardiovascular disease on this occasion.
- COACH Foundation: this corporate volunteer initiative aims to improve the employability of young people at risk of social exclusion through coaching and mentoring. Ten young people benefited from the programme in 2015.
- Social Business Mentoring with the SHIP2B Foundation. 17 Banco Sabadell executives participated as mentors in the B-Ready social start-up accelerator programme.
- "Feina amb Cor" project. In cooperation with Caritas, six people aged over 45 year who were at risk of social exclusion were hired through temporary employment agencies. *

(*) For more details of the Bank's CSR policies, see the CSR section of the Bank's website (www.grupobancosabadell.com).

Economic, business and regulatory environment

Global economic environment
Spanish economy
Monetary Policies and Financial Markets
Banking sector
Regulatory environment
Outlook for 2016

E

The global economy has maintained modest growth, financial markets have shown erratic behaviour, and the geopolitical situation has become more complicated.

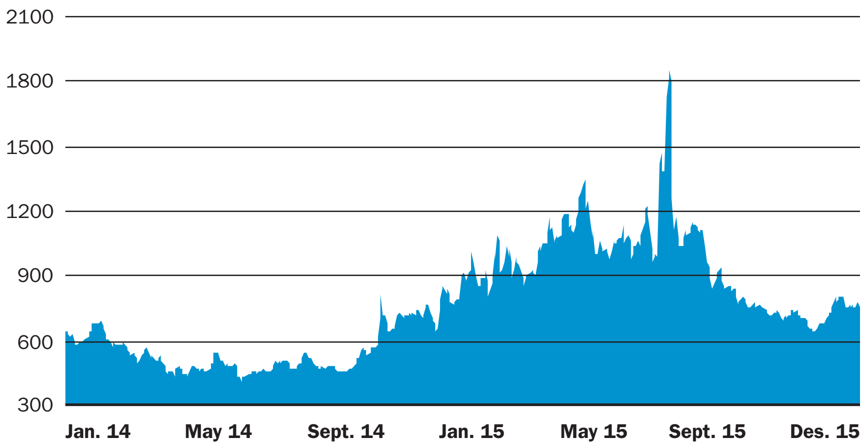
The Spanish economy has developed very favourably, registering growth levels not seen since 2007.

Global economic environment

In 2015, the global economy has maintained modest growth. The year has been marked by new episodes of political and geopolitical instability, and also by more erratic behaviour of financial markets.

In the political arena, uncertainty regarding Greece during the first half of the year took centre stage. The new Government elected in January, Syriza, began a challenging process of negotiation with international lenders regarding the terms of the financial aid programmes. The negotiations became increasingly complicated, ending with Greece calling a referendum to decide on whether or not to accept the conditions of the rescue package. Furthermore, the EBC froze the emergency liquidity that had been granted to the Greek banking sector, resulting in a significant outflow of banking deposits, which required the establishment of capital controls. In this context, Greece became the first developed country to break its financial commitments with the IMF, and significant doubts arose as regards to it remaining a member of the Eurozone. In the end, a third international rescue package for Greece was granted, of up to €86 million, tied to an important set of conditions. Following the agreement, the instability surrounding the country was significantly reduced, and new elections were held (in September), in which Syriza was victorious once more (G1).

In the political arena, the victory of the Conservative Party in the United Kingdom, which won the elections with absolute majority, also attracted widespread attention, implying that a referendum will be held on whether it will remain in or leave the European Union (EU). The referendum will finally be held in June 2016. In Portugal, after the general elections, difficulties in forming a government became apparent. Finally, the Socialist Party headed the government thanks to support from left-wing parties and despite obtaining fewer votes than the Conservative Party. In Spain, the conservative Partido Popular won the general elections held on 20 December, although agreements and pacts will have to be reached in

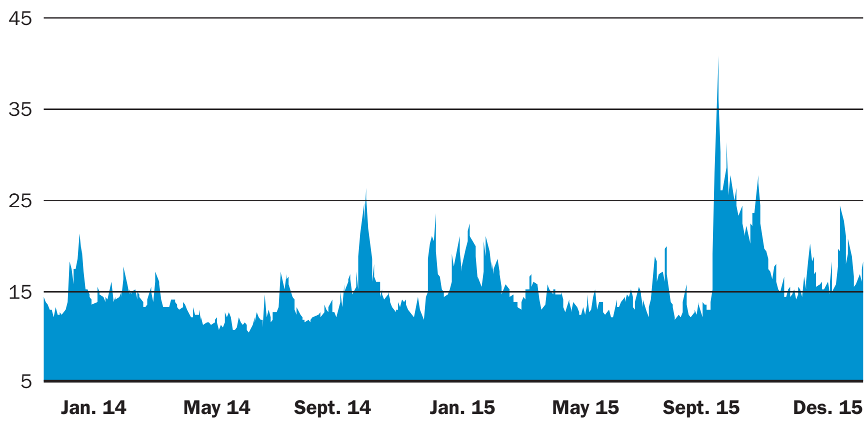


G1 Risk premium on Greek 10-year government bonds (basis points)
Source: Bloomberg

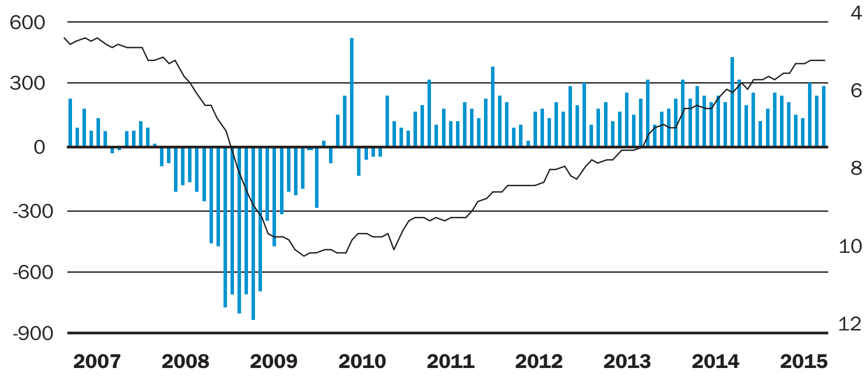
order to be able to form a government. Lastly, in the geopolitical arena, the conflict in Ukraine has taken second stage to the refugee crisis in Europe and the increasing tension with regards to Syria, particularly after the terrorist attacks in Paris by the Islamic State.

With regards to the global financial markets, the abrupt summer movements are notable, fuelled by doubts concerning the growth of China after the devaluation of the Chinese Yuan, and amidst expectations that the first increase in the benchmark interest rate in nine years would take place in the United States. The evolution was particularly negative in terms of currencies, stock exchanges and corporate debt of emerging countries, with similar reductions, and in some cases even more severe reductions, reaching previous economic crisis levels (G2).

In terms of activity in the United States, the economy has maintained growth rates similar to those seen in 2014, and the labour market has continued to progress with the implementation of its normalisation process. The economy has been negatively affected by the strength of the Dollar and the reduced activity in the petroleum extraction sector. In the Eurozone, despite the uncertainty surrounding Greece, activity has been more positive than in the previous year, backed by the depreciation of the Euro, the lower price of crude oil and reduced financing costs. In the United Kingdom, the economy has maintained a favourable trend, supported by the good performance of the labour market, although it is experiencing lower growth rates than in 2014. In Japan, the economy has shown weakness, with its GDP declining in the second and fourth quarters (G3).

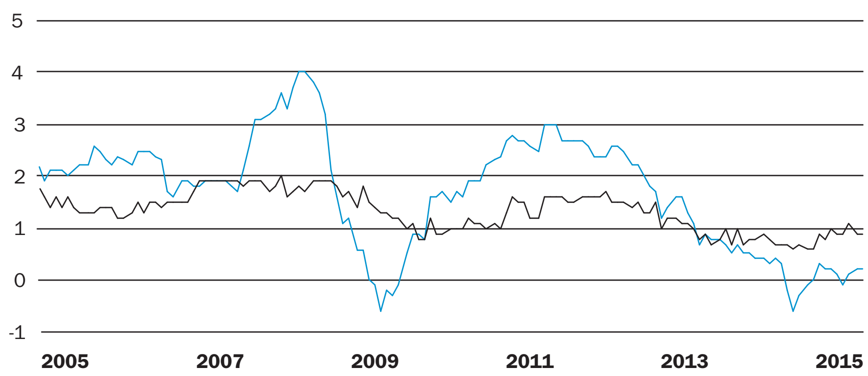


G2 S&P 500 Volatility Index VIX
Source: Bloomberg



G3 US labour market (job creation in thousands and unemployment rate in %)
Source: Bloomberg

● Job creation
● Unemployment rate (inverted right axis)

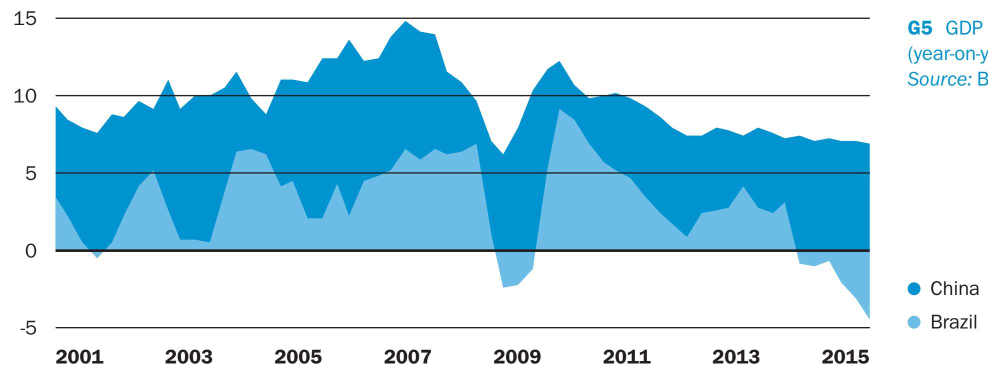


G4 Eurozone headline inflation (HICP) (year-on-year change, %)
Source: Bloomberg

● HICP
● Core HICP

In terms of inflation, it has remained at a very low level and a long way off from the targets of the monetary policies in the main developed economies. Inflation has declined due to the lower price of crude oil and of commodities in general. In this sense, the price of petrol was at its lowest in over a decade, affected by aspects such as a lack of adjustment of supply and weak demand. The underlying aspect of inflation (prices excluding food or energy) has shown a better improvement than the general price index (G4).

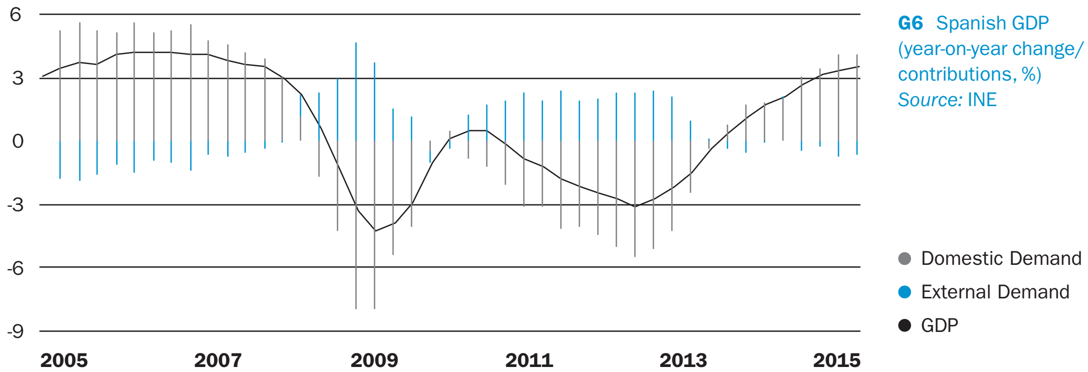
Emerging economies have witnessed lower growth rates than in 2014, affected by more restrictive financing conditions, lower commodities prices and the structural deceleration in China. In China, this slowdown is framed within its process of changing its production model. China has made progress in areas such as financial liberalisation, while the authorities have continued to adopt measures to limit the deterioration of the country's activities. On the other hand, the economic situation has continued to worsen in Brazil, in a context of political instability and severe fiscal imbalances and declines in current accounts. Mexico has maintained a moderate growth rate, which slightly exceeds that of 2014. In Colombia, the economy has decelerated, hindered by the deterioration of its petrol activity. In Eastern Europe the economic downturn and the financial crisis in Russia are notable, Russia was still affected by the conflict in Ukraine, particularly in the first half of the year (G5).



G5 GDP China and Brazil
(year-on-year change, %)
Source: Bloomberg

Spanish economy

The Spanish economy has maintained a highly favourable development, and has continued to stand out from other Eurozone countries. In 2015, its GDP recorded growth in excess of 3.0% in 2015, something not seen since 2007. Domestic demand has continued to be the main source of growth, while exports have maintained a notable dynamism. Economic activity has benefited from lower crude oil prices, a reduced fiscal effort (e.g. tax reductions) and some favourable financing conditions. The positive behaviour of economic activity has been reflected in an improved behaviour in the labour market, with an increase in net employment and a further decline in unemployment rates. With regards to the external sector, the economy has maintained a situation of surplus current accounts for the third consecutive year. Lastly, in terms of tax, the public deficit has continued to decline, from 5.8% GDP in 2014 to 4.5% in 2015, according to the Government's first estimate (G6).



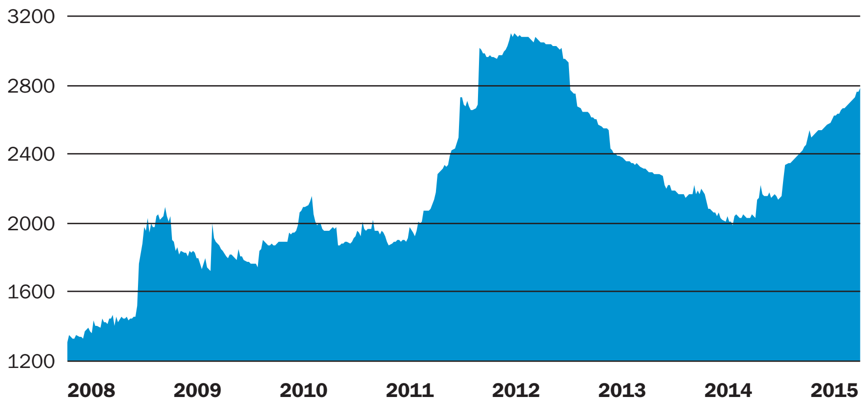
G6 Spanish GDP
(year-on-year change/ contributions, %)
Source: INE

Monetary Policies and Financial Markets

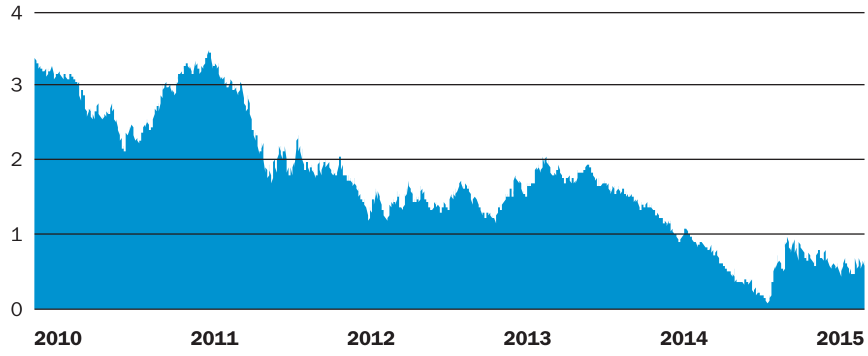
The monetary policy of the main central banks has continued to be accommodating. In the Eurozone, the ECB extended its private asset purchase program in March, to allow public debt to also be purchased. This new program included monthly purchases of assets for €60 million. At its December meeting, the ECB extended this program by six months, up to March 2017, and also reduced the deposit interest rate to up to −0.30%. The ECB's monetary policy has enabled the German short part of its price curve to remain in negative figures throughout the year. In fact, the two-year profitability of the German bond has reached historical minimum levels. In the United States, the Fed, in its December meeting, increased the benchmark interest rate for the first time in nine years, to 0.25-0.50%. The improvement in labour market conditions was an influencing factor in this decision. In the United Kingdom, the benchmark interest rate of the Bank of England has remained unchanged, at 0.50%, and the *stock* of assets acquired under its purchase program has also remained stable, at GBP 375 million. Lastly, in Japan, the central bank has not made any changes to the monthly purchase volume of assets. In its December meeting, it qualitatively modified some of the characteristics of its asset purchase program to facilitate its implementation (G7).

The profitability of long-term public debt markets in the United States and Germany have remained at very reduced levels, ending the year at levels only slightly above those of 2014. These assets have been supported by reduced inflation, the accommodating characteristics of monetary policies and doubts concerning global economic growth. The yield of the ten year German bond reached a new record low in April, due in part to the start of the ECB purchase programs and the uncertainty surrounding Greece. The yield of the German bond over 10 years, after having reached levels close to 0.0%, suffered a significant and historic increase, which can be explained, in part, by the idiosyncrasies of the operation of the public debt market itself. This rate of increase gradually slowed throughout the second half of the year. In Europe, public debt has continued to be supported by the ECB's monetary policy, as shown by the limited recovery of country-risk premiums when uncertainty surrounding Greece was at its highest. Credit rating agencies have introduced new credit rating improvements in these countries. Throughout the year, risk premiums in Italy and Portugal have declined, while in Spain the year-end has seen levels which are slightly above 2014 levels. Political uncertainty in Spain due to the various elections, has contributed to worse behaviour in terms of assets. In any event, the yield of public debt of these countries has reached historic minimums (G8 and G9).

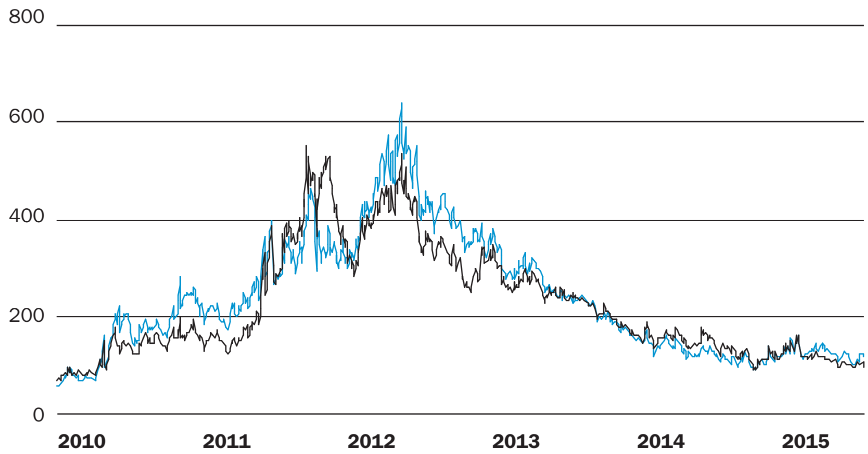
In currency markets, the euro has once again been significantly devalued compared with the dollar and the pound sterling. This depreciation largely occurred in the first quarter, coinciding with the announcement of the purchase of public debt by the ECB. The yen, quoted against the dollar, ended the year at levels similar to those in 2014. The outflow of capital from the Japanese economy, in a context where various domestic investors have diversified their portfolios to give more weight to foreign assets, have caused the yen to depreciate. However, during the financial instability over the summer, the yen acted as a safe asset and appreciated (G10).



G7 ECB balance sheet (€ billions)
Source: Bloomberg

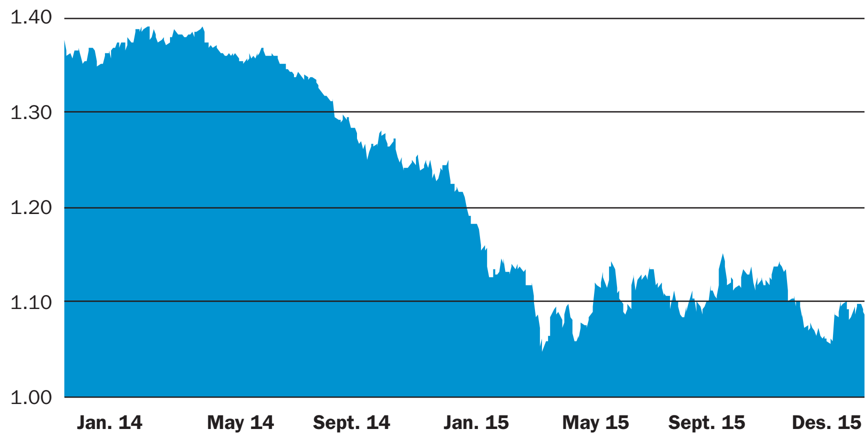


G8 Yields on German 10-year government bonds (%)
Source: Bloomberg



G9 Risk premium on Spanish and Italian 10-year government bonds (basis points)
Source: Bloomberg

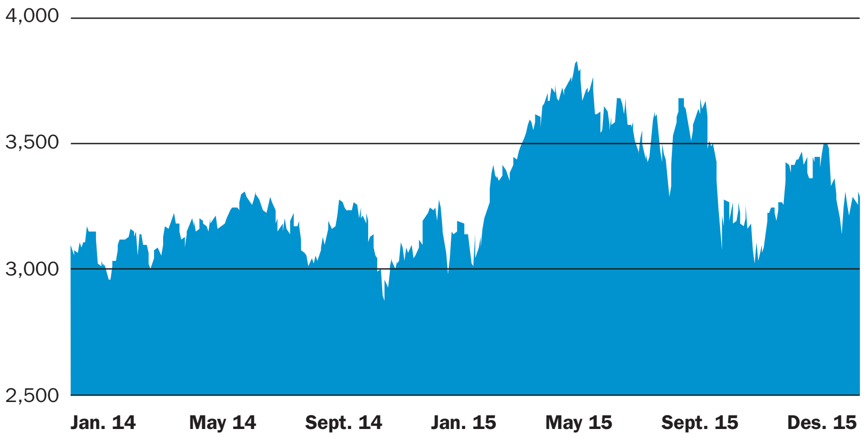
- Spain
- Italy



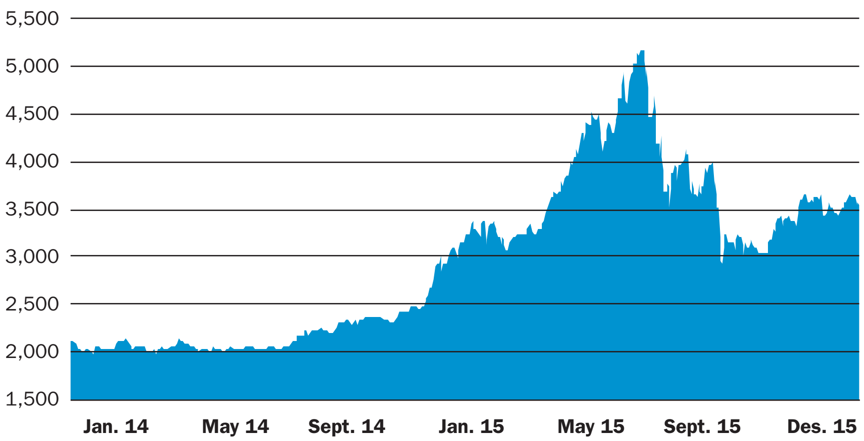
G10 Dollar/euro rate
Source: Bloomberg

In terms of equity markets, European indices have been supported by the ECB's monetary policy. During the summer, the indexes in both Europe and the United States were severely affected by doubts concerning global economic growth. Throughout the year, in the United States, the S&P 500 has increased, in euro, by over 10%, although this improvement is due exclusively to the appreciation of the dollar. In Europe, the EURO STOXX 50 has grown by almost 4%, although with a similar behaviour over all the European countries. The IBEX-35 in Spain has ended the year below its 2014 levels, with a 7% fall, while the German DAX, despite the Volkswagen scandal, has recorded an increase of close to 10% (G11).

Lastly, financial markets in emerging countries have maintained high volatility and were severely affected during summer, with strong exchange depreciations and an abrupt stock market decline in China. The high volatility has been linked to doubts concerning the extent of the economic deceleration in China, political instability in some countries, reduced prices of commodities and concerns over a possible increase in the benchmark interest rate in the United States. In this context of strong exchange depreciations, some central banks have been forced to increase their official interest rates in order to avoid falling short of inflation expectations. Standard&Poor's and Fitch withdrew the investment grade of Brazilian sovereign debt in foreign currencies, which had been maintained since 2008 (G12).



G11 EURO STOXX 50
Source: Bloomberg



G12 Shanghai Stock Exchange (index)
Source: Bloomberg

Banking sector

The Eurozone banking system has continued to strengthen itself during 2015, in a context characterised by periods of volatility in the financial markets. The sector has improved in loss absorption capacity, as well as in solvency and profitability, but it is still facing significant challenges related to the weak macroeconomic recovery in a low interest rate environment.

This analysis coincides with the conclusions of exercises in banking transparency published at the end of November by the European Banking Authority (EBA). The objective of this exercise is to raise the level of understanding of European banking, permitting the comparisons of the positioning of individual institutions as well as banking sectors by country via multiple homogenous indicators. It should be noted that this is the second exercise in transparency published by the EBA, which covers 105 banking groups of 21 EU countries (in addition to Norway), almost 70% of the total banking assets in the EU, according to information dated June 2015. The results show that, in general, EU banks have continued to strengthen their capital positions throughout the last year (CET1 ratio has grown from 12.1% to 12.6%), mainly due to capital increases and locking in profit, instead of a reduction in risk weighted assets. The quality of assets and the levels of profitability also improved, although from low levels. For value added, the study shows that leverage in Spanish banking is lower than the European average, and that there is greater coverage of impaired assets, efficiency and profitability. However, levels of NPL's and solvency are worse.

In 2015 work has continued on the Banking Union process and on the construction of capital markets in Europe, topics which are detailed below.

Regulatory environment

Banking Union

The euro crisis has proved that to guarantee long term sustainability of the Monetary Union it a truly integrated banking system is necessary. With this aim, in 2014 the process to create Banking Union was started, which is based on three pillars:

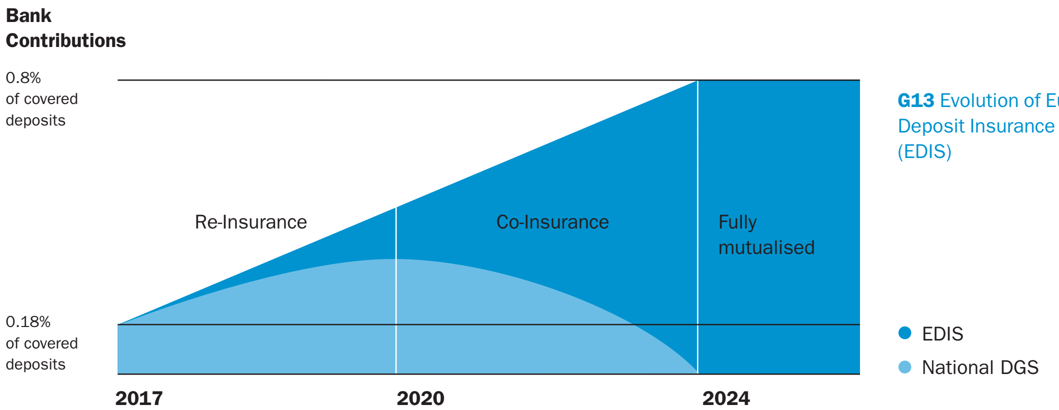
— Single Supervisory Mechanism (SSM), by which all institutions are subject to the same level of supervision.
— Single Resolution Mechanism (SRM), and its corresponding Resolution Fund, which dictates how to manage institutions in difficulty.
— European Deposit Guarantee Mechanism (EDIS – European Deposit Insurance Scheme), which should equally guarantee deposits from all institutions, independently of their country of origin.

Pillar 1 of Banking Union, SSM, has been fully effective since November 2014, whereas Pillar 2, SRM, will become fully effective from 1 January 2016. Pillar 3, the Single Deposits Mechanism, has gained relevance due to the European Commission's new proposal for its creation.

In this respect, the European Commission maintains that whilst Deposit Guarantee Funds (DGF) continue to be national, the Banking Union's ultimate objective to break the link between banking and sovereign risk cannot be achieved. The objective is that the security of deposits should not depend on the country where the bank's headquarters are located, and should depend on the management and solidity of the institution. Therefore, this proposal represents a very significant step forward in completing Banking Union. However, it should be noted that the proposal faces opposition from Germany, who does not consider the mutualisation of more risks to be appropriate, without the countries financial systems first having fully recovered.

The European Commission's proposal on the European Deposit Guarantee Scheme consists of three phases:

— "Re-insurance" phase (2017-2019), in which national Deposit Guarantee Funds can only access common European funds when they have exhausted their own resources, and only up to 20% of the funds required will be covered.



G13 Evolution of European Deposit Insurance Scheme (EDIS)

Macroprudential policy has gained relevance.

— “Co-insurance” phase (2020-2023), in which, when a bank requires funds, the funds will be shared by the European and national funds, instead of firstly using national funds (the contribution from the European fund will progressively increase, from 36% in the first year, to 84% in the fourth year).
— “Fully mutualised” phase, from 2024 onwards, when the European fund will pay 100% of the deposits guaranteed by national Deposit Guarantee Funds.

If the proposal is maintained, the funding of the European Deposit Insurance Scheme will be private. It will be funded ex-ante by contributions from the participating banks. This contribution will not result in any additional costs for participants as it will be deducted from their contributions to national DGFs. Over a period of seven years (2017-2024) the target funding level is equivalent to 0.8% of the guaranteed deposits (close to 43 million euros, according to balance sheet data taken from the banks for 2011) (G13).

Action plan on a Capital Markets Union

The creation of a Capital Markets Union (CMU) has also continued to progress, due to the European Commission’s publication of an Action Plan (30 September), which specifies measures to be implemented until 2017.

The CMU aims to establish a single capital market for all twenty eight EU Member States. The main objective is to widen the range of non-banking sources of financing, including capital markets, capital risk, crowd funding and the asset management industry, with the objective of providing financing for companies, especially SMEs and start-ups, thus fostering their investments and employment creation.

One of the first actions included in the Action Plan highlights the initiatives that aim to encourage the highest quality securitisation processes, as well as channelling investments from insurance companies towards infrastructure projects. Specifically, the European Commission has proposed a new regulatory framework for simple, transparent and standardised securitisations, by which it will modify their treatment in favour of solvency. In the insurance industry, the European Commission aims to eliminate prudential obstacles in order for insurance companies to play a greater role in the financing of infrastructure projects. For this purpose, the creation of a category of infrastructure assets has been proposed, as well as reducing the amount of capital that insurance companies should maintain with respect to debt and capital in these projects.

Lastly, the European Commission has also announced its own legislation proposal to simplify the preparation process for the issue of fixed and variable interest securities. The main objective is to lower costs for SMEs so that they can raise capital from stock markets or issue debt securities. For this purpose, the Commission proposes to lengthen the list of exceptions for companies so that they are either not obliged to publish a European issue prospectus, or so they can do so in a more simplified manner. It also includes the possibility of creating an express and simplified route for frequent issuers of debt securities and shares, so they face less bureaucratic obstacles when accessing the market.

Macro-prudential policy

In the prudential area, it is worth nothing the ECB’s new responsibilities (since November 2014), which it shares with national authorities on macro-prudential policy. Macro-prudential policy has been a relevant line of work in the Eurozone in 2015, as it is considered key to correcting imbalances that may accumulate at national level within the Monetary Union and contain systemic risks. In fact, in 2015, several Member States have implemented macro-prudential measures, mainly focused on requiring additional capital ‘buffers’ for the banks of systemic importance at national level, and counter-cyclical capital ‘buffers’ or measures to contain risks in certain sectors, such as the real estate market.

New implementation, calibration and harmonisation phase of the regulatory framework.

Regulatory framework

In 2015 work has continued in the regulatory field to increase solvency in the financial system. After several years of intensive preparation of new regulations, a new implementation phase of measures, evaluation of their efficiency and potential re-estimation of parameters is taking place. The objective is not only to ensure the resilience of the banking sector in adverse situations, yet also for the latter to fully develop its role in society and support economic growth.

In the context of resolution, in mid-November the Financial Stability Board provided information on its final proposal on TLAC (total loss absorbing capacity), which should be incorporated by the thirty banks considered to be globally systemic (with capital equivalent to 16% of their risk weighted assets or 6% of leverage exposure, the denominator of the leverage ratio), starting from 1 January 2019. In Europe, starting from 2016, an agreement on own funds and eligible liabilities has been established (MREL due to its initials Minimum Requirement for own funds and Eligible Liabilities), for each institution according to its risk profile and other specific characteristics, with a minimum level of 8% of the balance sheet. The objective of both requirements is to ensure that banks, especially those which are systemically important, have sufficient own funds and eligible liabilities to absorb losses in order to adequately recapitalise themselves in a situation of resolution. It is expected that the new resolution regulations will have a substantial impact on the cost and financing structure of the banking sector.

Outlook for 2016

In 2016, the global economy is expected to maintain modest, yet fragile growth. Economic growth will be capped by the deleveraging process of emerging economies and less dynamism in international trade in a complicated financial environment. On the other hand, inflation is not expected to rise, and continues to be far from the objective of central banks in the main developed economies. In this context, monetary authorities will foreseeably maintain relatively accommodating policies.

By country, in the USA the growth of the economy is expected to stay close to its potential rate. In the Eurozone, the ECB's policy will help to counteract the loss of momentum in activities due to the situation in emerging economies. In Spain, the economy is expected to show reasonably high growth, yet lower than in 2015, given the complexity of the external environment and the lower positive impact of certain events that have been supporting recent activity (for example, the Euro, tax cuts...). In the United Kingdom, the political environment will take centre stage. Specifically, uncertainty regarding the referendum on whether the United Kingdom will leave or remain in the EU, which will be held in June 2016.

In emerging economies it is expected that the structural slowdown in China will continue, which is necessary for it to move towards a more efficient and sustainable growth model. Latin America is a particularly vulnerable region. Lastly, in Eastern Europe, the risks are political (Turkey) and/or geopolitical (Russia).

In the regulatory environment, the implementation and specification of Basel III requirements will continue, which will contribute to strengthening balance sheets in terms of solvency and liquidity. Increased regulatory pressure will continue to push banking activities into non banking or insurance sectors. In European construction, the second pillar of Banking Union, Single Supervisory Mechanism, will become effective. Lastly, following the European Commission's proposal in November 2015, the implementation of the Single Deposit Guarantee Scheme will be discussed.

Banco Sabadell group financial information

Key figures in 2015
Profit performance
Balance sheet management
Liquidity management
Capital management

F

Key figures in 2015

T1

		2014	2015	% 15/14
Balance sheet (€ million)	**(A)**			
Total assets		163,345.7	208,627.8	27.7
Gross loans and advances to customers, excluding repos		117,964.0	152,696.8	29.4
Gross loans and advances to customers		118,551.6	153,425.3	29.4
On-balance sheet funds	(1)	121,806.6	162,974.0	33.8
Of which: on-balance sheet customer funds	(2)	94,460.7	131,489.2	39.2
Mutual funds		15,705.6	21,427.3	36.4
Pension funds and third-party insurance products		11,755.1	11,951.9	1.7
Funds under management	(3)	152,185.4	200,355.1	31.7
Shareholders' equity		10,223.7	12,274.9	20.1
Income statement (€ million)	**(B)**			
Net interest income		2,259.7	3,202.8	41.7
Gross income		4,800.5	5,478.4	14.1
Profit before impairment and other provisions		2,749.1	2,863.0	4.1
Profit attributed to the group		371.7	708.4	90.6
Ratios (%)	**(C)**			
ROA	(4)	0.23	0.38	
ROE	(5)	3.70	6.34	
ROTE	(6)	4.36	7.58	
Cost/income	(7)	53.14	50.45	
Core capital / Common equity	(8)	11.7	11.5	
Tier I	(9)	11.7	11.5	
BIS Ratio	(10)	12.8	12.9	
Risk management	**(D)**			
Doubtful loans (€ million)		15,909.9	12,560.8	
Loan loss ratio (%)		12.74	7.79	
Loan loss and real estate impairment allowances (€ million)		11,814.1	11,344.0	
Loan loss coverage ratio (%)		49.4	53.6	
Share data (period end)	**(E)**			
Number of shareholders		231,481	265,935	
Number of shares	(11)	4,024,460,614	5,439,244,992	
Share price (euro)		2,205	1,635	
Market capitalisation (€ million)	(12)	8,873.9	8,893.2	
Net attributed earnings per share (euro)		0.092	0.130	
Book value per share (euro)	(13)	2.54	2.26	
Price/Book value (times)		0.87	0.72	
Price/earnings ratio(P/E) (times)		23.88	12.55	
Including the conversion of mandatorily convertible bonds:				
Number of total shares, including shares arising from the conversion		4,289,732,386	5,472,251,402	
Net attributed earnings per share (euro)		0.087	0.129	
Carrying value per share (euro)		2.38	2.24	
Price/Book value (times)		0.93	0.73	
Other information	**(14)**			
Branches		2,320	2,873	
Employees		17,529	26,090	
Number of customers (in millions)		6.4	11.4	

(A) This table of key figures provides an overview of year-on-year changes in the main items on the group's consolidated balance sheet, focusing especially on data related to loans and advances and customer funds.
(B) This section sets out key components of the income statement for the last two years.
(C) The ratios in this section of the table have been included to give a meaningful indication of profitability, efficiency and capital adequacy in the last two years.
(D) This section gives some key balances related to the group's risk management, as well as the most significant ratios related to this risk.
(E) This section provides data on the share price and other stock market ratios and indicators.

(1) Includes customer deposits, debits represented by marketable securities, subordinated liabilities and liabilities under insurance contracts.
(2) Includes customer deposits (ex repos) and other liabilities placed via the branch network: mandatory convertible bonds, straight bonds issued by Banco Sabadell, commercial paper and others.
(3) Includes on-balance sheet funds, mutual funds, pension funds, asset management and insurance contracts.
(4) Consolidated profit/(loss) for the year / average total assets.
(5) Income attributed to the group / average shareholders' equity (not treating income attributable to the group as part of shareholders' equity).
(6) Income attributed to the group / average shareholders0 equity (not treating income attributable to the group as part of shareholders' equity and deducting goodwill).
(7) Personnel and other general administrative expenses (gross income. To calculate these ratios, gross income was adjusted considering only net trading income and recurring exchange differences.
(8) Core capital funds / risk weighted assets (RWA). The ratio was calculated according to Basel III with modifications provided in Bank of Spain Circular 2/2014 (approved in July 2014).
(9) Tier 2 capital / risk weighted assets (RWA). The ratio was calculated according to Basel III with modifications provided in Bank of Spain Circular 2/2014 (approved in July 2014).
(10) Capital base / risk weighted assets (RWA). The was calculated according to Basel III with modifications provided in Bank of Spain Circular 2/2014 (approved in July 2014).
(11) The year-on-year change mainly corresponds to the capital increase with preferential subscription rights carried out in April 2015, in the context of the acquisition of TSB.
(12) Number of shares by quoted market price at year-end.
(13) Shareholders' equity / Number of shares.
(14) The changes mainly correspond to the acquisition of TSB.

The group obtained €708.4 million in net attributed profit (+90.6% year-on-year). Excluding TSB, €586.4 million (+57.8% year-on-year).

Net interest income continues its upward trend in a low interest rate environment.

Notable growth in fees and commissions from mutual funds, trading of pension funds and insurance products and management of securities.

€ million

T2 Profit and Loss account

	2014	Ex TSB 2015	% 15/14	Total group 2015	% 15/14
Interest and similar income	4,513.5	4,158.1	(7.9)	4,842.4	7.3
Interest and similar expenses	(2,253.8)	(1,494.9)	(33.7)	(1,639.5)	(27.3)
Net interest income	**2,259.7**	**2,663.2**	**17.9**	**3,202.9**	**41.7**
Return on equity instruments	8.6	2.9	(66.3)	2.9	(66.3)
Share of profit/loss of companies accounted for by the equity method	0.1	48.8	—	48.8	—
Net fees and commissions	860.9	924.5	7.4	1,003.3	16.5
Net gains/(losses) on financial assets and liabilities	1,763.6	1,207.1	(31.6)	1,208.2	(31.5)
Exchange differences (net)	99.6	137.9	38.5	137.9	38.5
Other operating income and expenses	(192.0)	(123.4)	(35.7)	(125.6)	(34.6)
Gross income	**4,800.5**	**4,861.0**	**1.3**	**5,478.4**	**14.1**
Personnel expenses	(1,202.6)	(1,219.3)	1.4	(1,457.3)	21.2
Recurring	(1,169.3)	(1,183.8)	1.2	(1,417.5)	21.2
Non-recurring	(33.3)	(35.5)	6.6	(39.8)	19.5
Other general administrative expenses	(570.7)	(588.4)	3.1	(829.2)	45.3
Recurring	(563.8)	(579.6)	2.8	(805.2)	42.8
Non-recurring	(6.9)	(8.8)	27.5	(24.0)	247.8
Depreciation and amortisation	(278.1)	(289.6)	4.1	(328.9)	18.3
Profit before impairment and other provisions	**2,749.1**	**2,763.7**	**0.5**	**2,863.0**	**4.1**
Loan loss and other provisions	(2,499.7)	(2,333.2)	(6.7)	(2,333.2)	(6.7)
Profit on disposal of assets	236.9	(17.0)	—	(17.0)	—
Negative goodwill	—	231.9	—	231.9	—
Profit/(loss) from discontinued operations	—	—	—	—	—
Income before tax	**486.3**	**645.4**	**32.7**	**744.7**	**53.1**
Corporate income tax	(109.7)	(55.3)	(49.6)	(32.5)	(70.4)
Consolidated profit/(loss) for the year	**376.6**	**590.1**	**56.7**	**712.2**	**89.1**
Profit/(loss) attributable to non-controlling interests	5.0	3.8	(24.0)	3.8	(24.0)
Profit/(loss) attributable to the group	**371.6**	**586.3**	**57.8**	**708.4**	**90.6**
Memorandum item					
Average total assets	163,372.8	165,824.1	1.5	186,535.6	14.2
Earnings per share (€)	0.09	0.11		0.13	

The EUR/GBP exchange rate applied in the profit and loss account at 31.12.2015 is 0.7201.
Note: On 30 June 2015, the group took over control of TSB. Therefore, figures in the profit and loss account profit and loss 2015 include six months with TSB and they are not comparable with previous data.

Net interest income

Sabadell (ex TSB)

+17.9%

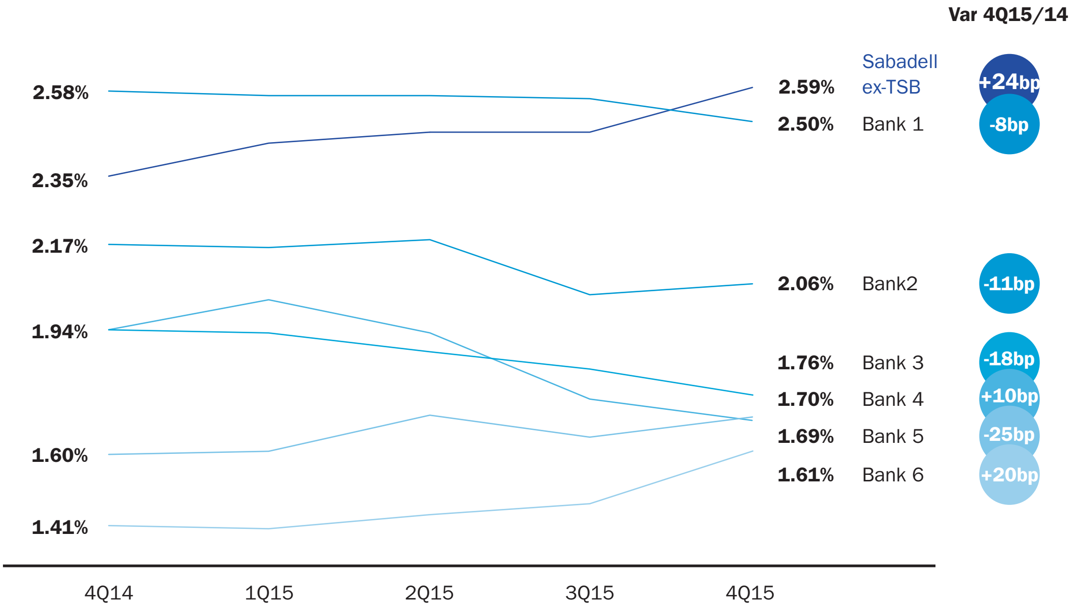
Group

+41.7%

Net interest income totalled €3,202.8 million in 2015, rising by 41.7% on the previous year's figure, with the ratio of net interest income to average total assets and the customer spread both increasing significantly. This upward trend has resulted from a reduction in funding costs, together with the acquisition of TSB. Excluding TSB, net interest income amounts to €2,663.2 million at 2015 year-end, an increase of 17.9% compared with the previous year (T3 and G1).

In terms of overall annual averages, the net interest income of average total assets for the year was 1.72%, 34 basis points higher than the figure for the previous year (1.38% in 2014). The increase in average returns on average total assets was due to a number of factors, mainly higher customer spreads (due to the lower cost of customer deposits), the lower cost of capital market funding, the reduction in the volume of problem assets and the improvement in the profitability of the acquired businesses (G2 and G3).

G1 Banco Sabadell customer spread compared with other banks



Source: Publically available information. Two of these banks only disclosed their customer spread in Spain, excluding their international business.

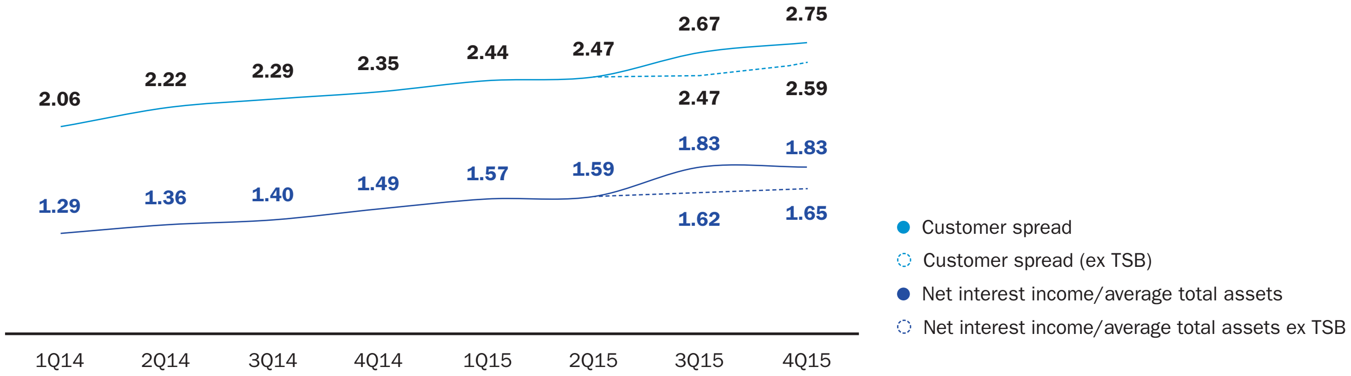
Customer spread ex TSB is 2.59% in the fourth quarter of 2015.

T3 Performance and yields

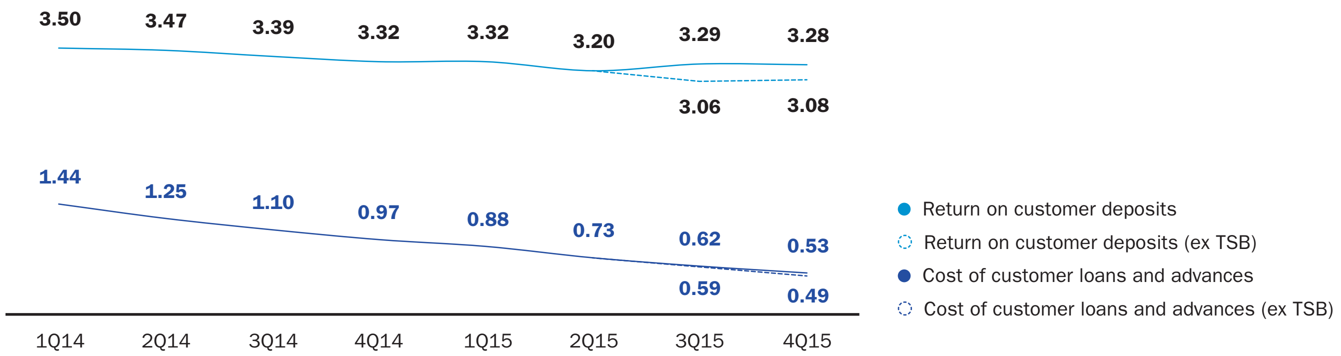
€ million

	2014			2015			Change		Effect	
	Average balance	Income / (expense)	Rate %	Average balance	Income / (expense)	Rate %	Average balance	Income / (expense)	Rate	Volume
Cash, central banks and other credit institutions	4,259.1	40.1	0.94	7,363.3	42.2	0.57	3,104.2	2.1	4.9	(2.8)
Loans and advances to customers	106,441.5	3,641.0	3.42	121,382.9	3,973.8	3.27	14,941.4	332.8	(364.5)	697.4
Fixed-income portfolio	22,703.8	806.9	3.55	27,388.3	763.5	2.79	4,684.5	(43.4)	(181.9)	138.6
Subtotal	**133,404.4**	**4,488.0**	**3.36**	**156,134.5**	**4,779.5**	**3.06**	**22,730.1**	**291.5**	**(541.5)**	**833.2**
Equities portfolio	1,325.4	—	—	1,431.5	—	—	106.1	—	—	—
Tangible and intangible fixed assets	3,761.9	—	—	4,228.3	—	—	466.4	—	—	—
Other assets	24,881.1	25.6	0.10	24,744.1	62.8	0.25	(137.0)	37.2	37.2	—
Total capital employed	**163,372.8**	**4,513.6**	**2.76**	**186,538.4**	**4,842.3**	**2.60**	**23,165.6**	**328.7**	**(504.3)**	**833.2**
Credit institutions	13,234.0	(194.3)	(1.47)	17,508.8	(140.6)	(0.80)	4,274.8	53.7	56.1	(2.4)
Customer deposits	93,079.5	(1,107.2)	(1.19)	110,217.2	(739.0)	(0.67)	17,137.7	368.2	949.7	(581.5)
Capital market	26,901.6	(908.5)	(3.38)	26,792.2	(660.4)	(2.46)	(109.4)	248.1	233.5	14.6
Repurchase agreements	8,597.6	(49.2)	(0.57)	9,623.2	(41.6)	(0.43)	1,025.6	7.6	12.8	(5.1)
Subtotal	**141,812.7**	**(2,259.2)**	**(1.59)**	**164,141.4**	**(1,581.6)**	**(0.96)**	**22,328.7**	**677.6**	**1,252.1**	**(574.4)**
Other liabilities	10,785.4	5.4	0.05	10,148.3	(58.0)	(0.57)	(637.1)	(63.4)	(63.3)	—
Shareholders' equity	10,774.7	—	—	12,248.6	—	—	1,473.9	—	—	—
Total funds	**163,372.8**	**(2,253.8)**	**(1.38)**	**186,538.3**	**(1,639.6)**	**(0.88)**	**23,165.5**	**614.2**	**1,188.8**	**(574.4)**
Total ATAs	**163,372.8**	**2,259.8**	**1.38**	**186,538.3**	**3,202.7**	**1.72**	**23,165.5**	**942.9**	**684.5**	**258.8**

G2 Evolution of net interest income (%)



G3 Evolution of customer spread (%)



Gross income

Dividends received and income from equity-accounted undertakings together amounted to €51.7 million, compared with €8.7 million in 2014 (an increase of €43.0 million). This increase includes the best income from insurance and pensions, which has grown significantly since the previous year.

Net fees and commissions amounted to €1,003.3 million (€924.5 million excluding TSB), and increased by 16.5% (7.4% excluding TSB) year-on-year (T4). This increase occurred mainly as a consequence of the positive evolution of mutual funds, pensions and insurance products which, together, increased by 30.8% compared with the end of the previous year, and due to restructuring and insurance operations (syndicated), and the inclusion of TSB in the scope of consolidation.

Fees & Commissions

Sabadell (ex TSB)

+7.4%

Group

+16.5%

€ million

T4 Fees and Commissions

	2014	Ex TSB 2015	% 15/14	Total group 2015	% 15/14
Lending-related fees	116.0	113.1	(2.5)	169.7	46.3
Guarantees	105.1	104.0	(1.0)	104.0	(1.0)
Paid to other banks	(1.9)	(1.1)	(42.1)	(1.1)	(42.1)
Fees derived from risk operations	**219.2**	**216.0**	**(1.5)**	**272.6**	**24.4**
Cards	146.3	152.6	4.3	191.9	31.2
Payment orders	46.0	48.3	5.0	48.3	5.0
Securities	79.8	84.9	6.4	84.9	6.4
Current account charges	85.9	80.8	(5.9)	91.7	6.8
Other fees	93.5	93.1	(0.4)	65.2	(30.3)
Service fees and commissions	**451.5**	**459.7**	**1.8**	**482.0**	**6.8**
Management and marketing of mutual funds	123.2	155.6	26.3	155.6	26.3
Marketing of pension funds and insurance	67.0	93.2	39.1	93.2	39.1
Commissions on sales of mutual funds, pensions and insurance	**190.2**	**248.8**	**30.8**	**248.8**	**30.8**
Total	**860.9**	**924.5**	**7.4**	**1,003.4**	**16.6**

Income from financial transactions totalled €1,208.2 million (€1,207.1 million excluding TSB). In particular, capital gains on the disposal of available-for-sale fixed-income financial assets amounted to €1,045.5 million and income from the trading portfolio amounted to €150.4 million. In 2014, income from financial transactions totalled €1,763.6 million. In particular, capital gains on the disposal of available-for-sale fixed-income assets amounted to €1,860.7 million and income from the trading portfolio amounted to €43.0 million.

Net gains due to foreign exchange differences totalled €137.9 million, a considerable increase with respect to 2014 (€99.6 million), which represents a year-on-year increase of 38.5%.

Other operating income and expenses amounted to €–125.6 million (€–123.4 million excluding TSB), compared with €–192.0 million in 2014. This item includes contributions to the Bank Deposit Guarantee Fund and to the National Resolution Fund.

Profit before impairment and other provisions

Operating expenses (personnel and general) in 2015 amounted to €2,286.5 million (€1,807.7 million excluding TSB), of which €63.8 million are non-recurrent items. In 2014, operating expenses amounted to €1,773.3 million, including €40.2 million in non-recurrent items (G4).

Recurrent operating expenses in 2015 (T5) increased by 28.2% overall (1.7% excluding TSB) compared with 2014 (specifically, personnel expenses increased by 21.2% (1.2% excluding TSB) and general expenses increased by 42.8% (2.8% excluding TSB).

The increase in gross income in 2015 combined with the policies to hold down operating expenses resulted in an improved cost:income ratio which at the end of the year stood at 50.45% (46.16% excluding TSB), down from 53.14% in 2014 (the figures for both years include income from financial transactions and net recurrent exchange differences, €400 million per year, aligned in terms of the number of days in each month).

As a result of the aforementioned, 2015 ended with a profit before

Cost / income ratio (Ex TSB)

46.16%

Personnel expenses

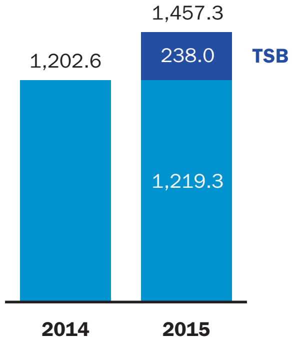
€ million

Group

+21.2%

Comparable bases

+1.4%



Administrative expenses

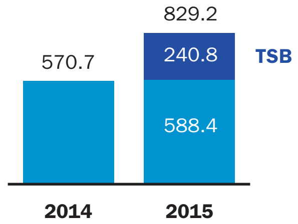
€ million

Group

+45.3%

Comparable bases

+3.1%



G4

€ million

T5 Operating expenses

	2014	Ex TSB 2015	% 15/14	Total group 2015	% 15/14
Recurring	(1,169.3)	(1,183.8)	1.2	(1,417.5)	21.2
Non-recurring	(33.3)	(35.5)	6.6	(39.8)	19.5
Personnel expenses	**(1,202.6)**	**(1,219.3)**	**1.4**	**(1,457.3)**	**21.2**
Technology and communications	(127.5)	(136.5)	7.1	(165.8)	30.0
Advertising	(38.8)	(45.0)	16.0	(87.5)	125.5
Property, plant and office supplies	(152.8)	(150.9)	(1.2)	(211.0)	38.1
Taxes	(99.4)	(101.0)	1.6	(101.1)	1.7
Others	(152.3)	(155.1)	1.8	(263.7)	73.1
Other general administrative expenses	**(570.8)**	**(588.5)**	**3.1**	**(829.1)**	**45.3**
Total	**(1,773.4)**	**(1,807.8)**	**1.9**	**(2,286.4)**	**28.9**

impairment and other provisions of €2,863.0 million. Excluding TSB, profit before impairment and other provisions stands at €2,763.8 million compared with €2,749.1 million in 2014, representing a year-on-year increase of 4.1% (0.5% excluding TSB).

Loan-loss provisions and other impairments totalled €2,333.2 million at 2015 year-end (€2,499.7 million in 2014) and both years reflected the additional provisions introduced which have offset the higher income from financial transactions derived from the management of the ALCO portfolio and the badwill generated by the acquisition of TSB.

Capital gains on asset disposals amounted to €–17.0 million and were made up largely of results from sales and losses from the sales of property, plant and equipment for own use. In 2014, capital gains on the sales of assets amounted to €236.9 million and were made up largely of a €162 gross capital gain on the sale of the group's debt management and recovery business and an exceptional payment of €80 million (net of arrangement expenses) on the signature of a reinsurance treaty from the Mediterráneo Vida portfolio of individual life and permanent disability policies.

The acquisition of TSB has generated a €231.9 million a negative goodwill

Extraordinary profits have been offset by additional provisions.

or badwill (net of tax) in 2015. During the PPA (Purchase Price Allocation) exercise, the expected loss in the loans and advances to customers portfolio has been estimated in order to adjust it to its estimated fair value, and intangible assets have been identified which amount to the value of contractual rights derived from relations with customers from TSB for core deposits and the value of the TSB brand.

Profit attributed to the group

The effective tax rate at 2015 year-end is mainly impacted by the badwill resulting from the acquisition of TSB, and by changes in the tax regulations of the United Kingdom regarding the applied tax rate.

After deducting income tax and the share of profit attributed to non-controlling interests, the year-end net profit attributed to the group for 2015 was €708.4 million, a 90.6% increase compared with the previous year. Excluding TSB, the group's net attributable profit amounts to €586.4 million at 2015 year-end, an increase of 57.8% compared with the previous year.

Loan loss coverage

53.64%

Net attributed profit

708.4M€

ROTE

7.6%

Balance sheet management

Increased commercial activity throughout the year, together with the incorporation of TSB, is reflected in the growth of credit volumes and funds.

Significant decline in balance of doubtful loans and problem assets.

32% of the loan book is located outside of Spain, ahead of the targets laid out in the business plan.

T6 Balance sheet

€ million

	2014	2015	% 15/14
Cash, central banks and other credit institutions	1,189.8	6,139.5	416.0
Trading portfolio, derivatives and other financial assets	3,253.4	3,098.0	(4.8)
Financial assets available for sale	21,095.6	23,460.4	11.2
Loans and advances	117,895.2	154,754.3	31.3
Loans and advances to credit institutions	4,623.2	6,206.1	34.2
Loans and advances to customers (net)	110,835.7	146,815.7	32.5
Debt securities	2,436.3	1,732.5	(28.9)
Investments	513.2	341.0	(33.6)
Tangible assets	3,982.9	4,188.5	5.2
Intangible assets	1,591.3	2,080.6	30.7
Other assets	13,824.3	14,565.6	5.4
Total assets	**163,345.7**	**208,627.8**	**27.7**
Trading portfolio and derivatives	2,254.5	2,334.6	3.6
Financial liabilities at amortised cost	145,580.1	189,468.7	30.1
Deposits from central banks	7,201.5	11,566.1	60.6
Deposits from credit institutions	16,288.2	14,724.7	(9.6)
Customer deposits	98,208.4	132,876.3	35.3
Capital market	20,196.3	26,406.6	30.7
Subordinated liabilities	1,012.4	1,472.8	45.5
Other financial liabilities	2,673.3	2,422.2	(9.4)
Liabilities under insurance contracts	2,389.6	2,218.3	(7.2)
Provisions	395.2	346.2	(12.4)
Other liabilities	1,510.4	1,492.3	(1.2)
Total liabilities	**152,129.7**	**195,860.1**	**28.7**
Shareholders' funds	10,223.7	12,274.9	20.1
Value adjustments	937.4	455.6	(51.4)
Non-controlling interests	54.8	37.1	(32.3)
Equity	**11,216.0**	**12,767.7**	**13.8**
Total equity and liabilities	**163,345.7**	**208,627.8**	**27.7**
Contingent exposures	9,132.6	8,356.2	(8.5)
Contingent commitments	14,769.6	21,130.6	43.1
Total memorandum accounts	**23,902.2**	**29,486.8**	**23.4**

The EUR/GBP Exchange rate applied in the balance sheet is 0.7340 at 31.12.2015.

Note: On 30 June 2015, the group took over control of TSB. Therefore, the balance sheet figures cannot be compared with previous years.

Assets

At the end of 2015, the total assets of Banco Sabadell and its group amounted to €208,627.8 million (€165,249.6 million excluding TSB), a balance that greatly exceeds the balance of 2014 year-end (€163,345.7 million) due mainly to the acquisition of TSB.

Gross loans and advances (excluding repos), the balance of doubtful assets and accrual adjustments ended 2015 with a balance of €140,367.8 million. This represents a year-on-year increase of 37.1%, largely due to the acquisition of TSB and the growth of mortgage loans from TSB, driven by the success of the intermediation platform launched at the beginning of 2015. Excluding TSB, gross loans and advances (excluding repos), the balance of doubtful assets and accrual adjustments showed a balance amounting to €104,536.6 million at 31 December 2015, a 2.1% increase compared with the previous year (T7).

The item with the most weight in gross loans and advances corresponded to mortgage-secured loans, which at 31 December 2015 amounted to €90,538.6 million and represented 65% of total loans and advances to customers (G5 and G6).

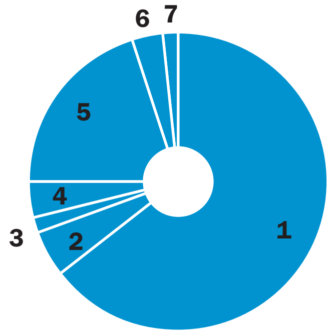
The group's ratio of non-performing loans (G7) continues with its sharply decreasing trend throughout the year due to the significant reduction in doubtful loans. NPL coverage has increased to comfortable levels (T8).

At 2015 year-end, the balance of doubtful risks of the Banco Sabadell group amounted to €12,344.2 million, decreasing by an aggregate €3,565.7 million during the year.

€ million

T7

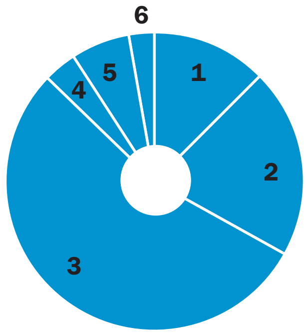
	2014	Ex TSB 2015	% 15/14	Total group 2015	% 15/14
Mortgage-secured loans and advances	57,112.3	57,835.9	1.3	90,538.6	58.5
Loans and advances secured with other collateral	2,155.3	2,201.3	2.1	2,201.3	2.1
Trade credit	4,867.3	5,410.5	11.2	5,665.1	16.4
Rest of loans	24,194.6	26,303.8	8.7	28,092.4	16.1
Rest of advances	4,188.1	4,593.4	9.7	4,593.4	9.7
Financial leasing	2,124.3	2,070.0	(2.6)	2,070.0	(2.6)
Demand debtors and miscellaneous	7,738.3	6,121.7	(20.9)	7,206.9	(6.9)
Gross loans and advances to customers excluding repos (without doubtful assets or adjustments due to accruals and deferrals)	**102,380.2**	**104,536.6**	**2.1**	**140,367.8**	**37.1**
Doubtful assets	15,714.2	12,253.8	(22.0)	12,470.4	(20.6)
Adjustments due to accruals and deferrals	(130.4)	(155.7)	19.4	(141.4)	8.4
Gross loans and advances to customers, excluding repos	**117,964.0**	**116,634.8**	**(1.1)**	**152,696.8**	**29.4**
Repos	587.6	728.5	24.0	728.5	24.0
Gross loans and advances to customers	**118,551.6**	**117,363.2**	**(1.0)**	**153,425.3**	**29.4**
Provisions for insolvency and country risk	(7,715.8)	(6,426.0)	(16.7)	(6,609.6)	(14.3)
Loans and advances to customers (net)	**110,835.7**	**110,937.3**	**0.1**	**146,815.7**	**32.5**



G5
Loans and advances to customers by product type 31.12.2015 (%) (*)

1	Mortgage-secured loans and advances	64.5%
2	Demand debtors and miscellaneous	5.1%
3	Loans and advances secured with other collateral	1.6%
4	Trade credit	4.0%
5	Rest of loans	20.0%
6	Rest of advances	3.3%
7	Financial leasing	1.5%

(*) Excludes doubtful assets and adjustments for accruals.



G6
Loans and advances to customers by customer profile 31.12.2015 (%) (*)

1	Corporates	12.5%
2	SMEs	20.6%
3	Sole proprietors	54.2%
4	Public sector institutions	3.7%
5	Real estate development	6.2%
6	Others	2.8%

(*) Excludes doubtful assets and adjustments for accruals.

Reduction of NPL ratio to 7.79% at 2015 year-end. Excluding TSB, the NPL ratio is 9.86% (12.74% at 2014 year-end).

T8 NPL ratio per segment

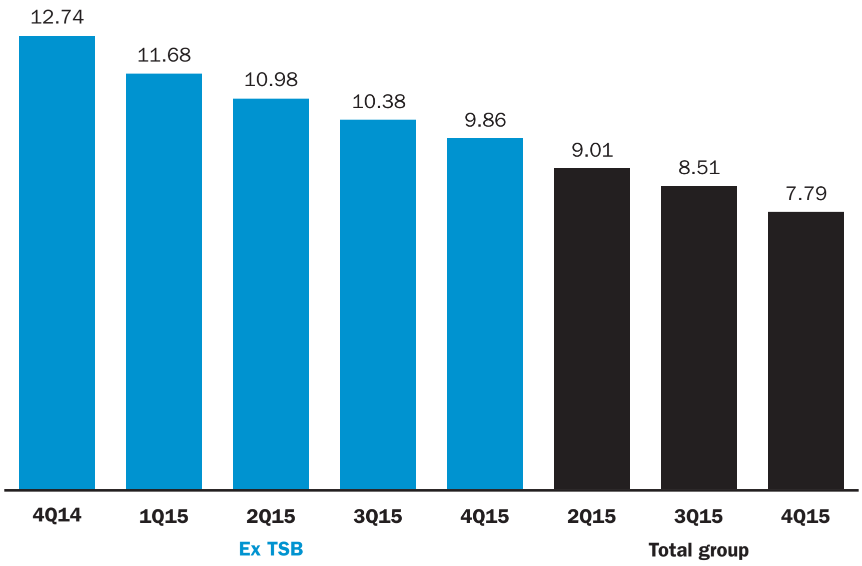
%

Ex TSB	**4Q14**	**1Q15**	**2Q15**	**3Q15**	**4Q15**
Real estate development and construction	52.17	49.21	47.21	47.84	38.81
Non-real estate construction	8.08	9.03	8.74	8.58	(*) 14.36
Corporates	6.46	6.55	6.14	5.41	4.62
SMEs and sole proprietors	12.60	12.20	11.96	11.38	10.83
Individuals with first mortgage guarantee	9.25	9.12	8.76	8.27	7.83
NPL Ratio	**12.74**	**11.68**	**10.98**	**10.38**	**9.86**

Calculated including contingent risks and 20% of the APS balance.
(*) Impact of a specific item.

The reduction of problem assets should also be highlighted (including doubtful assets and real estate assets) by an aggregate €3,179.7 million during the year. At 2015 year-end, the balance of problem assets of the Banco Sabadell group amounted to €21,578.6 million.

The quarterly evolution of these assets excluding TSB (doubtful loans plus real estate assets not covered by the asset protection scheme) can be seen in table T9.



G7 NPL ratios (%)

T9 Evolution of doubtful loans and real estate assets ex TSB

€ million

	2014				2015			
	1Q	**2Q**	**3Q**	**4Q**	**1Q**	**2Q**	**3Q**	**4Q**
Ordinary net increase	(83)	(203)	(316)	(457)	(802)	(731)	(540)	(544)
Change in real estate	64	148	202	263	211	167	1	7
Net increase + real estate	**(19)**	**(55)**	**(114)**	**(194)**	**(591)**	**(564)**	**(539)**	**(537)**
Defaults	265	97	224	298	245	170	300	234
Quarterly increase in doubtful balances and real estate	**(284)**	**(152)**	**(338)**	**(492)**	**(836)**	**(734)**	**(839)**	**(771)**

Liabilities

At 2015 year-end, on-balance sheet customer funds totalled €131,489.2 million (€96,227.0 million excluding TSB) and showed a year-on-year increase of 39.2% (1.9% excluding TSB) (T10).

The demand account balances totalled €84,536.1 million (€53,849.5 million excluding TSB), a 95.3% increase year-on-year (24.4% excluding TSB). Time deposits from customers amounted to €46,376.3 million (€41,800.8 million excluding TSB), a 13.1% decline compared with the previous year (a 21.7% decline excluding TSB). The downward trend in interest rates in the financial markets has caused a change in the composition of on-balance sheet customer funds (between time deposits and demand accounts) and their transfer to off-balance sheet customer funds.

Total off-balance sheet customer funds amounted to €37,381.1 million, an increase of 23.0% compared with the previous year. In this chapter, the continued increase in equity in mutual funds is particularly notable, and stood at €21,427.3 million at 31 December 2015, which represents a 36.4% year-on-year increase.

Balances in asset management have also experienced a significant upwards trend, amounting to €4,001.9 million, which represents a 37.1% increase year-on-year.

Liabilities in the form of marketable securities (loans and other marketable securities) totalled €26,406.6 million at 2015 year-end, compared with €20,196.3 million at 31 December 2014. This increase was due mainly to a net increase in balances of debentures and bonds issued by TSB securitisation funds.

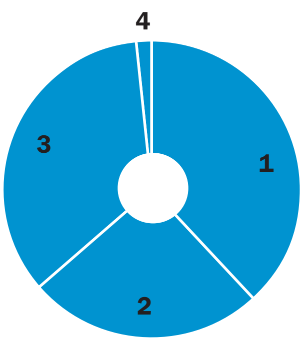
Funds under management at 2015 year-end totalled €200,355.1 million (€160,605.2 million excluding TSB), compared with €152,185.4 million one year previously, a 31.7% increase year-on-year (5.5% excluding TSB) (G8 and G9).

€ million

T10 Customer funds

	2014	Ex TSB 2015	% 15/14	Total group 2015	% 15/14
On-balance sheet customer funds	**94,460.7**	**96,227.0**	**1.9**	**131,489.2**	**39.2**
Customer deposits	98,208.4	97,625.1	(0.6)	132,876.3	35.3
Current accounts	31,098.7	39,404.8	26.7	50,889.1	63.6
Savings accounts	12,176.2	14,444.7	18.6	33,647.0	176.3
Time deposits	53,395.9	41,800.8	(21.7)	46,376.3	(13.1)
Repurchase agreements	1,291.8	1,950.6	51.0	1,950.6	51.0
Adjustments due to accrual and deferral	447.7	226.6	(49.4)	226.6	(49.4)
Hedging adjustments with derivatives	(202.0)	(202.4)	0.2	(213.4)	5.6
Debentures and other marketable securities	20,196.3	22,455.9	11.2	26,406.6	30.7
Subordinated liabilities	1,012.4	924.9	(8.6)	1,472.8	45.5
Liabilities under insurance contracts	2,389.6	2,218.3	(7.2)	2,218.3	(7.2)
On-balance sheet funds	**121,806.6**	**123,224.2**	**1.2**	**162,974.0**	**33.8**
Mutual funds	15,705.6	21,427.3	36.4	21,427.3	36.4
Variable income	953.5	1,417.6	48.7	1,417.6	48.7
Mixed	1,695.5	4,271.9	152.0	4,271.9	152.0
Fixed income	3,829.7	4,327.7	13.0	4,327.7	13.0
Guaranteed	3,793.9	3,380.2	(10.9)	3,380.2	(10.9)
Real Estate	9.2	67.4	—	67.4	—
Investment firms	1,725.1	1,994.2	15.6	1,994.2	15.6
Traded ICS not under management	3,698.7	5,968.3	61.4	5,968.3	61.4
Assets under management	2,918.1	4,001.9	37.1	4,001.9	37.1
Pension funds	4,334.6	4,305.1	(0.7)	4,305.1	(0.7)
Individuals	2,861.6	2,759.8	(3.6)	2,759.8	(3.6)
Corporates	1,457.0	1,529.6	5.0	1,529.6	5.0
Associates	16.1	15.8	(1.8)	15.8	(1.8)
Third-party insurance products	7,420.5	7,646.8	3.0	7,646.8	3.0
Total off-balance sheet funds	**30,378.8**	**37,381.1**	**23.0**	**37,381.1**	**23.0**
Funds under management	**152,185.4**	**160,605.2**	**5.5**	**200,355.1**	**31.7**

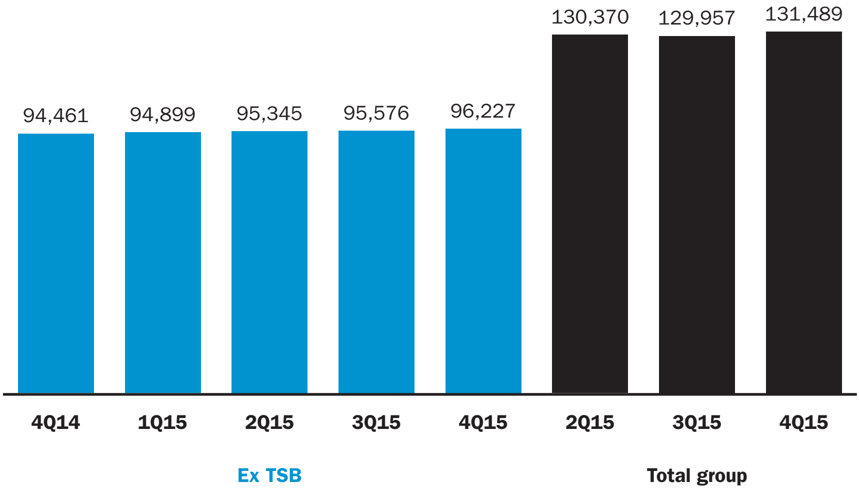
Includes customer deposits (ex-repos) and other liabilities placed via the branch network: Banco Sabadell simple bonds, promissory notes and others.
The EUR/GBP exchange rate used for the balance sheet is 0.7385 until 30.09.2015 and 0.7340 until 31.12.2015.



G8
Customer deposits
31.12.2015 (%) (*)

1	Current accounts	38.3%
2	Savings accounts	25.3%
3	Time deposits	34.9%
4	Repurchase agreements	1.5%

(*) Excludes adjustments for accruals and hedges with derivatives.



G9 On-balance sheet customer funds
(millions of euros)

Equity

At 2015 year-end, the group's equity totalled €12,767.7 million. A capital increase of €1,607 million took place in 2015, and €783.9 million in mandatorily convertible bonds were converted into shares (T11).

€ million

T11

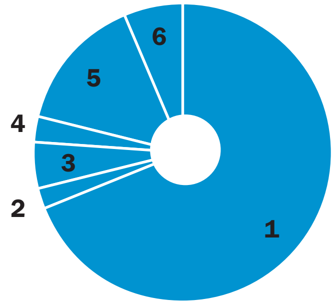
	2014	2015	% 15/14
Own funds	10,223.7	12,274.9	20.1
Capital	503.1	679.9	35.2
Reserves	8,702.3	11,110.7	27.7
Other capital instruments (*)	734.1	14.3	(98.0)
Less: treasury securities	(87.4)	(238.5)	172.9
Profit attributed to the group	371.7	708.4	90.6
Less: dividends and remuneration	0.0	0.0	—
Value adjustments	937.4	455.6	(51.4)
Non-controlling interests	54.8	37.1	(32.3)
Net equity	**11,216.0**	**12,767.7**	**13.8**

(*) Mainly corresponds to issuances of mandatorily convertible bonds.

The adjusted loan to deposit ratio is maintained at 106.5% at 31 December 2015 (108.2% excluding TSB), with a balanced retail funding structure.

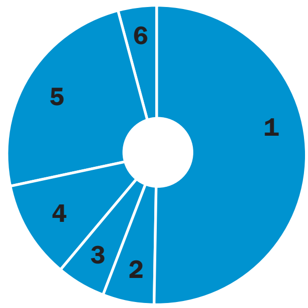
The key aspects of the changes in liquidity during 2015 at group-level are as follows:

— The target of the last few years to generate a liquidity gap in commercial business, reduce total financing of wholesale markets and increase the bank's liquidity position has been maintained.
— On-balance sheet customer funds have increased by 39.2% compared with 2014 year-end, mainly due to the acquisition of TSB.
— During 2015, the generation of a commercial gap has stabilised, continuing with its positive trend observed during the last few years, although at a more moderate rate. The loan to deposit (LTD) ratio of the group at year-end stands at 106.5% (108.2% excluding TSB) (T12).
— The bank has slightly reduced (ex TSB) its percentage of financing in wholesale markets. Throughout the year, maturities in the capital markets have amounted to €3,277 million. Conversely, Banco Sabadell made two public five-year issuances of mortgage-covered bonds in May and October 2015, totalling €750 million and €1,000 million respectively. In November 2015, TSB launched a securitisation transaction on the market amounting to £535 million. Details of the main sources of funding at 2015 year-end, by type of instrument and counterparty, are shown in figure G10 and G11.
— Banco Sabadell has taken part in the liquidity auctions of the ECB's four-year targeted longer-term refinancing operations (TLTRO) for an amount totalling €11,000 million at year-end (€5,000 million corresponding to the TLTRO on 17 December 2014).



G10
Funding structure
31.12.2015 (%)

1	Deposits	69.1%
2	Retail issuances	2.2%
3	Repos	5.0%
4	ICO Funding	2.8%
5	Wholesale market	14.7%
6	ECB	6.2%



G11
Wholesale funding breakdown
31.12.2015 (%)

1	Covered bonds	50.3%
2	Senior debt	5.7%
3	Prefs + subordinated	5.3%
4	ECP + institutional commercial paper	10.4%
5	Securitisations	24.4%
6	GGB	3.9%

T12

€ million

	2014	Ex TSB 2015	Total group 2015
Gross loans and advances to customers excluding repos	117,964	116,635	152,697
Provisions for insolvencies and country risk	(7,716)	(6,426)	(6,610)
Credit mediation	(7,869)	(6,069)	(6,069)
Adjusted net loans and advances	**102,379**	**104,140**	**140,018**
On-balance sheet customer funds	94,461	96,227	131,489
Adjusted loan to deposit ratio (%)	**108.4**	**108.2**	**106.5**

The applied EUR/GBP exchange rate is 0.7340 at 31.12.2015 and 0.7789 at 31.12.2014.

— The group has maintained a liquidity buffer in the form of liquid assets to meet any eventual liquidity needs. The acquisition of TSB has had a positive impact on the first line of liquidity of the bank in approximately €3,000 million, with a high-quality liquid asset portfolio consisting mainly of cash and gilts.
— The Liquidity Coverage Ratio (LCR) entered into force on 1 October 2015, with a minimum regulatory amount of 60%. All the Liquidity Management Units (LMUs) of the bank have comfortably surpassed the required minimum. At the group level, the bank's LCR has been stable and consistently above 100% throughout the year. With regards to the Net Stable Funding Ratio (NSFR), whose implementation date is expected to be in January 2018, the group has maintained stable levels above 100%.

For more details regarding the group's liquidity management, the liquidity strategy and changes in liquidity, see the chapter on Risk Management_Liquidity Risk.

Agency ratings

In 2015, the three agencies that were rating Banco Sabadell's credit quality were Standard & Poor's, Moody's and DBRS. In June, the credit rating agency Moody's, as a result of the publication of its new methodology and the review of government aid, upgraded its rating of Banco Sabadell's long-term deposits by +2 notches to Baa3 (from Ba2) and that of long-term senior debt by +1 notch to Ba1 (from Ba2). The rating of short-term deposits was upgraded to P3 (from not-prime) and the rating of short-term senior debt was maintained at not-prime. Similarly, the rating of mortgage covered bonds and territorial bonds was upgraded by +4 notches to Aa2 (from A3).

In September, DBRS Ratings Limited downgraded its long-term rating of Banco Sabadell to BBB high (from A low) and confirmed its short-term rating at R1 low, reflecting the agency's outlook on the changes in European regulations and legislation, where the likelihood of receiving systemic support is less certain.

In December, Standard & Poor's Ratings Services improved its outlook for Banco Sabadell to stable (from negative) and confirmed its long-term rating at BB+, as well as the short-term rating at B. The agency has upgraded the bank's stand-alone credit profile (SACP) by +1 notch to bb+ (from bb) due to the bank's improved risk profile, thereby offsetting the removal of the notch for government aid that Banco Sabadell's rating had maintained up to that date. Table T13 gives details of the current ratings and the last date on which information has been published reiterating this rating.

T13

Agency	Date	Long Term	Short Term	Outlook
DBRS	29.09.2015	BBB (high)	R-1 (low)	Stable
Standard & Poor's (*)	02.12.2015	BB+	B	Stable
Moody's	17.06.2015	Ba1	NP	Stable

Capital strength: the common equity tier 1 fully loaded ratio stood at 11.4% at 2015 year-end.

A capital increase of €1,607 million was implemented in April 2015.

Capital management

Capital management is the result of an ongoing capital planning process. This process considers expected economic, regulatory and industry performance, as well as adverse scenarios. It factors in projected capital consumption in the various businesses under a number of scenarios as well as market conditions that may determine the efficacy of measures that may be taken. The process is conducted in line with the bank's strategic goals and the pursuit of attractive returns for shareholders, while always ensuring that own funds are sufficient to attend to the risks inherent in the business.

In terms of capital management, as a general policy, the bank aims to ensure the adequacy of the available capital to the organisation-wide level of risks incurred.

The group follows the guidelines established by the Basel Capital Accord as a basic principle which closely ties the requirements of banks' own funds to the risks that are actually incurred, based on internal risk measurement models which must first be independently assessed.

The group has been authorised by the Supervisor to use the majority of its internal models to calculate regulatory capital requirements. Based on the risk measures that provide these new methodologies, the group has a comprehensive risk measurement model under an internal measurement unit in terms of assigned capital.

The capital mapping by risk type at 2015 year-end is shown in Table T14.

%

T14

	2015
Credit risk	80
Structural risk	7
Operational risk	7
Market risk	2
Other	4
Total	**100**

The risk assessment in terms of the necessary contributed capital allows it to be compared with the profitability obtained from operational and customer levels to the business unit level. The group has implemented a system to analyse return adjusted to risk (RaRoC) provided by this assessment, allowing homogeneous comparisons to be made and enabling their inclusion within the price fixing process of operations.

The group has a complex measurement system in place for each type of risk faced by the bank and some integration methodologies for each of these risks, from an overall point of view and taking into account all possible stress scenarios and corresponding financial planning. These risk assessment systems have been adapted to the corresponding best practices.

The group carries out an annual internal capital assessment process, envisioned in the new framework set out by the NBCA, and more specifically in the regulations on the adequacy of regulatory own funds, which is reported to the Supervisor.

This process is based on a wide inventory of previously identified risks and on the qualitative internal assessment of policies, procedures, risk acceptance, measurement and control systems and their corresponding mitigation techniques.

A global quantitative assessment is subsequently carried out on the necessary capital based on internal parameters using models used by the bank (for example, borrowers' credit rating systems in the form of ratings and scorings), as well as other internal estimates suited to each type of risk. The assessments of each risk type are subsequently included and a figure is set using an indicator in terms of allocated capital. Furthermore, the business and financial plans of the bank and its stress tests are taken into account in order to verify whether the business trends and possible adverse scenarios may endanger the bank's level of solvency by comparing it with available own funds.*

For further information on capital management, refer to the document published annually containing information with prudential relevance, which is available on the bank's website (www.grupobancosabadell.com) under the section Shareholder and Investor Information/Financial Information.

* **For more details see the consolidated financial statements (note 4).**

Regulations

On 1 January 2014, the new regulatory framework known as Basel III entered into force. It will be implemented in phases (phase-in model) until 1 January 2019. This new framework is made up of Directive 2013/36/EU, generally known as CRD-IV, and Regulation (EU) 575/2013, generally known as the CRR, which regulates minimum own funds that credit institutions need to maintain, both at an individual and a consolidated level, and the way in which these own funds are to be calculated, as well as different internal capital assessment processes which should be carried out and the public information to be disclosed to the market.

As a Spanish credit institution, the group is subject to Directive CRD-IV, which has been implemented in Spain through various standards and regulations (for further details of these regulations, see Note 5 of the consolidated annual accounts for 2015).

In accordance with the requirements established in the CRR Regulation, credit institutions should have a total capital ratio of 8% at all times. However, it should be noted that Regulators may exercise their powers under the new regulatory framework and require banks to have additional levels of capital.

It should be noted that in 2015, new regulations have been published which supplement the CRR Regulation in matters related to own funds, liquidity, pillar I risks and capital requirements.

Ratios

At 31 December 2015, the group's qualifying capital amounted to €11,417.4 million, entailing a surplus of €4,315.9 million, as shown in table T15.

€ million

T15

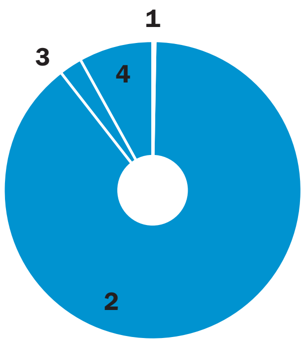
	2014	2015	% 15/14
Capital	503.1	679.9	35.1
Reserves	8,855.7	11,428.7	29.1
Bonds convertible into shares	—	—	—
Non-controlling interests	28.9	24.3	(15.9)
Deductions	(684.5)	(1,923.5)	181.0
Recursos core capital (Common equity Tier 1)	**8,703.2**	**10,209.4**	**17.3**
Core capital (Common equity Tier 1) (%)	11.7	11.5	—
Preferential shares, convertible bonds and deductions	—	—	—
Tier 1 funds	**8,703.2**	**10,209.5**	**17.3**
Tier I (%)	11.7	11.5	—
Tier 2 funds	**838.7**	**1,207.9**	**44.0**
Tier II (%)	1.1	1.4	—
Capital base	**9,541.9**	**11,417.4**	**19.7**
Minimum eligible funds	5,953.4	7,101.5	19.3
Surplus funds	**3,588.5**	**4,315.9**	**20.3**
Total capital ratio (BIS Ratio) (%)	**12.8**	**12.9**	**0.31**
Risk Weighted Assets (RWAs)	**74,417.8**	**88,768.7**	**19.3**

Core capital own funds make up 89.4% of qualifying capital.

Under Basel III, Tier 1 comprises core capital, convertible bonds and deductions of intangible assets of the same value.

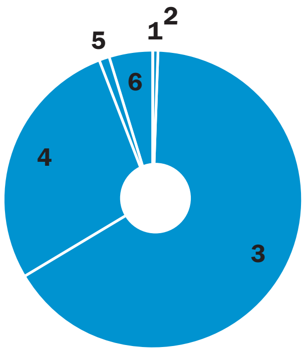
Tier 2 funds, which contribute 10.6% of the BIS ratio, are comprised mainly of subordinated debt and general provisions (with regulatory qualifying capital limits), as well as the remaining required deductions.

The distribution of own funds requirements by risk type and geographical location at 2015 year-end is shown in figure G12 y G13.



G12 Own resources requirements per risk type 31.12.2015 (%)

1	Credit valuation adjustment risk	0.3 %
2	Credit risk	89.2 %
3	Market risk	2.6 %
4	Operational risk	7.9 %



G13 Own resources requirements per geography 31.12.2015 (%)

1	Rest of OECD	0.1 %
2	Rest of the world	0.6 %
3	Spain	65.8 %
4	Rest of EU	27.8 %
5	Latin America	1.1 %
6	North America	4.6 %

Capital-raising issues

Over the last five years, the bank has increased its capital base through issuances which qualify as Tier 1 capital, which have allowed the capital to increase by over €6.6 billion euros. These include a capital increase with pre-emptive subscription rights of €1,607 million carried out in April 2015, as a result of the acquisition of TSB (T16).

During 2015, mandatorily convertible subordinated bonds have been converted into shares valued at €789 million, which have not impacted the capital ratios.

The change in phased-in common equity tier 1 (CET1) for 2014 (€8,703 million) and 2015 (€10,209 million) is mainly due to the aforementioned capital increase, the retained profit for the year and larger deductions as a consequence of the acquisition of TSB.

Risk weighted assets (RWA) for the year amount to €88,768.7 million, a 19.28% increase compared with the previous year due mainly to the acquisition of TSB and, to a lesser extent, to changes in deferred tax assets (DTA).

All of these capital-raising issues and events have allowed Banco Sabadell to reach a 11.5% phased-in common equity tier 1 (CET1) in December 2015, and a total capital ratio of 12.9%, amply exceeding the standards required by the regulatory framework.

In 2015 the bank received a notification from the European Central Bank with its decision on prudential minimum requirements applicable to the bank, after the supervisory review and evaluation process (SREP), stating that Banco Sabadell must maintain a common equity tier 1 (CET1) ratio of 9.25% of phased-in regulatory capital. This requirement includes the minimum required by Pillar 1 (4.50%) and Pillar 2 (4.75%), including the capital conservation buffer.

CET1 phased-in

+11.5%

Based on the note published by the Bank of Spain on 28 December 2015, it has set a countercyclical capital buffer of 0% for 2016 and a prudential capital buffer of 0% for systemically important institutions, which is applicable to Banco Sabadell (despite it being considered to be an O-SII - other systemically important institution).

€ million

T16

		Amount	Impact on capital
February 2011	Debt-for-equity swap (equity through accelerated book building and repurchase of preferential and subordinated shares)	411	+68 bp of *core tier* I
February 2012	Preferential shares swapped for ordinary shares	785	+131 bp of *core tier* I
March 2012	Capital increase	903	+161 bp of *core tier* I
July 2012	Preferential debt instruments and Banco CAM subordinated shares swapped for ordinary shares	1,404	+186 bp of *core tier* I
September 2013	Accelerated book building and capital increase with subscription rights	1,383	+178 bp of *core tier* I
October 2013	Issuance of mandatorily convertible subordinated bonds for hybrid swap of B. Gallego	122	+17 bp of *core tier* I
April 2015	Capital increase with pre-emptive subscription right - TSB	1,607	+181 bp of *core tier* I

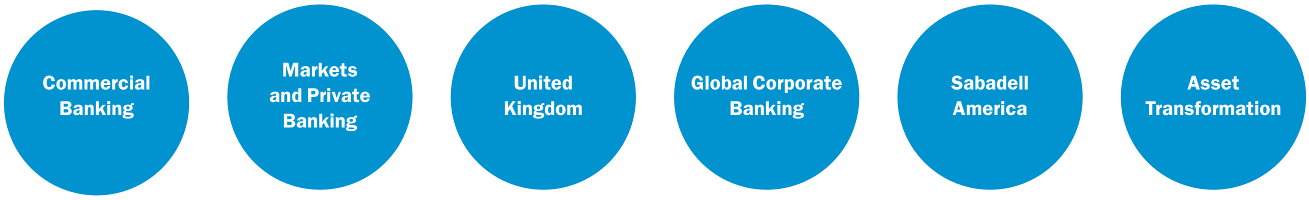
Note: The impact on capital (in basis points) is calculated using the year-end data for each year; these figures have varied significantly due to the increase in the scope of consolidation of the group in the last few years.

Businesses

Commercial Banking
Markets and Private Banking
United Kingdom
Global Corporate Banking
Sabadell America
Asset Transformation

B

The Group is organized into a number of business areas which are shown below. It also has six regional divisions with full responsibility for their local areas and several business-focused support teams:



Banco Sabadell offers a full range of banking and financial services through its different financial institutions, brands, subsidiaries and associates.

The Group's development objectives are focused on profitable growth and the generation of shareholder value through a strategy of business diversification based on high returns, efficiency and quality of service together with a conservative risk profile, while maintaining high standards of ethics and professional conduct combined with sensitivity to stakeholders' interests.

Commercial Banking

Commercial Banking is the largest of the Group’s business lines. It focuses on providing financial products and services to large and medium-sized businesses, SMEs, retailers and sole proprietors, professional groupings, entrepreneurs and personal customers. Its high degree of market specialization ensures that customers receive a top-quality, personalized service that is totally oriented to meeting their needs, whether from expert staff throughout its extensive, multi-brand branch network or via other channels that support the customer relationship and give access to remote banking services. It includes the Group's Bancassurance and Sabadell Consumer businesses.

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. The unit's operations embrace SabadellUrquijo Private Banking; Investment, Products and Research; Treasury and Capital Markets; and Securities Trading and Custodian Services.

United Kingdom

The Group's UK operation is carried on through its TSB franchise, which it acquired in June 2015 and includes a retail banking business that offers current and savings accounts, personal loans, credit cards and mortgages to the UK market through a multi-channel distribution format.

Global Corporate Banking

The unit offers products and services to large corporates and financial institutions, both Spanish and international. Its activities embrace Corporate Banking, Structured Finance and Trade Finance & IFI.

Sabadell America

Sabadell America is made up of a number of business units, affiliates and representative offices that together engage in corporate banking, private banking and commercial banking. The Bank has the capacity and experience to provide all types of banking services, from the most complex and specialized for large corporations, including structured project finance operations, to products for individuals. This business is carried on via Banco de Sabadell Miami Branch, Sabadell United Bank and Sabadell Securities, in the United States, and Sabadell Capital SOFOM and Banco Sabadell Institución de Banca Múltiple, in Mexico, plus a number of affiliates and representative offices (in New York since 2012 and Peru and Colombia since 2015).

Asset Transformation

Asset Transformation is responsible for managing non-performing risks and real estate exposures on a Group-wide basis and for planning and implementing strategy for shareholdings in the real estate sector, including Solvia.

Banco Sabadell sees its market shares growing in key market sectors.

Key developments in 2015

Noteworthy developments in 2015 were a rise in net interest income, deeper customer relationships, substantial growth in the insurance business and a major increase in mutual fund assets.

€ million

T1 Commercial Banking [FS6]

	2014	2015	% 15/14
Net interest income	**1,778.47**	**2,141.99**	**20.4**
Fees and commissions (net)	636.27	651.56	2.4
Other income	(76.97)	(55.64)	(27.7)
Gross income	**2,337.77**	**2,737.91**	**17.1**
Operating expenses	(1,345.73)	(1,395.26)	3.7
Operating profit/(loss)	**992.04**	**1,342.65**	**35.3**
Impairment losses	(644.15)	(642.93)	(0.2)
Profit/(loss) before tax	**347.89**	**699.72**	**101.1**
Ratios (%)			
ROE (profit/average shareholders' equity)	8.0	14.8	
Cost:income (general administrative expenses/gross income)	57.6	49.9	
Loan loss ratio	10.3	9.0	
Loan loss coverage ratio	47.2	52.7	
Business volumes			
Loans and advances	79,460	77,708	(2.2)
Customer funds	90,785	94,053	3.6
Securities	8,678	9,008	3.8
Other information			
Employees	12,562	12,550	(0.1)
Branches in Spain	2,253	2,190	(2.8)

Particularly encouraging was a sharp fall in doubtful loans, with the loan loss ratio in the Commercial Banking business falling to 9.0% in 2015, down from 10.3% in 2014.

As envisaged by the Group's "Triple" 3-year business plan, key priorities for 2015 were profitability and getting increased productivity from the new capacity added as a result of its recent acquisitions.

In the business banking sector the year again saw increases in customer numbers and market share in all market segments. In its continuing drive to expand its product range the Bank started to offer new financing solutions to both the domestic and foreign markets. One of the Bank's priorities was, once again, to boost the availability of credit for businesses. This aim was pursued by means of new and existing agreements with official organizations such as the Official Credit Institute (ICO), the European Investment Fund and the Spanish Confederation of Reciprocal Guarantee Societies. The Bank continued to be an acknowledged leader in the franchising market and to develop specialist business units focusing on the agricultural and tourist sectors.

In the individual customer sector its efforts were directed towards two aims: strengthening the customer relationship and becoming a household word.

As part of this policy, Banco Sabadell launched a campaign entitled “New Times” featuring such media personalities as tennis star Rafa Nadal, TV and film actor José Coronado and astronaut Michael López-Alegría. The campaign invites people to be confident and optimistic about the future in a fast-changing world; it also emphasizes the values of closeness, trust and commitment to customers. It speaks of a better future for all.

The year saw further expansion in the Bank's offering of products for the individual customer. Growth in consumer loan production was given further impetus by the launch of the “Expansión 24+24” product, featuring a fast-track approval process and a special focus on the use of remote channels. Another 2015 product launch was a fixed-rate mortgage known as “Hipoteca Expansión” with adjustable repayments to suit the borrower's stage of life.

Growth plans for the branch business in Spain's different regions helped to drive increases in profitability and customer numbers. In the Madrid region, for example, the “Opportunity Madrid” plan enabled the region to win the largest number of new customers for the Bank this year - 15% of the Bank's total.

In the business transformation area of the Group's strategy, an active response continued to be seen in Madrid, including the introduction of a plan for managing change in which a large number of employees participated.

Further improvement of the customer experience continued to be a key aim for the Bank. To achieve this the Bank set itself the goal of becoming a leader in customer experience ratings in every market segment in 2018. A further consequence was the launch of “Plan Este” in the Eastern region comprising a range of initiatives designed to enhance the customer experience in the region. The plan's main themes are improving ATM usability, reducing in-branch waiting times and more tightly focused brand positioning.

The Northern region's “Plan Norte” has the primary goal of increasing rates of new customer enrolment and profitability at branches whose profitability levels were below the benchmark average. The implementation of the plan has helped to improve performance indicators including, particularly, new customer sign-ups and net revenue.

Customer segments

This section describes the Bank's activities in the company, business and government and individual customer segments served by Commercial Banking under the “Sabadell” brand (registered as “BSabadell”).

Our promise to businesses - a new kind of relationship with business customers.

Companies, businesses and government

€ million

	2014	2015	% 15/14
Net interest income	**892.58**	**1,027.28**	**15.1**
Fees and commissions (net)	239,01	253.40	6.0
Other profit/(loss)	(3.51)	20.26	—
Gross income	**1,128.08**	**1,300.94**	**15.3**
Business volumes			
Loans and advances	43,114	41,709	(3.3)
Customer funds	37,715	40,632	7.7
Securities	4,579	4,694	2.5
Loan loss ratio (%)	**10.3**	**9.4**	**—**

T2 Companies, businesses and government [FS6]

The year 2015 saw the launch of a new approach to building relations with business customers based on the "Our Promise to Businesses" plan. Under the plan, the Bank gives a written undertaking to all its business customers that it will respond to a loan application within not more than seven days, keep the terms of its credit facilities unchanged, not change a customer's designated account manager, visit the customer's premises at least once a year, allow customers to transact business at any branch of the Bank, and support its customers' expansion into foreign markets. The key aim is that Banco Sabadell should become its customers' main provider of financial services.

Along with intensive promotional efforts, the Promise to Businesses campaign ensured that for another year Banco Sabadell was able to see growth in its market shares as measured by customer numbers. In 2015 a total of 95,894 businesses were enrolled as customers of the Bank, 15.7% up on the previous year's figure. As a result, 42.89% of small and medium enterprises and 72.1% of large corporates had an account with Banco Sabadell at the end of the third quarter; these figures showed increases of 4.9% and 2.0%, respectively. Of particular significance for the large corporate segment is the added value provided by a network of 60 dedicated branches all over the country catering to the needs of these corporate customers.

In an environment characterized by higher economic growth, one of the Bank's main priorities in 2015 was to make it easier for businesses to obtain credit. Its success in doing so is evidenced by the fact that the Bank increased its lending to businesses by 3.6% in the course of the year, with new loans rising to over €37,300 million. In the spirit of its Promise to Businesses, the Bank remains committed to increasing its lending to customers, subject always to having full knowledge of customers and their needs and to applying its risk acceptance policy with the usual high degree of rigour.

Deposits held with the Bank by customers in this market segment also showed an excellent performance, rising by 6.8% on the figure for 2014.

Domestic market

In 2015 the Bank continued to pursue its aim of adding product and service innovations to modernize and generate value from its product base, taking a multi-country and multi-currency perspective to benefit not only companies operating within the domestic market but also those engaging in business with other countries.

In factoring, an updated and modernized product enabled the Bank to respond to customers more swiftly and efficiently and to offer them a factoring process that was quicker and easier to manage. The Banco Sabadell express factoring service was upgraded and its foreign currency service, which covers all quoted currencies, was notably enhanced - a key differentiating factor for any exporting company. All these improvements helped to deliver good volume growth this year and enabled us to capture a 12.19% share of the business as of September 2015.

The Bank's reverse factoring service (in which customers pass supplier invoices to the bank, which then offers the supplier discounted payment in advance of the due date) also underwent a series of modifications to make the service faster and more responsive for customers and their suppliers, and thus increase online usage. The changes received a very positive response from customers and this was reflected in a rise in our share of the reverse factoring market to 11.36% as of September 2015.

In the international trade arena the Bank's strong position in the handling of documentary credits was reflected in market shares of 30% in documentary credit for exporters and 15.21% (rising to over 18.08% at times during the year) for importers.

In 2015 the Bank once again renewed its commitment to make finance available though its support for ICO schemes, in which its 18.87% share was the second largest among participating banks. In 2015 the ICO schemes that generated the highest volumes of loan production were the Business and Entrepreneur scheme, with loan or credit facilities totalling €1,213 million, and ICO Exporters, in which the total amount of financing was €515.7 million. The Bank took first place in the amount of financing arranged under the ICO's Reciprocal Guarantee Society scheme, with a 35.49% share.

Agreements with the European Investment Bank to fund loans to customers enabled the Bank to make available a total of €560.7 million in financing for businesses.

In 2015 we continued our drive to offer more up-to-date, more specialized products and services.

The Bank also provided funding for small and midsize businesses and sole proprietors under partnership agreements with mutual guarantee societies represented by the Spanish Confederation of Mutual Guarantee Societies (Spanish initials: CESGAR) and with the Spanish Refinancing Company (Spanish initials: CERSA), an agency of the Spanish Ministry for Industry, Energy and Tourism. Financing under these agreements increased by 25.6% during the year.

To further its aim of increasing the availability of financing for businesses on the best possible terms, in late 2015 the Bank entered into an agreement with the European Investment Fund as part of the "PYME Initiative", a €625 million project co-financed by Spain, the European Commission and the EIB Group to provide funding to smaller businesses.

International trade

In the foreign trade arena, during the year a package of foreign trade services offered by the Bank's International Business Resource Centre was added to the Bank's web site. This service provides support to businesses venturing into foreign markets, a valuable non-financial service that has made it possible for Banco Sabadell to become involved in customers' decisions at every level. The Resource Centre provides firms with information, analysis, tools, resources, opportunities and marketing know-how, thus meeting all the requirements of a company thinking of entering a foreign market. This innovative programme is being very well received by businesses as a source not only of information on financing but also of support, advice and training specifically to engage in foreign trade.

At the same time the "Export to Grow" programme continued to expand so as to target a wider audience and include both general information about exporting and special briefings on markets of interest to Spanish firms. These briefings included sessions on Morocco and Peru organized in 10 meetings all over Spain attended by more than 1,000 businesses.

Long- and medium-term finance

A significant highlight in the area of medium and long-term finance was the growth in the Group's fleet rental and contract equipment leasing operations ("Sabadell Renting") which saw their business grow by 51.6% and 13.8% respectively. This further strengthened the Bank's leading position as a provider of energy-efficient solutions for customers as well as support for technological change in such areas as lighting, building envelopes, sanitary water heating, climate control and renewable energy sources (geothermal, solar, photovoltaic) as required by the EU's energy efficiency Directives 2010/31 and 2012/27. It is also a provider of finance to end users, energy services companies and suppliers of energy in different forms. A steady rise in sales to major fleet operators during the year led to the creation of a new dedicated unit to serve this business sector. A project was also launched to take the Group's contract leasing business into foreign markets by making agreements with other operators to serve customers expanding outside their home market.

As envisaged by the "Triple" business plan, the leasing business is looking to develop the potential of sales channels such as sales introducers/agents, which give customers the opportunity to earn extra income by offering financing options along with their products. Channels used by individual customers proved to be a valuable tool in raising the profile of the rent-a-car operation and included attractive offers designed to appeal to younger drivers. These younger users tend to prefer pay-as-you-go options and are ever more demanding in relation to both service and tools for online access, such as apps and websites, in their interaction with Sabadell Renting.

Businesses

The business customer segment saw sales increasing steadily in line with the growth in customer numbers seen in the last few years. "Cuenta Expansión Negocios" continued to be the key tool in winning and keeping customers and in helping users to manage their day-to-day banking operations. During the year the Business Support Plan, first launched in 2012, was strengthened and improved to maximize the business opportunities provided by the many business owning customers and to forge links with them at an early stage in the relationship through centrally planned initiatives.

Agreed overdraft limits

Another important action area in this customer segment during the year was an ongoing review of agreed overdraft limits to help meet the financing needs of sole proprietors, small retailers and other small businesses. This resulted in overdraft facilities amounting to €4,700 million being offered to 248,000 customers during the year. Since the new policy came into effect in 2012, the Bank has granted credit totalling almost €8,700 million to more than 500,000 Spanish businesses.

The "We believe" small retailer campaign

The year 2015 saw the "Creemos" (We believe) campaigns targeted on retail establishments being continued in 52 towns and cities all over Spain, with visits being made to more than 17,000 outlets. The aim of the campaign was to encourage people to visit shops in their neighbourhood, spend some money and thus give a boost to business activity in Spain's towns and cities. The campaign message was clear: to believe in a local neighbourhood is to believe in its local traders. Key to the campaign's success was the involvement of branch managers, who personally visited each shop in their neighbourhood to present the campaign, thus creating opportunities for winning and strengthening relationships with customers in the local retailer community.

In each local area the campaign was supported by press, radio and billboard advertisements, giving it widespread diffusion and a resounding media impact. In 2015 the following municipalities participated in the "Creemos" campaign: Avilés, Ferrol, Seville, Vilanova i la Geltrú, Santa Coloma de Gramenet, Salamanca, Móstoles, Alicante, Valencia, Murcia, Inca, A Coruña, Pontevedra, Vitoira, Getxo, Torrelavega, Amurrio, Burlada, Tudela, Cintruénigo, Sabiñánigo, Fraga, Eibar, Sestao, Portugalete, Galdakao, Barakaldo, Erandio, Amorebieta, Gernika, Durango, Calatayud, Monzón, Miranda de Ebro, Ordizia, Beasain, Tolosa, Zarautz, Bergara, Calahorra, Tafalla, Donostia, Munguia, Basauri, Bermeo, Santurtzi, Derio, Irún, Arrasate, Laudio, Leioa and Haro.

Franchising

The franchising sector was another area of increased activity during the year, with a focus on profile raising as well as business development. Banco Sabadell was an active participant in a number of industry events (trade fairs, training seminars, etc.) and was able, by means of a large number of partnership agreements, to assist in arranging more than €380 million in new lending —a 70% increase on the previous year— to over 1,500 franchisees. Moreover, in an initiative that was in all respects a "first" for the industry, it organized the "Franquicia Futura" franchising conference at its central services facility in Sant Cugat. The event was an unprecedented success and positioned Banco Sabadell as an unequivocal leader as banker to the franchising sector.

Institutional clients

The Bank's promotional efforts in the institutional customer segment were centred on attracting funds and on the promotion of alternative investment products to provide solutions in a low interest rate environment. In the area of funding, two key developments were the effects of the decline in the Bank's funding costs and diversification into alternative money-market assets, thus increasing the inflow of funds for the institutional segment as a whole. As for alternative investment products, promotional activities focused on three separate areas: first, increasing mutual funds assets with the help of new categories of fund designed to fit each customer profile; second, marketing products originated by Sabadell Corporate Finance, and third, marketing what will be our first venture capital fund for distribution to third parties, known as Aurica III. All this resulted in a broader offering of financial products for the Bank's institutional clients.

Agricultural sector

The Bank has set itself two clearly-defined targets for the agricultural segment: to be a key provider of financial services to the sector and to raise its share of the market to 5% by the end of 2016.

With these clear aims in mind, in 2015 the Bank set up a specialist sales force by creating 14 "Agriculture Delegate" posts to provide coverage and support to branches throughout the country.

A total of 130 designated "Agro" branches, located in areas of special importance for the agricultural or fishing industries, were given a new layout, specially trained staff and a promotional image to identify them more closely with the industry.

In addition, more than 700 account managers across the branch network are on hand to respond to any concerns of existing or potential customers. A number of highly specific financial products were created in response to special requests from customers, who thus saw their concerns and suggestions being addressed.

The Bank's presence at major industry exhibitions and conferences, agreements with key industry players, high levels of customer acquisition and increased business volumes, all support the conclusion that Banco Sabadell is getting the recognition it seeks.

Tourism

The year 2015 saw further development of the Bank's business with the tourist industry, where the primary aim was to make Banco Sabadell a key partner. The result has been a value proposition fit for customers in the industry, with a strong focus on lending. A team of four delegates was set up in the regional divisions responsible for the areas where tourism is most highly concentrated: Catalonia, East, Centre and South.

The Bank's business with the sector consisted mainly of financing for hotel purchases, international expansion of hotel chains, refurbishments, reflagging and energy efficiency, plus a range of specialist services and products and payment media, special payment cards and bancassurance products. The goals set for the tourist industry were thus clearly achieved, with lending growing by more than 13% and deposits by more than 20.5% year-on-year.

Also noteworthy was the Bank's presence at industry conferences, forums and specialist media, as well as the conclusion of agreements with major trade associations, both nationally and locally.

Government

In 2015 the "Government" business segment was heavily influenced by two important factors. First, 2015 was an election year, which meant a reduction in spending by government departments and agencies. The second was the introduction by central Government of measures to regulate spending by regional and local authorities, including the imposition of policies of financial prudence with regulations and recommendations that operations be refinanced on the basis of price limits. These regulations did, naturally, lead to a narrowing of financial margins, but did not prevent the Bank from continuing to grow its business in the manner prescribed by its "Triple" strategic plan. This can be seen in the way its market shares have changed. The Bank's share of lending to Government increased by 16 basis points to 5.96%; its share of deposits rose by 82 basis points to 4.39%; and its share of customers was up 107 basis points, to 20.09%. This growth in market shares was reflected in increased current transaction activity, which translated into higher account margins and thus reduced the restrictive effect of financial prudence requirements. The business expansion plan launched in 2014 and continued at a higher level this year ensured that Banco Sabadell maintained its leading position as a supplier to government agencies at all levels.

Individuals

One of the Bank's priorities for the individual customer segment in 2015 was to maintain a high rate of customer acquisition with a special focus on credit quality. This policy resulted in an inflow of 380,000 new individual customers, with Banco Sabadell becoming the main banker to more than 70.3% of them.

To achieve this goal it was vital to have a competitive offering of high-quality products and services, to continue our focus on visibility and brand identity, and to be one of the most innovative banks in the marketplace, in terms of products and new ways of building customer relationships.

The year 2015 saw the launch of active management, a new integrated customer management system for Personal Banking customers based on remote-access channels. Active management is designed to meet customers' needs. It includes a designated account manager and extended

Building strong relationships has been critical to making Banco Sabadell the main bank for more and more customers.

In 2015 we launched our "active management" initiative.

€ million

T3 Individuals

	2014	2015	% 15/14
Net interest income	**885.89**	**1,114.71**	**25.8**
Fees and commissions (net)	397.26	398.16	0.2
Other profit/(loss)	(73.46)	(75.89)	3.3
Gross income	**1,209.69**	**1,436.98**	**18.8**
Business volumes			
Loans and advances	36,346	35,999	(1.0)
Customer funds	53,070	53,421	0.7
Securities	4,099	4,315	5.3
Loan loss ratio (%)	**10.3**	**8.7**	—

hours of business to ensure that customers can be attended to immediately via a remote channel without having to visit their branch.

New product launches include Cuenta Ahorro 5, a long-term savings plan with tax benefits; Hipoteca Expansión, a fixed-rate mortgage with increasing monthly repayments, and the new Préstamo Expansión 24+24 personal loan. These initiatives taken together make for an enhanced customer experience.

Business development actions on the individual customer front were organized around a view of the customer that means fufilling his or her need for convenient payment, finance, security and savings solutions.

With regard to profile-raising, the Bank continued the brand strategy adopted in previous years, which has had a major impact on the individual customer segment thanks to the "Gestor Personal" campaign highlighting the role of the Banco Sabadell account manager, and the two-stage "Nuevos Tiempos" campaign to reposition the brand and then focus on personal loan products.

Personal Banking

In Personal Banking, the Bank launched its new approach to customer management in 2015, in which the personal account manager and personalized service are key aspects of the customer relationship. Personal Banking sets out to offer a fully comprehensive, proactive service provided by dedicated managers who support the customers as they build up, consume and transfer their wealth, to satisfy all their financial requirements. Communication with the personal customer segment has been strengthened with a welcome pack for new account holders, a fortnightly newsletter to keep customers up-to-date with news and information on economic developments and financial products and services, and a video on asset allocation.

During the year the inflow of funds into mutual funds continued to increase and caused the Bank's share of the mutual fund market to rise by 16.4%. Banco Sabadell introduced a new range of actively managed mutual funds to suit all investor profiles, with an asset allocation strategy to anticipate market developments. The funds are highly diversified across a wide range of geographies and sectors and maintain a constant risk profile.

Another development in products for the personal customer segment was the launch of "Cuenta Expansión Plus", an instant-access account with special features for customers with high transaction volumes requiring a product that makes them feel special and gives them preferential treatment. The Cuenta Expansión Plus account gives the Bank a highly competitive product with which to attract and retain new high-value customers.

All these initiatives began to bear fruit and increased the average margin per customer by 7.8%. As a result, Banco Sabadell ranked in second place among comparables according to the NPS (Net Promoter Score) metric of customer experience.

Middle-income

Middle-income customers account for 82.2% of total individual customers, 59.4% of net revenue and 46.4% of business, including 66.5% of lending. The relative share of this segment has gradually increased, not only as a result of promotional efforts by our branches on the stock of existing customers but also thanks to our success in attracting new customers, the number of which totalled 323,107 in 2015, or 84.8% of total new individual customers.

The value offering made available by the Bank to its customers is intended to meet every need and to adjust to market conditions and different stages of customers' life cycles. A typical example is Cuenta Ahorro 5, a long-term savings account which helps customers to save by offering tax advantages and facilities for regular payments, a key strategy for the middle-income saver. Banco Sabadell has been very active in promoting this account, over 400,000 of which had been opened by the end of 2015 with aggregate account balances in excess of €1,000 million.

To meet the need for long-term saving for retirement, a pension plan, "Plan de Futuro", was introduced. This type of pension plan is linked to the customer's life cycle in such a way that the distribution of fixed-income and equity investments is varied according to the time remaining until retirement.

A critical aspect in managing a huge customer segment such as middle-income is the provision of additional signing-up facilities. The key factor here was effective action by the Bank to increase these facilities, which were implemented at branches and on all channels for interaction with customers.

Expatriates

Business metrics for the expatriate customer segment in Spain continued to show an excellent performance in 2015, with increases of 56.2% in customer acquisition and 15.6% in new mortgage approvals.

A marketing plan was prepared with the aim of tactically consolidating our position by strengthening the basic business development tools through micro-level local sales actions and use of the introducer channel. These actions were accompanied by a media campaign to raise our profile among the resident expatriate community.

Some initial steps were taken to get closer to this niche market and to gauge opinion among expatriates on the possibility of implementing a value proposition and growth plan. This included sponsoring the International Talent Monitor and organizing Networking Breakfasts in partnership with Barcelona Activa and Barcelona Global. There was further expansion of the range of products and services targeted on this segment.

To attract deposits and savings from expatriates, the range of mutual funds was extended with the addition of funds denominated in sterling and US dollars. On the lending side, in 2015 a key product in winning customers among resident expatriates was the fixed rate mortgage.

The housing loan market continued to see an upturn in property sales and in mortgages, with new production increasing by 39.4% in value terms and 24.7% in number of loans. As a result the Bank's share of new home loans was 8.8% in value terms and 7.5% in number of loans for the year to September 2015, up from 7.4% and 7.0% for the same period the previous year. From early in the year the Bank was actively promoting fixed-rate mortgages, whose share of new mortgage production increased from 9.8% in the first quarter to 25.3% in the last quarter of the year. As already mentioned, the Bank continued to innovate with the launch of its "Hipoteca Expansión" mortgage, which combines the advantages of a fixed-rate mortgage (knowing what one will be paying) with those of a variable-rate mortgage (a more attractive starting rate).

Another significant factor was an increase in mortgages arranged through agents, which accounted for 16.8% of mortgage lending in 2015 compared with 12.8% the year before.

Consumer loan production was up 46.7% by volume on the previous year as a result of the focus on branches and a controlled strategy of reducing loan prices. Another development was the launch of Préstamo Expansión 24 + 24, an innovative loan product featuring swift response, arrangement and payment times and a focus on remote channels for loan management purposes. Línea Expansión, a product to obtain immediate credit to finance minor household expenses, saw continued growth, as did credit to fund the cost of business school and university study courses.

In payment media, once again we saw our business expand at the excellent pace observed in recent years. The number of debit and credit cards in use increased to 4.8 million, a rise of 8.9%. Credit card turnover was up by 15.9%. The vertiginous take-off of contactless payment cards since their launch barely two years ago and the piloting of payments by mobile phone started in 2015 and due for expansion in 2016, were further significant changes.

The EFTPOS business also showed substantial increases on the same period the previous year, with a 15.0% rise in the number of user terminals and a very substantial 27.0% increase in turnover. The payment platform was upgraded to provide new services such as payment by smartphone, SMS or email purchases, payments to government authorities or agencies and pay-later solutions. In the course of the year a number of partnership agreements were concluded with international payment providers to extend payment services to retailers in 20 European countries. The Bank maintained its position as a market leader in handling payments for online sales.

Trading brands

During the year the Bank merged the SabadellAtlántico and Sabadell CAM brands for a stronger brand identity. Banco Sabadell remains the flagship brand operating in most of the country's regions except for Asturias and León, which are served by the Group's SabadellHerrero brand; the Basque Country, Navarre and La Rioja, where the Group is represented by its SabadellGuipuzcoano network; and Galicia, where it operates under the SabadellGallego brand. The Group's SabadellSolbank brand caters primarily for resident expatriates from other European countries. It does this through a chain of specialist branches operating exclusively in the Canary Islands, the Balearic Islands and the country's southern and south-eastern mainland coastal areas. Finally, ActivoBank is there to serve customers who prefer to do their banking exclusively by telephone or online.

The Bank's different trading brands continued to show improved performance across all business and new customer (including businesses and individuals) metrics, as well as in market share, attaining leading positions in a number of market segments. All brands play an especially prominent role in their communities thanks to their social and cultural sponsorship programmes. Some landmark achievements by other Group brands in the course of 2015 are described below:

SabadellHerrero

Delivering a high-quality service has been Bank's guiding principle since its earliest origins and is seen by it as a key differentiating factor and driver of its growth in terms of customer and business volumes. In the light of this priority aim, it is important to highlight an accolade awarded to SabadellHerrero as the brand offering the best customer experience at its bank branches and the highest quality of service of any bank in Spain. The award was bestowed by Stiga, an industry leader in quality assessment based on objective surveys of the quality of service provided by bank branches. The survey rates the service given to potential customers by bank branches using the mystery shopper technique. The Stiga survey, which began in the year 2000, covers 50 bank brands and 4,000 branches, compares 260 variables and possesses a historical database of 80,000 branch visits.

This leadership in quality, now confirmed at the national level, lies at the heart of the strength of the SabadellHerrero brand in the Asturias and León region that it sets out to serve. Its advances have been most significant in three areas: increasing its lending, broadening its customer base and offering specialized saving options in the form of mutual funds and pension plans.

With demand for credit largely restored, SabadellHerrero saw this reflected in its loan arrangement figures which showed across-the-board year-on-year increases in all parts of its regional market: 3.11% in Asturias, 7.59% in León. SabadellHerrero's outstanding role as a provider

SabadellHerrero - best domestic brand in quality of service.

of credit within its home market is exemplified by its major share of the business of channelling funds to businesses under ICO schemes, with 37.92% in Asturias and in the province of León where, for the first time, it ranked in first position by taking a 33.35% share. Amounts made available in new credit outweighed reductions due to repayments, resulting in a net growth in lending of 3.05% in contrast to the contraction in the market generally as revealed by the latest figures, a clear sign of the Bank's success in new business generation.

As a direct consequence of constantly striving to meet customers' needs and maintaining high quality standards, the Bank saw its customer base grow steadily throughout the year, with individual customers increasing by 19,926 and business customers by 3,106. Once again, the Bank's sustained efforts to forge business partnerships with business, trade and professional associations were key to securing this growth in customer numbers.

SabadellHerrero's support for business was recognized by the Castilla and León Confederation of Business Organizations (Spanish initials: CECALE) which, on the recommendation of the León Association of Entrepreneurs, picked SabadellHerrero for its “CECALE de Oro”, the first time this prize had been awarded to a financial institution.

The new low interest environment requires that financial institutions show a greater ability to provide advisory services and a full and diverse range of products, and thus ensure that customers receive a return on their savings with a level of risk appropriate to their personal circumstances and risk profiles. SabadellHerrero acted to meet this requirement and was able to report growth in its mutual funds and pension plans of 17% and 6.34% respectively.

In the area of sponsorship and support, 2015 was the fifth year of another award with strong business associations: the Álvarez-Margaride prize which is given, on the recommendation of SabadellHerrero and the APQ (Asturias Patria Querida) Association, for outstanding achievement in business. The prize was awarded to Daniel Alonso Rodríguez, founder of the Daniel Alonso Group, which operates in the environmental, assembly, truck and machinery manufacturing, special transport, industrial maintenance and engineering sectors.

Talent of this kind is, in fact, what the Bank promotes and supports through the Banco Sabadell Foundation. Sponsorship is organized through agreements with the Universities of Oviedo and León and allows university grant programmes to be continued so that students can complete their training by applying it in the day-to-day working practice of a bank. The Foundation also sponsors grants to undertake work experience at the Inter-American Development Bank. These grants enable top-performing students from the University of Oviedo to obtain training of the highest order at the Bank's headquarters in Washington DC.

In the 14th year of the SabadellHerrero Prize for Research in Economics the Banco Sabadell Foundation awarded its prize for Best Young Economist to Víctor Martínez de Albéniz, an associate professor at IESE business school, where he had been working since 2004 as a researcher in business management.

SabadellGallego

In 2015 SabadellGallego completed the upgrade to its IT platform and its business and sales systems and prepared the ground for a period of solid expansion in Galicia. A significant number of the Bank's 129 Galician branches underwent a complete refurbishment and all its ATMs were replaced by new latest-generation machines. This investment had a profound impact on the Bank's rural branches which were given a major upgrade in terms of equipment, people and levels of service.

All these changes brought a radical transformation to SabadellGallego, the effects of which were seen in rapid improvements in service and customer perceptions. Quality of service indicators not only exceeded the average for banks serving the Galician market but came very close to the Banco Sabadell Group's own standards of excellence.

The volume of credit extended by the Bank in Galicia showed a significant increase, with the number of agreements up by 2.5% and lending rising by 1.81% overall, compared with the previous year. SabadellGallego maintained its position as one of Galicia's biggest providers of ICO-sponsored lending with an 18.44% share, a performance similar to that of the previous year. An area of special attention for the Bank was its customers' operations in foreign markets, culminating in an international conference in A Coruña at the end of the year, which brought together a large number of exporting businesses in the region.

On the funding side, the Bank worked to diversify its product portfolio with the aim of preserving returns for its customers despite interest rates on deposits at all-time lows. Mutual funds and pension plans were the products in which growth was strongest (18% and 11.64% respectively), while the Cuenta Expansión account continued to enjoy commercial success.

A total of 19,844 individuals and 5,327 businesses were added to the Bank's customer base in Galicia, exceeding the growth numbers recorded in previous years and clearly showing the Bank's ability to generate new business and the success of the many partnership agreements concluded with business, trade and professional associations. A key area of activity for branches in rural parts of the region was the agriculture, livestock and fisheries sector. Business growth in this customer segment was twice that of other branches and clearly showed the potential and the strong presence of SabadellGallego branches in the region's rural areas.

In the social and cultural domain, SabadellGallego sponsored the Business Leadership prize awarded by the Coruña Confederation of Entrepreneurs. This year the accolade went to Roberto Tojeiro, Chairman of the Gadisa Group, a diversified business conglomerate operating in the food, energy, wood and other sectors. The Banco Sabadell Foundation continued its support for Galicia's universities, including an agreement with the Universidade Galega Business Foundation (FEUGA) to take graduates on work experience placements. In the strictly cultural arena, the Foundation sponsored "The First Picasso. A Coruña 2015", an exhibition organized by A Coruña City Hall and the Galician Government's Department of Culture; and the "Camiño.Aorixe" exhibition, again in partnership with the Culture Department in Santiago de Compostela. The Banco Sabadell Foundation also organized an exhibition entitled "Leaps off the Page - the Art Book in the 21st Century" in partnership with the Galicia Auditorium.

SabadellGallego completed its transformation and prepared itself for growth in Galicia.

SabadellGuipuzcoano

A significant achievement of the brand in 2015 was the launch of Plan Norte, one of the key region-level initiatives to be rolled out as part of the Group's "Triple" 3-year business plan. The plan is a special promotion/marketing programme with a focus on growing the customer base and improving margins beyond the targets set for the wider Group, with the aim of increasing market shares.

The two-year plan, due for completion in 2016, involves designing and putting in place a number of mechanisms that are already proving to be highly effective. An improved business performance was rapidly seen in all the main action areas. These are:

— Opening two new branches in two areas of high growth potential: Zaragoza and Logroño.
— Coordinated marketing actions in 40 local promotion sites as part of the "We believe..." campaign, to raise the profile of the Bank and increase branch visits by customers.
— Changes in the organization and in working methods, including the creation of a special post of commercial director for Cantabria and the design and implementation of a system for monitoring and supporting a particular set of branches in geographically dispersed locations but all facing similar challenges in terms of marketing and account manager specialization.

The impact of these measures on the branches concerned was a 14.7% increase in the number of individual customers in the course of the year. The growth in business customers was 6.5% and account margins showed an 11.4% improvement.

With regard to the network of branches focusing on business customers, the year saw increased competition in the form of reductions in loan prices; despite this, an increase in lending of 6.6% was achieved within the area served by the brand. At the same time, the loan loss ratio was controlled.

Despite these factors and adverse market conditions, SabadellGuipuzcoano succeeded in maintaining, and in some cases improving, its presence within its home territory where, despite representing just 5.5% of all bank branches, it held a 5.7% share of the individual customer market and - particularly significant - a 34.8% share of small and midsize businesses and, more significant still, 73.9% of the large corporate segment.

At the same time, SabadellGuipuzcoano continued to grow throughout 2015 and to claim its position as one of the area's leading local and regional banks, an advertisement for the strength and leadership of the Group and its long-term connection with, and commitment to, the region.

We worked hard to strengthen our position as a regional bank and concluded a record number of partnership agreements.

One expression of this bond with the region is our ever more active policy of strengthening our position as a regional bank and of concluding business development partnerships such as the foreign trade arrangements that the bank has traditionally maintained with the Navarre and Zaragoza Chambers of Commerce and with the Business Associations in Guipúzcoa (ADEGI) and Vizcaya (CEBEK). Other actions related to international trade were two successful conferences held in Bilbao as part of the "Export to Grow" programme, focusing on Morocco and Peru.

Two important developments in the area of business partnerships were the conclusion of separate agreements with the Government of the Basque Country entitled "Support for the Basque Agricultural and Food Industry" and "Supporting a language policy to encourage the use of Basque in business and retailing".

Finally, the bank continued to be especially active in supporting and sponsoring events of all kinds and once again played a leading role within the region in its support for social, cultural and sporting activities. In the scientific and university circles, for example, it renewed its research grant to Bio Donostia for another year through the Banco Sabadell Foundation and worked with the University of San Jorge in Zaragoza as a business and institutional partner.

A major example of the bank's participation in the cultural domain was acting as principal sponsor of the highly popular International Gastronomy Fair in Donostia-San Sebastián and its contribution to a very full programme of events related to the choice of that city as European Cultural Capital in 2016.

The brand also played a prominent role in the sporting arena, where SabadellGuipuzcoano was once again a sponsor to the Round Basque Country Cycle Race and where, together with SabadellGallego, it supported another cycling event, the Roncesvalles/Santiago de Compostela 24 hour challenge in which seasoned professional Mikel Azparren was a participant and attracted huge media interest.

ActivoBank

ActivoBank ended the year with 55,359 customers and continued to focus on its wealth management business with volumes totalling €1,229.7 million. Account balances were up 11.6% and off-balance sheet funds by 1.7%. Mutual funds grew by 1.5%, with assets reaching a total of €115.0 million.

BStartup

The BStartup programme aims to position Banco Sabadell as the most supportive bank for start-up businesses and particularly for firms working in the digital/technology sphere, where the potential for scalability is greatest. One key feature of the programme is the 88 branches specializing in start-up businesses, including a risk assessment procedure specially designed to service customers of this kind. Another is the BStartup 10 initiative which invests €1 million each year in 10 firms at the seed capital stage of development. It has so far helped 19 firms in this way. The ten businesses are offered a highly intensive programme of training with the seed accelerator Inspirit to help them become established in the marketplace and gain access to further injections of capital. In the two BStartup 10 sessions completed in 2015 a total of 887 projects were submitted. A third feature of the programme is closer collaboration with the Bank's Open Innovation process.

The Bank has obtained a high degree of exposure in the two years for which BStartup has been in operation. 2015 saw significant increases in media appearances (1,085 appearances) and social media impacts, as well as active participation in entrepreneurship events all over Spain. In 2015 BStartup organized or actively participated in 121 events. By the end of the year 24 collaboration agreements had been signed with companies that support entrepreneurs throughout the country and are in a position to recommend the Bank's products and services. The business actually generated from this source amounted €161 million in new lending and deposit or other funding, up 132% on the previous year.

Occupational groups and agent partners

Agreements with professional and occupational associations and agent partners have the primary purposes of winning new business with individuals, small retailers, SMEs and professional practices. At the end of the year 2,487 collaboration agreements with professional associations and occupational groupings were in existence covering a total of 2,843,000 individual members, of whom 659,582 became customers of the Bank and generated more than €20,000 million in new business.

Banco Sabadell leads the way in serving professional/occupational associations throughout the country. The special nature of its service is based on its close relationship with the associations, enabling it to be aware at all times of the specific needs of their members and to provide the products and services best suited to their needs.

The Bank's agent partner network is seen as an efficient channel for capturing new business; in 2015, more than 35,000 new customers were acquired in this way. New business from this source amounted to €7,200 million.

Bancassurance

Bancassurance - a growing, fast-changing business.

At 31 December 2015, the total volume of funds under management in insurance and pension plans was €11,962.3 million. Issued premiums on life and non-life policies totalled €461.8 million, up 1% and 18% on the previous year's figures. The insurance and pensions businesses wholly or partly owned by Banco Sabadell reported net profits totalling €146.1 million overall.

In 2015 the Bank continued its reorganization of bancassurance arrangements inherited from recently merged banking organizations. On 1 January 2015, the merger took place of the insurance entities Banco Gallego Vida y Pensiones SA de Seguros y Reaseguros and Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros. At the end of November Mediterráneo Seguros Diversos S.A. de Seguros y Reaseguros was merged into BanSabadell Seguros Generales. These operations completed the reorganization, which had been prompted in large measure by the acquisition of Banco Gallego and Caja de Ahorros del Mediterráneo.

On 5 March 2015 the Group's life insurance subsidiary Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros agreed an extension to a reinsurance treaty signed in March 2014 with reinsurers SCOR Global Life Reinsurance Ireland Plc, in respect of part of its individual life and permanent disability portfolio at 31 December 2014. Total reinsurance premiums credited to the income statement of Mediterráneo Vida, and therefore the Group, were €8.9 million.

At 31 December 2015 the reorganized Banco Sabadell insurance and pensions business was as follows:

— Sabadell Vida, Sabadell Pensiones and Sabadell Seguros Generales, operating as a joint venture with the Zurich insurance group since 2008.
— Mediterráneo Vida, a business in run-off, wholly owned by the Banco Sabadell Group.
— Sabadell Mediación, a bancassurance tied broker.
— Exel Broker de Seguros, and insurance brokerage operation.

In 2015 Banco Sabadell continued to lay down a strategic vision for the transformation of its insurance and pensions business to enable it to meet new challenges in the marketplace, in which a focus on the customer rather than a product-centred view, a new customer relationship-focused business style, and process digitization would be key elements.

Sabadell Vida

Total premium income in life insurance for the year 2015 was €2,850.5 million, with Sabadell Vida ranking in second place among Spanish life according to recent data published by ICEA, a research organization for the insurance and pension industries.

In death benefit insurance (including personal accident), premium income totalled €206.9 million, up 44% on the year-end figure for 2014, an increase that was due mainly to sales of lending-related products. In life-with-savings products, savings under management reached a year-end total of €5,444 million. This performance ranked Sabadell Vida in sixth place among its Spanish life industry peers according to recent data from ICEA. A net profit was posted of €81.4 million.

Sabadell Pensiones

Funds under management by Sabadell Pensiones reached an end-2015 total of €3,746.8 million. Of this total, €2,286.8 million related to individual and group pension plans —up by 10.4% on the previous year— and €1,460.0 million originated from company schemes, up 4% on the 2014 figure. On these measures, Sabadell Pensiones ranked eighth in the industry as a whole according to recent data from Inverco. Sabadell Pensiones reported a net profit for the year of €0.8 million.

Sabadell Seguros Generales

Premium income for the Group's general insurance provider in 2015 was €194.3 million. During the year the company absorbed Mediterráneo Seguros Diversos as part of the reorganization of the Group's insurance subsidiaries. Net premium income for the year totalled €23.9 million. Sabadell Seguros Generales made a net profit for the year of €8.4 million.

Sabadell Previsión, EPSV

Sabadell Previsión, a voluntary social insurance society, distributes pension/retirement plans within the Basque Country. In 2015 the society held €345.4 million in savings under management, a volume increase of 1.2%.

Mediterráneo Vida

The company's insurance operations in 2015 generated premiums and contributions of €188.1 million, of which €28.8 million were death benefit (including personal accident) policies. In the life-with-savings business the company ended the year with provisions totalling €1,884.7 million. Mediterráneo Vida contributed a net profit of €37.5 million to Group earnings. This includes exceptional income of €8.9 million received on the signature of an extension to the reinsurance treaty with SCOR. In 2014 the company ceased to write any new business other than group savings products and company pension schemes.

The company's pension fund management business had a total of €57.0 million under its management at the end of the year. This business consisted entirely of company pension schemes, since all its individual and group plans - the assets of which amounted to €280 million - were transferred to BanSabadell Pensiones as part of the agreements made with Zurich the year before.

Sabadell Mediación

Sabadell Mediación is the Bank's insurance brokerage subsidiary. It operates as a tied agent for bancassurance products and is the company through which sales of insurance by branches are handled.

Sales commission income contributed €66.6 million to Group earnings, with brokered premium income totalling €3,310.6 million. The net contribution to Group earnings from Sabadell Mediación in 2015 was €51.7 million.

Exel Broker de Seguros

Exel Broker de Seguros, an insurance brokerage business, has been a wholly-owned subsidiary of Banco Sabadell since the the acquisition of Banco Guipuzcoano. It provides brokerage and risk management services to large companies in all business sectors and boasts a highly qualified team of insurance experts.

Sales commissions, generated from a brokered premium income of €23.6 million, were up by 19.6% and contributed €3.5 million to the Group. The net profit contributed to the Group in 2015 was 1.4 million, up 25.93% on the previous year's figure.

Sabadell Consumer Finance

Sabadell Consumer Finance is a Group subsidiary specializing in point-of-sale retail finance. It operates through a variety of channels and enters into partnership agreements with retail establishments such as auto dealers, shops, dental clinics, hearing aid centres, beauty parlours, home equipment suppliers, etc.

The continuing upturn in private consumption and consumer lending helped Sabadell Fincom to see an increase in the number of loans compared with the previous year, as well as an increase in market share. Business performance in 2015 showed further improvement compared with previous years, with significant increases in interest spreads and operating income.

Efficient debt recovery processes led to a further reduction in loan delinquencies, which were down to 2.6%.

During the year a total of 380,690 new finance packages were arranged at 6,000 points of sale all over the country. The amount of new lending arranged in 2015 totalled €478.1 million. To support further business growth Sabadell Fincom continued to promote the use of the digital systems and tools that had been put in place. These included more widespread use of digital signatures on loan agreements using mobile phones or tablets, bringing the proportion of digitally signed loans up to 57%. These improvements helped the company to keep its cost:income ratio to 34%.

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.

T4 Markets and Private Banking

€ 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	—

SabadellUrquijo 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.

Investment, Products and Research

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.

Customer Strategy and Investment Products

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 continue 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.

Investment Management

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.

T5 Spanish-domiciled mutual funds

	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

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.

T6 Securities trading (market volumes)

€ 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

Strong asset growth fuelled by the mortgage brokerage platform and the acquisition of the UKAR portfolio.

Overview

The TSB franchise (TSB Banking Group PLC), which was acquired by the group in June 2015, engages in retail banking in the United Kingdom, including current and savings accounts, personal loans, cards and mortgages.

TSB has a nationwide multichannel distribution model including 614 branches in England, Wales and Scotland. At the end of the year, it had 4.8 million customers and 8,224 employees.

Its business is divided into two distinct segments: franchise comprises the multichannel commercial banking business, and Mortgage Enhancement comprises the mortgage loan book that was spun off to TSB in the context of the Lloyds restructuring and is designed to enhance profitability by over £230 million.

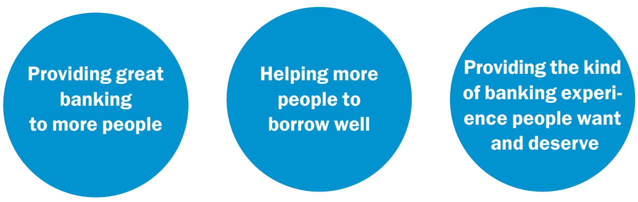
In December 2015, TSB acquired a portfolio of ex-Northern Rock mortgages (UKAR portfolio) from Cerberus.

Key developments in 2015

Line of business

The year 2015 was a significant one for TSB: it achieved organic growth in customer numbers and the balance sheet in excess of its objectives, acquired over £3,000 million in mortgages and joined the Banco Sabadell group.

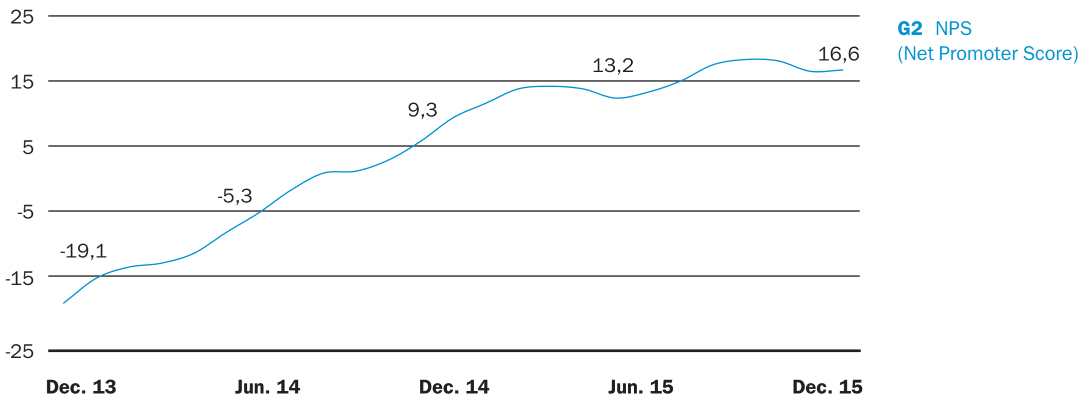
G1 TSB strategy



Based on TSB's three main strategy lines (G1), which were launched in 2013, it achieved the following results in 2015:

- 6.8% of all customers who opened a new current account or switched banks in the UK in 2015 chose TSB, resulting in eight consecutive quarters in which it beat its 6% target (source: CACI Current and Savings Account Market Database—CSDB—which includes current, packaged, youth, student and basic bank accounts, and new account openings excluding account upgrades; data presented on a 2 month lag).
- Take-up of the new '555' Classic Plus current account maintained its momentum.
- The mortgage brokerage platform boosted asset growth.
- £4.8 billion of mortgage granted.
- Growth in Franchise lending of £2.3 billion was ahead of the £1.5 billion planned for 2015, following the successful launch of the mortgage broker service in January 2015.
- Additional growth in lending following acquisition of the UKAR portfolio.
- More people than ever before are willing to recommend TSB: the NPS (Net Promoter Score) increased to 17 in 2015, from 9 at the beginning of the year (G2).
- Best high street bank for customer service (TSB ranked joint best high street bank for customer service, according to Which? magazine).

Excellent market perception of TSB's business model.



Note: NPS is based on the question "On a scale of 0-10, where 0 is not at all likely and 10 is extremely likely, how likely is it that you would recommend TSB to a friend or colleague?" NPS is the percentage of TSB customers who score 9-10 after subtracting the percentage who score 0-6.

In 2015, TSB expanded lending due to good sales dynamics; its funding sources hinge basically on growing and successfully diversifying customer deposits.

Most of the growth in customer deposits was in current accounts, due to successful take-up of the 'Classic Plus' account.

Also, on 12 November, TSB completed its first residential mortgage backed securitisation. This transaction raised £537 million, and TSB has retained £1,362 million of AAA/Aaa rated notes on the balance sheet.

TSB maintains a very sound capital position, with a core equity Tier 1 ratio of 17.9%. The decline in the year primarily reflects the acquisition of the ex-Northern Rock loans, growth in lending, and the migration of the overdraft and credit card portfolios to an internal ratings based method.

Results

TSB reported £67.6 million in profit before taxes, a decrease of 20.9%, largely reflecting volume growth, the run-off of the Mortgage Enhancement portfolio, lower fee income on bank accounts, and lower interchange rates, as expected.

As for net interest margins, the average rate earned on loans declined from 3.89% to 3.76%, while the average rate on mortgages fell from 2.74% to 2.70%. The cost of customer deposits decreased by 14 basis points, reflecting basically the run-off of historic fixed-rate business at higher pay rates and the change in mix in savings and current account balances.

Other income decreased, as expected, reflecting the effect of market reforms on interchange fee income and lower income from added value current accounts, which remain available only through the digital channel.

Operating expenses increased in 2015 as a result of higher investment, driven by development costs to enable personal loans to be offered to non-Franchise customers, and costs and an increase in the headcount. Expenses also rose due to the costs related to the Sabadell acquisition of TSB and other business restructuring costs, including branch co-locations.

Provisioning was lower than in 2014; specifically, reserves for unsecured personal loans declined, partly as a result of good economic performance, better asset quality and the fact that several extraordinary charges were booked under this heading in 2014.

TSB results during the 6 months in which it formed part of the group are shown in table T7.

T7 United Kingdom

€ million

	2014	2015	% 15/14
Net interest income		**539.62**	**—**
Fees and commissions (net)		78.83	—
Other income		(3.72)	—
Gross income		**614.73**	**—**
Operating expenses		(493.57)	—
Operating profit/(loss)		**121.16**	**—**
Provisioning expense (net)		—	—
Impairment losses		(59.50)	—
Other profit/(loss)		—	—
Profit/(loss) before tax		**61.66**	**—**
Ratios (%)			
ROE (profit/average shareholders' equity)		5.3	
Cost:income (general administrative expenses/ gross income)		77.9	
Loan loss ratio		0.6	
Loan loss coverage ratio		44.8	
Business volumes			
Loans and advances		36,062	
Customer funds		40,699	
Other information			
Employees		8,224	
Branches		614	

The group acquired control of TSB Banking Group PLC on 30 June 2015, with the result that only six months' results are included.
Sterling exchange rates of 0.7340 applied to the balance sheet and 0.7201 to the income statement (average of last six months). Accounting own funds used for the purposes of ROE.

Corporate Banking and Structured Finance business enters Colombia and Peru.

Global Corporate Banking offers financial solutions and advisory services to large companies and financial institutions, both Spanish and foreign, with branches throughout Spain and in 17 other countries. It encompasses Corporate Banking, Structured Finance, Trade Finance & IFI.

2015 was a key year for Global Corporate Banking; it commenced corporate banking and structured finance activities in Colombia and Peru, and it was also the first full year of engaging in these activities in Mexico, where it achieved €969 million in lending transactions after just 18 months of operation. In Europe and Spain, teams were strengthened in a bid to bring specialist teams closer to the territories where we serve this customer segment.

In 2016, the focus will continue to be on transforming and internationalising the business, while also executing the actions envisaged under the "Triple" plan, keeping the customer at the centre of our focus. We will also continue to enhance one of our main assets, which is a source of customer value: the ability of all the highly trained people in Global Corporate Banking in the various geographies to work together to build this great project, which will deliver value for the community and returns for our shareholders.

Corporate Banking

Overview

Corporate Banking is the unit that handles large corporations; it offers a model of global solutions to their needs through a team of professionals located in Madrid, Barcelona, London, Paris, Miami, Mexico City, Bogota, Lima and Casablanca.

The business model is based on a close strategic relationship with customers, providing them with global solutions adapted to their needs, taking into account the specific features of their industry and the markets in which they operate. We contribute value in many ways: collaboration between our sales teams in the various geographies, a service tailored to our customers through teams specialised in specific industries, and continuous improvement of middle office service in pursuit of excellence.

Key developments in 2015

The year saw a surge in investment by large corporations, by €2,419 million overall, though performance varied by region: €711 million in Europe, Middle East & Africa, compared with €1,708 million in America and Asia. Spanish corporations contributed €600 million of that growth: €172 million in Spain and €428 million through our overseas branches.

Proximity to our customers and excellence in middle office services enabled us to achieve a 23.4% increase in working capital finance business for large corporations.

Specialised value-added products also expanded in 2015: foreign trade transactions (+23.7%), cash distribution (+162.8%), and structured finance fees (+32.4%), as a result of a more proactive approach to offering sophisticated solutions coupled with coordination between specialised teams.

In 2016, Corporate Banking will continue to strengthen the factors that are a source of value creation for large corporations, by investing in management tools to improve inter-team coordination, while working to enhance product quality and expedite processes for our customers in all the markets where we operate. We will also consider moving the CorporateBanking business into new markets, in line with our customers' needs.

T8 Corporate Banking

€ million

	2014	2015	% 15/14
Net interest income	**162.50**	**164.05**	**1.0**
Net fees	24.94	25.49	2.2
Other income	11.44	7.45	(34.9)
Gross income	**198.88**	**196.99**	**(1.0)**
Operating expenses	(26.60)	(29.66)	11.5
Operating profit/(loss)	**172.28**	**167.33**	**(2.9)**
Losses due to asset impairment	(102.24)	(96.72)	(5.4)
Other profit/(loss)	—	—	—
Profit/(loss) before taxes	**70.04**	**70.61**	**0.8**
Ratios (%)			
ROE (profit / average shareholders' equity)	7.1	8.4	
Cost:income (general administrative expenses / gross income)	13.4	14.8	
Loan loss ratio	2.5	3.2	
Loan-loss coverage ratio	64.7	65.0	
Business volumes			
Loans and receivables	10,798	11,702	8.4
Customer accounts	5,177	6,191	19.6
Securities	662	666	0.6
Other data			
Employees	113	124	9.7
Spanish branches	2	2	—
Branches abroad	3	3	—

Structured Finance

Overview

This business consists of origination and structuring of corporate and acquisition finance and project finance deals. In addition to traditional forms of bank lending, it has specialized in corporate bond issuance, enabling it to cover the full range of options in long-term business finance. Banco Sabadell's structured finance team operates globally from offices in Madrid, Barcelona, Alicante, Bilbao, Alicante, Oviedo, Paris, London, Lima, Bogota, Miami, New York and Mexico City, and has more than 20 years' experience.

Key developments in 2015

Once again, the Bank retained its lead in structured finance in Spain. It was one of the leading banks in originating and structuring deals for its customers, both project finance in such sectors as infrastructure, energy, transport and hotels, and corporate and acquisition finance, originating and participating in meeting its customers' funding and investment needs. It was also actively involved in syndicating deals and in trading syndicated deals in the secondary market.

During 2015, Banco Sabadell continued its policy of supporting customers and adapting to meet their new needs as the economic environment in Spain and worldwide improved, having regard to changing conditions in the credit markets. A key indicator of the strength of business activity in the year was the volume of origination, which exceeded €5,000 million, spread over more than 200 deals.

A notable success on the international front, in accordance with the "Triple" business plan, was the Bank's launch of a new Mexican subsidiary, through which it participated in numerous syndicated loan deals with Mexican companies. Also, by opening representative offices in Lima and Bogota, the bank entered the structured finance business in Latin America. Fee income in these and other international markets where the unit operates accounted for 36% of total structured finance revenues in 2015.

Another area of business, aside from more traditional, loan-and-credit forms of finance, was given a boost by a joint initiative with the Bank's Treasury department to raise finance for customers on the bond market, enabling the Bank to position itself as a leading player on Spain's Alternative Fixed-Income Market (Spanish initials: MARF). This business has increased the Bank's ability to offer customers a wide range of options in long-term finance packages. In 2015, it played an active role in a number of bond issues in the Spanish and French markets.

In 2016, this unit will continue the main lines of action of 2015, which placed the bank as a leading player in the structured finance market and expanded its international footprint.

TradeFinance & International Financial Institutions

Overview

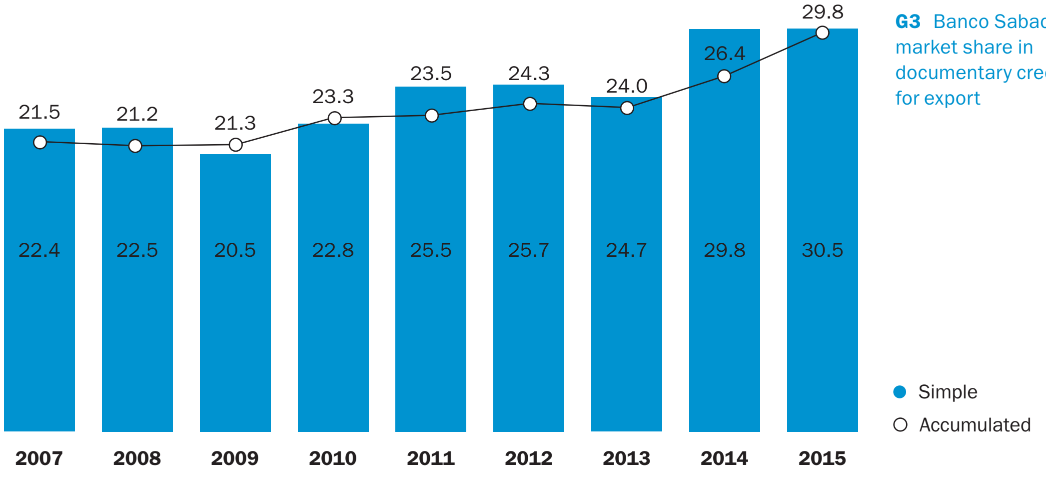
The business model in TradeFinance & IFI focuses on two main activities: providing optimal support to our corporate customers as they expand abroad, in coordination with the group's network of branches, subsidiaries and investees, and managing the "banks" customer segment (over 3,000 financial institutions worldwide) with which Banco Sabadell has cooperation agreements to provide its customers with maximal worldwide coverage.

Key developments in 2015

In 2015, the main mission of Trade Finance & IFI was to allocate resources and develop the Group's international business in order to achieve the targeted growth and returns and determine the strategy in the banking customer segment. All the business targets in relation to markets, customers and products were met in the second year of the "Triple" business plan.

Over 500 negotiations with bank customers in international markets in connection with bilateral business flows were concluded, ensuring a balance between defending the interests of the group and its customers and safeguarding commercial interests with banking customers while complying with international regulations and customs. The Bank focused on expanding business with other banks in the international arena, in line with its risk model, while ensuring growth, consolidation, quality and profitability in this business. The Bank also gained healthy market shares in documentary credit received from correspondent banks: 30.5% of export documentary credit — 2.4% more than in 2014 — based on SWIFT traffic data (G3).

The Trade Finance & IFI segment ended the year with a network of over 3,000 correspondent banks worldwide, the Bank's own network of branches, representative offices and subsidiaries, and a team of professionals specialised in international markets with extensive geography knowledge and contacts with which to facilitate foreign trade deal flows and clinch foreign investment transactions. Additionally, the domestic organisation focuses on proximity (both operational and commercial), which, coupled with a comprehensive range of products and services and a high level of operational quality, represent the best assurance for the group's corporate customers operating worldwide.



G3 Banco Sabadell's market share in documentary credit for export

Banco Sabadell obtained a bank licence in Mexico.

€ millions

T9 Sabadell America

	2014	2015	% 15/14
Net interest income	**148.08**	**216.10**	**45.9**
Fees and commissions (net)	25.72	26.46	2.9
Other income	3.18	2.21	(30.5)
Gross income	**176.98**	**244.77**	**38.3**
Operating expenses	(111.37)	(142.34)	27.8
Operating profit/(loss)	**65.61**	**102.43**	**56.1**
Provisioning expense (net)	3.49	2.94	(15.7)
Impairment losses	(23.00)	(29.15)	26.7
Other profit/(loss)	2.53	4.77	88.5
Profit/(loss) before tax	**48.63**	**80.99**	**66.5**
Ratios (%)			
ROE (profit/average shareholders' equity)	10.8	14.5	
Cost:income (general administrative expenses/ gross income)	58.0	54.1	
Loan loss ratio	1.0	0.6	
Loan loss coverage ratio	89.5	142.6	
Business volumes			
Loans and advances	4,942	7,374	49.2
Customer funds	5,478	6,769	23.6
Securities	1,790	1,996	11.5
Other information			
Employees	692	764	10.4
Branches	28	28	—

The exchange rate used is USD 1.0887 in 2015 and 1.2141 USD in 2014.

Overview

Banco Sabadell America comprises business units, two banks, an investment firm and several affiliates and representative offices which together provide corporate banking, private banking and commercial banking services. The business is managed from Miami, where Banco Sabadell has had a full international branch (SIB) operational since 1993. It also has a commercial bank, Sabadell United Bank (SUB), serving the south of Florida. In 2012, the Bank opened a representative office in New York, which handles a large part of the Sabadell America structured finance business, and in 2015 it opened representative offices in Colombia and Peru to develop the corporate banking and structured finance business there. In 2014, Sabadell Capital was established in Mexico to develop a portfolio of corporate loans and project finance deals; this business gained in strength in 2015 and it obtained a licence to operate as a bank in Mexico in August 2015.

The Bank works in tandem with the representative offices in Mexico, Colombia, Peru, the Dominican Republic and Venezuela to offer service and support to our customers.

Key developments in 2015

Under the "Triple" plan's internationalisation thrust, a banking license was obtained in Mexico in August 2015, enabling the Bank to operate there as a commercial bank from early 2016 through Banco Sabadell S.A., Institución de Banca Múltiple. This bank and Sabadell Capital, the multi-purpose finance company (SOFOM) created in 2014, are expanding Sabadell's activities in Mexico. At 2015 year-end, it had arranged USD 1,000 million in funding for large companies and projects.

Representative offices were opened in Peru and Colombia in October 2015.

During 2015, the Bank continued to pursue its aim of growing its domestic banking operation in the state of Florida through its subsidiary Sabadell United Bank, mainly by developing the associate network and improvements in operating efficiency.

In the United States, Banco Sabadell manages close to USD 17,000 million in business (loans, customer deposits and off-balance sheet customer assets) and has USD 9,400 million in total assets, making it Florida's fourth-largest local bank by total assets (Sabadell Miami branch and Sabadell United Bank combined).

With its current structure, Banco Sabadell is one of the few financial institutions in the area with the capability and experience to provide a full range of banking and financial services, from highly complex and sophisticated products for large corporate clients, including project finance, to products for individual customers and an extensive offering of products and services commonly required by business and professional people and by companies of any size (G4).

Objectives for 2016

In keeping with the strategy laid down in the "Triple" business plan, the Bank's aim in 2016 is to continue growing in the region in all areas of its current operations and to introduce additional products and services to bring added value to customers.

Through Banco Sabadell Institución de Banco Múltiple, the Bank will enter the business banking business in January 2016 and subsequently address the segment of high net worth individuals, all based on personalised high quality services underpinned by a strong technology component. The bank's goal is to land 100 business banking customers in 2016 and lend over USD 100 million to companies and corporations.

Additionally, it plans to increase sales efforts in Colombia and Peru through the representative offices there.

Banco Sabadell Miami Branch

At year-end, the Bank's operating branch in Miami had over USD 4,700 million in customer deposits and funds under administration, an increase of 7% over 2014. Lending increased by 59% to USD 3,400 million as the bank met the needs of international corporations by arranging medium- and long-term working capital facilities.

In 2015 Banco Sabadell Miami branch continued to provide finance for projects in the energy and tourism sectors, mainly in the US and Mexico. The Miami branch reported around USD 34 million in net profit.

Sabadell United Bank

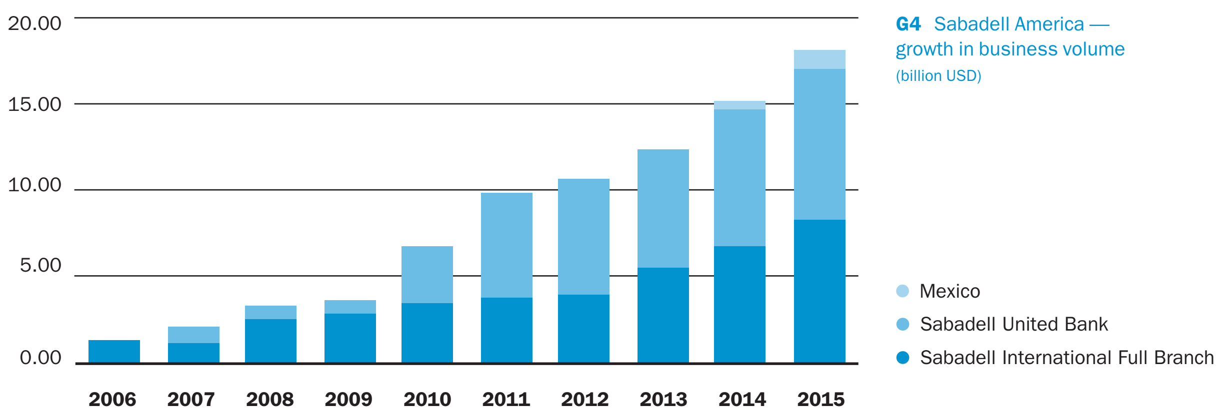
In 2015, Sabadell United Bank made further progress in implementing its operating and sales efficiency drive, with particular emphasis on promoting its mortgage plan to its customer base, boosting sales activity at branches and developing alternative sales and service channels.

At the time of writing, Sabadell United Bank had 27 branches offering services within the state of Florida, mainly in Miami-Dade, Broward and Palm Beach counties but also in the west coast counties of Tampa, Sarasota and Naples. It is the eighth-largest local bank by deposits.

During the year 2015, Sabadell United Bank continued its programme to promote brand awareness among the market segments it serves. The campaign was specifically targeted on professional people and entrepreneurs, as well as high net worth individuals, to whom it provides private banking and wealth management services through its Wealth Management division, Sabadell Bank & Trust.

It also continued to expand its Commercial Real Estate loan portfolio, selecting loans that will contribute to diversifying the loan book and create value for the Bank.

At the end of 2015, Sabadell United Bank had over USD 5,000 million in assets, approximately USD 4,200 million in deposits, and close to USD 3,900 million in loans. It had close to USD 700 million in portfolios under administration, and was serving over 36,000 customers. Sabadell United Bank contributed USD 35 million in net profit to the group in 2015.



G4 Sabadell America — growth in business volume
(billion USD)

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.

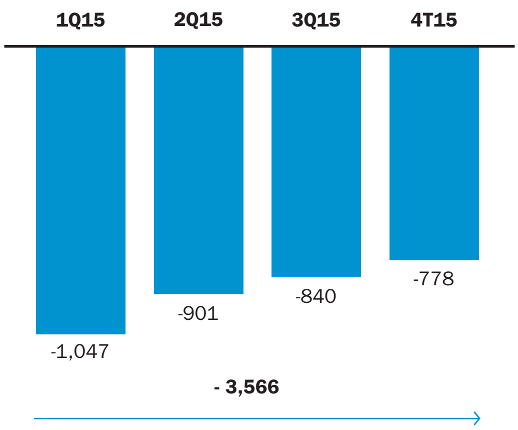
€ million

T10 Asset transformation

	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).

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



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 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.

Solvia

Solvia 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, Solvia 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, Solvia 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. Solvia'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

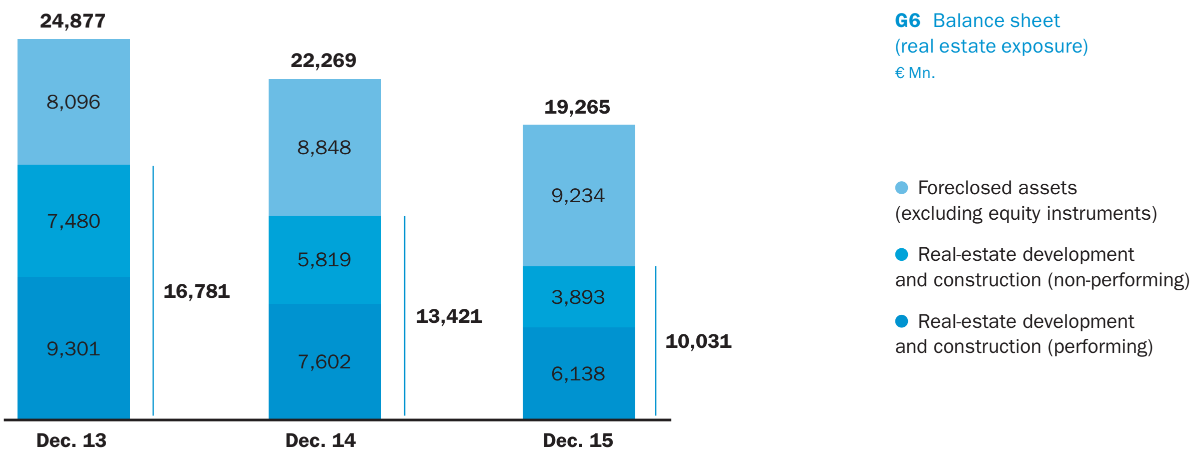
BS Capital manages the industrial subsidiaries, focused on acquiring temporary holdings in non-financial companies and/or projects with the goal of maximizing the return on investment.

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%.



G6 Balance sheet (real estate exposure)
€ Mn.

Risk management

Milestones in 2015
Main significant risks of the strategic risk framework

Milestones in 2015

In 2015, the Banco Sabadell group has continued to strengthen its risk management framework and to make improvements in line with best practices of the financial sector. The main milestones for 2015 are indicated hereafter.

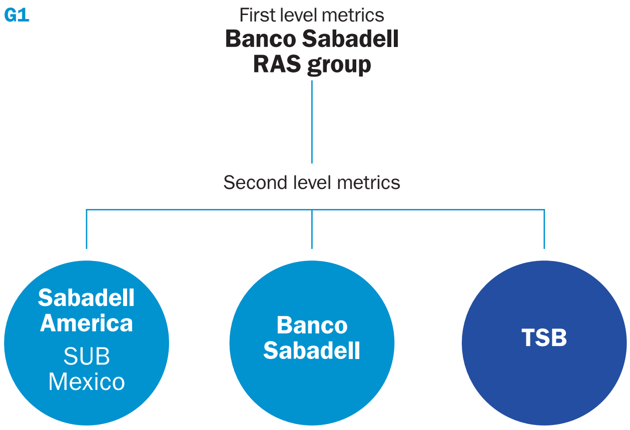
Strengthening of the strategic risks framework, giving it an international focus

The strategic risks framework of the Banco Sabadell group has been adapted to the new structure of the group as a result of its internationalisation, to ensure consistency and an effective deployment of the group's RAS to all geographical regions (G1).

A first level that forms part of the group's RAS is thereby established, setting targets and limits at a global level, and a second level is defined, deploying the first level's targets and limits through the various geographical regions.

It should be noted or stressed that the group's RAS has been reinforced through the incorporation of new metrics and qualitative aspects leading to it having a global view of all the risks faced by the group (see more details ahead).

G1



Improvement of the group's risk profile during the year

The acquisition in 2015 of the British bank TSB has implied a significant improvement for the risk profile of the Banco Sabadell group. The operation implies an increase of 27% of the credit portfolio of the group. This increase is basically concentrated on the portfolio of retail mortgages.

The risk profile improves in two relevant aspects:

— On the one hand, the loan loss ratio of the new mortgage portfolio is of 0.83% and it has a loan-to-value of 42.6% (significantly lower than those existing in the group's portfolio prior to the acquisition).
— The acquisition of TSB is a fundamental step in international diversification, leading to close to 30% of the bank's exposure being at the international level.

In addition to the acquisition of TSB, other factors have influenced the risk profile of the group in 2015:

— Intensive reduction of problem assets, of over €3,100 million, beyond the objectives defined in the Triple Strategic Plan.
— Improvement of the portfolio composition, with a reduction of over €3,300 million in the development sector and increasing exposure in sectors of higher credit quality.
— Reduction of concentration risk at both the individual and industry level.
— Establishment of specific management frameworks by portfolio and constant improvement of credit risk management, incorporating lessons learned during the economic crisis.

Main significant risks of the strategic risk framework

Introduction

The Banco Sabadell group has a Strategic Risk Framework in place to ensure the proactive control and management of all of the group's risks. This framework is made up of, amongst others, a risk appetite statement (RAS), which sets the quantity and diversity of risks that the group seeks and tolerates in order to achieve its business objectives, whilst maintaining a balance between return and risk.

The risk appetite statement comprises quantitative metrics that allow the group to monitor the risk management, and qualitative aspects that complement them.

The management and control of risks is set up as an ample framework of principles, policies, procedures and advanced assessment methodologies that together comprise an efficient decision-making structure under a governance framework for the risk function, adapted to European and Spanish regulations.

The framework of principles, policies, procedures and methodologies is reflected in the document "Banco Sabadell group risk policies", which is reviewed at least once a year and approved by the Board of Directors. The document was last updated in January 2016.

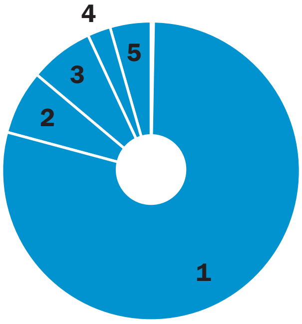
For each significant risk of the group, the main participants are identified, and their functions, policies, methods and procedures are explained, in addition to the monitoring and control mechanisms. Details on how the risk function is organised are also included, including the roles and responsibilities of different departments and committees in terms of risks and their control systems, adjusted to the activities of the business units, including the functions of granting loans and advances (G2).

The main financial risks facing the companies of the Banco Sabadell group as a consequence of their activities associated with the use of financial instruments are credit risk, liquidity risk and market risk. Of these, credit risk is the most significant risk facing the group (G3).

The main non-financial risks facing the group are operational risk, fiscal risk and compliance risk.

In terms of risk management, the group takes into consideration the regulatory and macro-economic environment. The most notable aspects during 2015 are detailed hereafter:

G2 Main risks



G3
Capital mapping
31.12.2015 (%)

1	Credit risk	79.3%
2	Structural risk	7.0%
3	Operational risk	7.0%
4	Market risk	2.3%
5	Others	4.4%

Macro-economic environment

- In 2015, the world economy showed modest growth. The year has been marked by new episodes of political and geopolitical instability and by more erratic behaviour of the financial markets.
- In the political arena, the situation in Greece during the first half of the year took centre stage, with increasing concerns over the possibility of it ultimately leaving the Eurozone.
- In the geopolitical arena, the conflict in Ukraine has taken second stage to the refugee crisis in Europe and the increasing tension with regard to Syria.
- On the global financial markets, the abrupt summer movements that occurred as a response to uncertainty regarding growth in China and the expectation of an increase in the benchmark interest rates in the United States are worthy of mention.
- The economy of the Eurozone has shown a slightly more positive evolution than in 2014, backed by the depreciation of the euro, the lower price of crude oil and the reduced cost of funding.
- The Spanish economy has shown a very favourable evolution and has continued to positively stand out within the Eurozone. Its GDP has seen its biggest increase since 2007.
- Emerging economies have been weighted down by more restrictive funding conditions, reduced prices of commodities and the structural deceleration in China. On the negative side, the behaviour of the economy in Brazil is worth mentioning.
- Inflation has continued to be very low and far from the monetary policy objectives in the main developed economies. Inflation has seen downward pressure from lower crude oil prices.
- The ECB has introduced a broad asset purchase program and has once again reduced the marginal deposit rate to -0.30%. In the United States, the Fed, at its December meeting, raised the benchmark interest rate for the first time in nine years, to a level of 0.25%-0.50%.
- The European banking sector has continued to be reinforced, improving its loss absorption capacity, and its solvency and profitability. In spite of this, it continues to face important challenges in relation to the weak economic recovery and the persistence of low interest rates.
- On the long-term government bond markets of the United States and Germany, yields have continued to be very low. Such assets have been supported by low inflation, the accommodating nature of monetary policies and doubts on global economic growth.
- In the European periphery, public debt has continued to be supported by the monetary policy of the ECB. The yields of the government bonds of such countries have reached new historical minimums.
- On the foreign currency markets, the euro has again depreciated against the dollar and the Sterling pound. Most of this change took place during the first quarter, coinciding with the announcement of the ECB government bonds purchase program.
- The financial markets in emerging countries have maintained their high volatility and were severely affected over the summer, with steep foreign exchange depreciations and a sudden drop in the Chinese stock markets.

Regulatory environment

In 2015, advances have been made in the regulatory and supervisory environment, among the most noteworthy of which are:

- Advances in the Banking Union: The euro crisis has demonstrated that to guarantee long-term sustainability of the Monetary Union it is necessary for there to be a truly integrated banking system.
- Action Plan for the Capital Markets Union: The creation of the Capital Markets Union (CMU) has also continued to develop, with the European Commission's publication of the Action Plan (September 30th), which establishes the specific measures to be implemented until 2017.
- Macro-prudential policy has acquired relevance: a relevant line of work in the Eurozone in 2015, as it is considered key to correcting imbalances that may amass at national level within the Monetary Union and contain systemic risks. In fact, in 2015, several member states have implemented macro-prudential measures, mainly focused on requiring additional capital buffers for the banks of systemic importance at national level, and counter-cyclical capital buffers or measures to contain risks in certain sectors, such as the real estate market.
- New stage of implementation, gauging and standardising the regulatory framework: In 2015, regulatory work has continued to increase the solvency of the financial system. After years of intensive work in the preparation of new regulations, a new stage has started involving the implementation of measures, the evaluation of their effectiveness and a possible redefinition of parameters. The purpose is not only to ensure the resistance of the banking sector in case of adverse events, but also for it to be able to fully carry out its role in society and finance economic growth.

General principles of risk management

Corporate risk culture

Banco Sabadell's risk culture is one of its defining features, and it is strongly embedded throughout the organisation as a result of its progressive implementation and development over several decades. Some of the most notable characteristics of this strong risk culture are:

- High level of commitment by the Board of Directors in risk management and control. Since before 1994, the bank has had a Risk Control Committee whose primary function is to supervise the management of all significant risks and their alignment with the profile defined by the group.
- A basic management team forms a key part in the acceptance and monitoring of risks. It has existed for more than twenty years and is formed by both the account manager and the risk analyst. Management is carried out by contributing both parties' points of view. All decisions taken must always be discussed and resolved by means of an agreement by both parties. This means that the team is highly involved in the decision-making process and it also means that decisions are based on sound and solid arguments.
- High degree of specialisation: specific management teams are created in each segment (Real Estate, corporate, businesses, SMEs, retail, banks and countries, etc.) which allow for a specialised management in each area.
- Advanced internal models for credit ratings as a basic part of the decision-making process have been in place for over fifteen years (since 1999 for individuals and since 2000 for businesses). The group, following best practices, uses these models in order to improve the overall efficiency of the process. These models not only allow ordinal ordering of borrowers, but are also the basis for quantitative measurement of the risk, and they therefore allow multiple uses of these measurements in key management processes: fine adjustment in the delegation of powers, efficient risk monitoring, global risk management, risk-adjusted profits and analysis of the group's solvency are some examples.
- The delegation of powers for sanctioning operations of corporate risk at the various levels is based on the expected level of loss. As a general policy in terms of the delegation of authorities, the group has chosen a system where the various levels are defined using the metric of expected loss, which takes into consideration the exposure to credit risk of the operation in sanctioning the customer and the risk group, their expected default rate and their estimated severity.
- Credit risk is rigorously monitored through an advanced system of early warnings for businesses and individuals. The monitoring at the customer or risk group levels can be divided into three types: operational, systematic and comprehensive monitoring. One of the basic sources used for this monitoring is the implementation of an early warnings system for

both businesses and individuals (launched in 2008 and 2011) which allows credit risk to be identified in advance. These warnings are based on both internal information, such as the number of days in an irregular situation, overdrawings of commercial discounts, guarantees or international loans, and external information, such as customers registered as defaulting in the rest of the financial system and information from available credit bureaux.

- An advanced model to manage irregular risks allows for the early identification and specialised management of risks. A comprehensive model of irregular risk management has been implemented, which enables the treatment of the risk to be directed in those situations close to default (early identification, refinancing, collection, etc.). This comprehensive system uses specific tools (simulators to identify the best solution in each case) and specialised managers in each segment who work exclusively to manage the risk.
- Pricing adjusted to the risk. The commercial policy as regards to price management is dynamic, and is adapted to the economic and financial situation of the market (liquidity premiums, difficult access to loans, volatile interest rates, etc.). It takes into account the cost of financing and the risk involved (expected loss and cost of capital). Risk models are key to determining prices and target returns.
- This risk management model has been fully integrated into the bank's technological platform, in such a way that the policies are immediately transferred to be managed daily: policies, procedures, methodologies and models that constitute the risk management model of Banco Sabadell have been fully integrated into the bank's technological platform. This allows policies to be immediately transferred for daily management. This has been particularly relevant in terms of the various recent acquisitions concluded by the Bank.
- Use of stress testing as a management tool: Banco Sabadell has been working for years with an internal tool to carry out stress tests and has collaborated with internal teams who have ample experience in using it.
- Since 2014, the Banco Sabadell group has a strategic risk framework in place, consisting amongst others, of the risk appetite statement, which ensures the control and proactive management of risks under a reinforced corporate governance framework, approved by the Board of Directors.

Risk appetite framework

The Risk Appetite Framework includes, among others, a risk appetite statement, defined as the quantity and diversity of risks that the Banco Sabadell group seeks and tolerates in order to achieve its business objectives whilst maintaining a balance between risk and return.

The Risk Appetite Statement (RAS) comprises quantitative metrics (G4) that allow the group to objectively monitor the risk management objectives and limits, and related qualitative aspects, which complement the metrics and determine the group's risk management and control policy.

G4 Risk appetite statement

Qualitative aspects

In addition to quantitative metrics, the following qualitative elements should be used to guide the group's risk management and control:

- The bank's general position with regard to risk-taking seeks a medium-low risk profile through a prudent, balanced risk policy that ensures steadily rising profitability and is aligned with the group's strategic objectives so as to maximise creation of value while guaranteeing an appropriate level of capital.
- The Banco Sabadell group's risk management and control approach consists of a broad framework of advanced measurement principles, policies, procedures and methodologies integrated into an efficient decision-making structure. The risk variable is factored into decisions in all areas and quantified using a common metric in terms of allocated capital.
- Risk management is underpinned by solid, ongoing procedures for checking that risks conform to pre-defined limits, with clearly defined responsibilities for identifying and tracking indicators and early warnings, and an advanced risk assessment methodology.
- Capital and liquidity levels must enable the bank to cover the risks it has accepted, even in adverse economic situations.
- There should be no risk concentration levels that may significantly compromise shareholders' funds.
- The assumption of market trading risk seeks to cover the flow of transactions arising from customer business and to seize market opportunities while maintaining a position that is commensurate with the bank's market share, risk appetite, capacity and profile.
- The risk function is independent and has strong senior management involvement, ensuring a strong risk culture focused on protecting capital and ensuring an adequate return on said capital.
- The Board of Directors is committed to the risk management and control processes: approval of policies, limits, management model and procedures, and the measurement, monitoring and control methodology.
- The group has a risk culture that pervades the entire organisation and has units specialised in managing specific types of risk. The Risk Department transmits this culture by setting policies and implementing internal models and ensuring that they conform to the risk management processes.
- Risk management policies and procedures should be oriented to adapting the risk profile to the risk appetite framework while maintaining and pursuing a balance between expected returns and risk.
- The objective of Banco Sabadell in terms of tax risk is to ensure compliance with fiscal obligations and, at the same time, guarantee an appropriate return for shareholders.
- The achievement of the business objectives must be compatible, at all times, with their compliance with the legal framework and the application of the best practices.
- The institution will have sufficient human and technological resources to monitor, control and manage all the risks that may materialise in the course of its business.
- The group's compensation systems should align the interests of employees and Senior Management with compliance with the risk appetite framework.

Overall organisation of the risk function

The group develops a risk culture that is integrated throughout the entire group, equipped with units specialising in the treatment of the various risks, ensuring the independence of the risks function, and an intensive involvement from Senior Management.

The Board of Directors is the body responsible for setting general guidelines as to the organisational distribution of risk management and control functions and for determining the main lines of strategy in this respect. It is the body responsible for approving the risk appetite framework (developed in cooperation with the Managing Director, the Director of Risks and the Chief Financial Officer) and ensuring that it is aligned with the Bank's short- and long-term strategic objectives, as well as with the business plan, capital planning, risk capacity and compensation programmes.

The Board of Directors has four committees which play a role in the management and control of risk. The bank also has several other Committees which participate in this function (G5).

The group further establishes its control framework based on the model of three lines of defence, structured around the following assignment of functions:

1. **First line of defence**, consisting mainly of the business units and corporate centres, among the most noteworthy of which are the Risk Management Department, the Financial Department and the Treasury and Capital Markets Department units. The first line of defence is in charge of the management of the risks inherent in its activity, basically in their admission, monitoring, measurement and assessment and the relevant processes.

   They are responsible for the implementation of corrective actions to remedy deficiencies in their processes and controls. The essential functions attributed to this line under the control framework are:

- The process manager is responsible for maintaining effective internal controls and performing risk assessment and control procedures on a day to day basis.
- The process manager identifies, assesses, controls and mitigates their risks, following established internal policies and procedures and ensuring that the activities are consistent with its purposes and objectives.
- The process manager naturally serves as a first line of

G5

Board of Directors
RAS and risk management policies approval

Delegated Board Committees related to risk management

Risk Committee	Executive Committee	Audit and Control Committee	Remuneration Committee
Risk profile oversight and monitoring	Approval of operations according to delegations Approval of asset allocation strategy	Risk management systems, internal audit and internal efficiency monitoring	Retributive policy monitoring and alignment with Risk Appetite Framework

Main committees related to risk management

Technical Risk Committee	Assets and Liabilities Committee	Credit Operations Committee	Asset Operations Committee	Operational Risk Committee	Institutional Coordination Committee
Risk Committee support Risk Management	Balance Sheet structural risk monitoring and management	Approval of credit operations according to delegations	Approval of asset operations according to delegations	Operational risk management and monitoring	Guarantee alignment of TSB and group policies

defence, inasmuch as the controls are designed in the systems and processes at their discretion.
— Establishing adequate management and supervision processes to ensure regulatory compliance and focusing on control errors, inappropriate processes and unexpected events.

2 Second line of defence, consisting mainly of:
— The risk control function is independent from the first line of defence and is responsible for assessing, monitoring and controlling the group's significant risks and for presenting the corresponding information.
— The internal validation function is responsible for reviewing and ensuring that such models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.
— The Compliance Department, Corporate Social Responsibility and Corporate Governance have the purpose of minimising the possibility of a regulatory breach and ensuring that any breaches that may occur are diligently identified, reported and resolved and that the appropriate preventive measures are implemented, if none exist.
— The IT Control Department is responsible for identifying risk situations associated with the use of technology, in all units, that may result in operational or reputational risks for the group, for promoting necessary training and support among the group's units to enable them to resolve risk situations associated with their scope of responsibility and actions, and for independently transferring any significant risks that have not been covered by the implemented controls to the group's Operational Risk Department.

It ensures that the first line of defence is well designed, carries out the assigned functions and makes suggestions for its continuous improvement. The main functions attributed to this line under the control framework are:
— Proposing the risk management framework.
— Guiding and ensuring the application of the risk policies, defining responsibilities and objectives for their effective implementation.
— Verifying compliance of the regulations applicable to the group in the development of its business.
— Providing the technological infrastructure for risk management, measurement and control.
— Analysing and contrasting existing and future incidents by reviewing the information.
— Identifying changes in the underlying risk appetite of the organisation.
— Collaborating with the management team in the development of risk management processes and controls.

3 Third line of defence:

— Internal Audit develops an independent and objective verification and consulting activity, guided by a philosophy of adding value by helping to fulfil its objectives.
— Assists the group in meeting its objectives by providing a systematic, disciplined approach to evaluate the sufficiency and effectiveness of the governance processes and the risk management and internal control activities of the organisation.

Managing and monitoring the main risks

Credit risk

Description

Credit risk arises from the possibility of losses being caused by the non-fulfilment of payment conditions by customers, and a reduction in value due to the deterioration in their credit quality.

Credit risk control framework

Risk acceptance and monitoring
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 collateral or other securities to the bank.

The Board of Directors delegates powers and discretions to the Executive 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 business loan or other transaction that is requested.

To optimise the business opportunities provided by each customer and to guarantee an appropriate degree of security, responsibility for 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 making use of his specialised knowledge.

The implementation of advanced methodologies for managing risk exposures (in line with the New Basel Capital Accord – NBCA – and industry 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 management tools such as credit rating for corporate borrowers and credit scoring for individual customers, as well as indicators that serve as early warnings in monitoring risk.

The analysis of indicators and early warnings, in addition to the credit rating reviews, allows the level of the risk to be continuously measured in an integrated manner. The establishment of efficient control procedures for outstanding risks also allows benefits to be obtained from managing risks that have been overcome as it enables a proactive policy to be implemented based on an advanced identification of cases that could enter default status.

The early warnings system allows an integrated measurement to be made of the level of the risk taken and allows it to be transferred to recovery management specialists, who will determine the different types of procedures that should be applied. Therefore, based on superior risks up to a certain limit and on the predicted default rates, groups or categories are identified for their individual treatment. These warnings are additionally managed by the business manager and the risk analyst.

Irregular risk management
Debt refinancing and restructuring processes are generally the most significant risk management techniques during the weaker stages of the economic cycle. The bank's objective, when faced by debtors and borrowers that have, or are expected to have, financial difficulties when meeting their payment obligations in the agreed contractual terms, is to facilitate the repayment of the debt by reducing the likelihood of non-payment to the minimum possible level. A number of specific policies to achieve this are in place across the group, including procedures for the approval, monitoring and control of possible debt refinancing and restructuring processes. These include the following:

— Having a sufficiently detailed compliance record for the borrower and a clear intention to repay the loan, assessing the time-frame of the financial difficulties being undergone by the customer.
— Refinancing and restructuring conditions based on a realistic payment scheme which is in line with the borrower's current and predicted payment capacity, preventing issues being put off until a later date.
— If new guarantees are provided, these must be regarded as a secondary and exceptional source for recovering the debt, avoiding any prejudicial effects on existing sources. All ordinary interest must always be paid up to the refinancing date.
— Revisions of any lengthy grace periods.

The group continually monitors compliance with current terms and conditions and with the above policies.

The Banco Sabadell group has an advanced non-performing exposure management model to handle the impaired asset portfolio. The objective of non-performing exposure management is to find the best solution for customers faced by the first symptoms of impairment, helping customers with difficulties to avoid defaulting on their repayments, ensuring intensive management and preventing down-time between the different phases.

For further quantitative information, see Note 4 of the 2015 consolidated annual accounts, under the section Credit risk: refinancing and restructuring operations.

Real estate loans risk management

The group has a series of specific risk mitigation policies that form part of the general risk policy and, specifically, the risk policy for construction and real estate development sectors.

The main measures that are implemented are the continuous risk monitoring and the reassessment of the creditworthiness of the borrower taking consideration of their new economic situation. If the results of this reassessment are satisfactory, the original terms and conditions are applied, and new commitments are added where these allow for a better adaption to the new circumstances.

The policy applied varies in line with the type of asset that is being financed. For completed constructions, actions are taken that support their sale through the group's distribution channels, and a competitive price is fixed allowing transactions to be activated and enabling the final buyers to access financing options, provided that they meet the risk requirements. For works in progress, the basic objective is to complete the construction, as long as the short and medium-term market expectations allow the resulting properties to be absorbed.

In terms of financing for land and plots, the possibility of selling the future homes is also considered before financing their construction.

In the event that the analysis and monitoring performed does not show reasonable feasibility, the mechanism of non-recourse loans and/or asset purchases is applied.

When none of these solutions is possible, judicial proceedings and the subsequent award of assets shall be sought.

All assets that, through non-recourse loans, purchase, or judicial proceedings, are awarded to the group to ensure repayment or to implement other credit improvements are mainly awarded tangible assets that have been received by borrowers and other obligors of the bank, to ensure the availability of financial assets that represent collection rights, and they are actively managed with the main objective of divestment. The nature and carrying amount of these assets are given in Note 14 of the 2015 consolidated annual accounts, Non-current assets held for sale.

Based on the degree of maturity of the real estate assets, three strategic lines of action have been established:

1. **Trading:**
   Various trading mechanisms are available for the sale of finished products (housing, commercial establishments, industrial buildings, parking lots, etc.) through various distribution channels and commercial agents, based on type, status, location and state of conservation. The real estate website www.solvia.es is a fundamental factor in such strategy.

2. **Mobilisation:**
   In a scenario of major difficulties in the sale of development plots and works in progress, their mobilisation strategy has been adopted to make the finished plots more liquid and various mechanisms for the mobilisation of assets have been created:
   - Program for collaboration with real estate developers: contribution of plots in areas with demand for housing, for developers to construct and sell their developments.
   - Investors program: development of third-party real estate projects with the participation of investors.
   - Protected housing program: development of official protection housing for the rent and subsequent sale of the rented developments.

3. **Urban management:**
   For non-development plots, it is important to consolidate the urban rights based on the urban management, which is an important mechanism for value enhancement and is key for any subsequent development and sale.

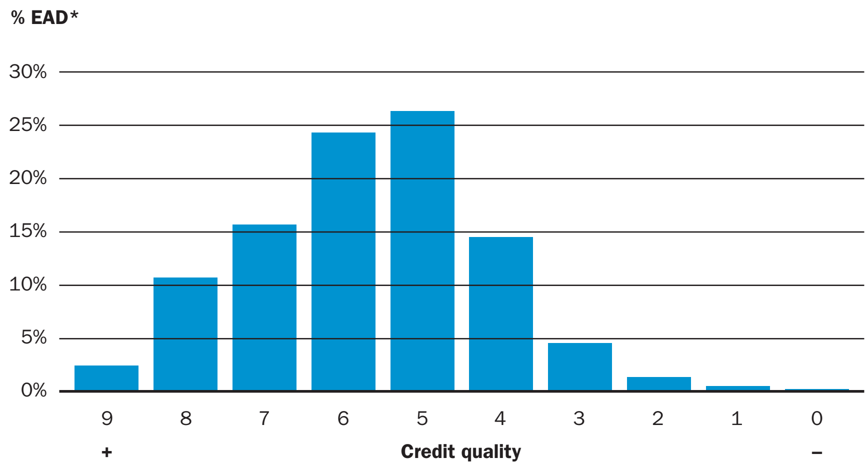
For further quantitative information see Note 4 of the 2015 consolidated annual accounts, in the section Credit Risk: Risk concentration, exposure to the real estate construction and development sector.

Risk management models

Credit rating

Credit risk exposures to corporate customers, real estate developers, specialised financing projects, financial institutions and countries are assessed according to a system of credit ratings based on predictive factors and internal estimates of the probability of default.

The rating model is reviewed each year on the basis of an analysis of actual default data. Each internal rating score is assigned to an anticipated default rate which allows consistent comparisons to be made across segments and with the ratings produced by independent rating agencies, according to a master scale (G6).



G6 Distribution by credit rating of the companies portfolio

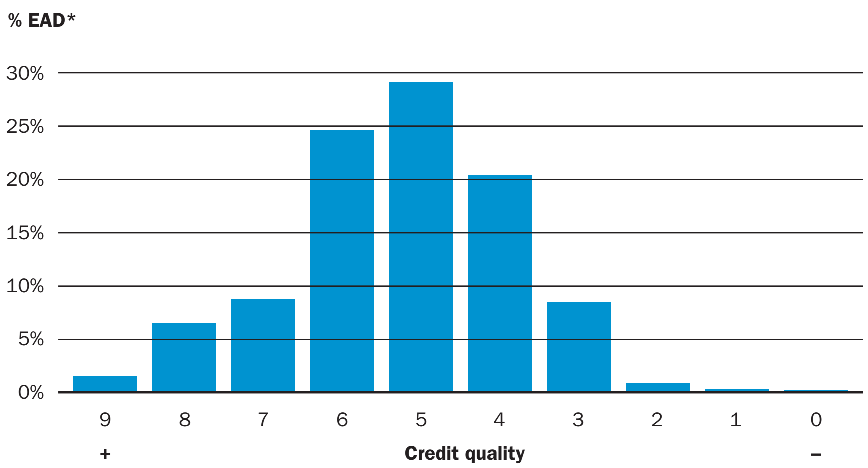
* EAD (exposure at default)

Scoring

In general, 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 (G7). For those geographical regions for which there is a scoring, it is divided into two types:

1. Behavioural scoring: The system in which all customers are automatically classified according to their transaction histories and on each product acquired. It is used primarily for such purposes as granting loans, setting (authorised) overdraft limits, targeting sales campaigns, and for monitoring and segmenting in claim and/or recovery procedures.
2. Reactive scoring: This is used to evaluate applications for consumer loans, mortgage loans and credit cards. When full details of the application have been entered, the system generates a result based on the estimated borrowing capacity and financial position of the applicant and quality of any security or collateral.

If no scoring system exists, it is replaced with individualised analyses supplemented with policies.



G7 Distribution by scoring of individuals portfolio

* EAD (exposure at default)

Alert tools

For both companies and Individuals, in general the Banco Sabadell group has a system of alerts, either individual systems or advanced alert models which, based on available information sources (credit rating or scoring, customer file, balance sheets, the Bank of Spain's CIRBE risk information system, industry information, transaction data, etc.), models the customer's short-term risk (anticipating delinquency) and achieves a high level of predictability in detecting potential non-performing exposures. The score, which is produced automatically, is included in the monitoring process as one of the basic inputs in tracking the risk posed by individuals and companies.

This alert system allows for:

— Improvements in efficiency by focusing attention on customers with lower credit scores (different groups are assigned different thresholds).
— Early action in view of a customer's worsening situation (change of score, new serious alerts, etc.).
— Periodic oversight of customers who remain in the same situation and have been analysed by the basic management team.

Exposure to credit risk

The reduction of problem assets has exceeded the target reduction of the business plan.

Financial assets exposed to credit risk by portfolio, type of counterparty and instruments, and areas in which the risk has been generated are, at the end of 2015, those shown by their carrying value in table T1, representative of the highest level of exposure to the credit risk incurred, inasmuch as they reflect the highest level of debt of the borrower at the date to which they refer.

The group also maintains contingent risks and commitments with borrowers, materialised by the establishment of guarantees provided or commitments inherent in the credit agreements up to an availability level or limit ensuring financing for the customer when required. Such facilities also imply the acceptance of a credit risk and are subject to the same management and monitoring systems described above.

€ million

T1

	2015		
Exposure to credit risk	**Business in Spain**	**Business abroad**	**Total**
Cash and central banks	**1,835.92**	**4,303.54**	**6,139.46**
Loans and advances to credit institutions	**4,876.96**	**1,146.44**	**6,023.40**
Of which: doubtful assets	0.27	0.30	0.57
Loans and advances to customers	**106,022.81**	**45,962.85**	**151,985.66**
Public administrations	5,505.76	78.39	5,584.15
Of which: doubtful assets	11.46	—	11.46
Other private sectors	100,517.04	45,884.46	146,401.50
Of which: doubtful assets	12,173.34	285.61	12,458.95
Debt securities	**22,430.65**	**2,995.03**	**25,425.68**
Public administrations	19,111.36	1,980.10	21,091.46
Credit institutions	1,058.80	145.49	1,204.29
Other private sectors	2,249.07	869.44	3,118.51
Doubtful assets	11.42	—	11.42
Trading derivatives	**1,409.20**	**99.25**	**1,508.45**
Hedging derivatives	**642.72**	**58.09**	**700.81**
Contingent exposures	**8,086.86**	**269.31**	**8,356.17**
Contingent commitments	**11,690.01**	**9,440.60**	**21,130.61**
Total	**156,995.13**	**64,275.11**	**221,270.24**

The credit risk exposure value described above has not been subject to the deduction of the amount of the financial collateral, or other credit improvements received to ensure compliance, of common use in the type of financial instruments handled by the entity.

Figure G8 shows the distribution of credit risk across the different segments and portfolios of the group.

Credit risk mitigation

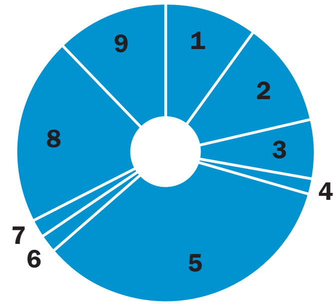
Credit risk exposure is managed and rigorously monitored based on regular analyses of the solvency of borrowers and their potential to meet their payment obligations undertaken with the group, adapting the exposure limits established for each counterparty to the level deemed acceptable. It is also common to modulate the level of exposure by the obligor providing collateral and guarantees in favour of the bank.

Normally, these take the form of financial collateral, mainly mortgages on properties used as housing, whether finished or under construction. The entity also accepts, although to a lesser degree, other types of financial collateral, such as mortgages on business establishments, industrial buildings, etc., and financial assets. Another credit risk mitigation technique that is commonly used by the entity is to accept guarantees, in this case subject to the guarantor presenting a contrasted certificate of good standing.

All these mitigation techniques are established ensuring their legal certainty, i.e. under legal agreements binding all parties and allowing their legal enforceability in all relevant jurisdictions to ensure, at all times, the possibility of redeeming the guarantee. The entire process is subject to an internal control of the legal adequacy of the agreements, sometimes requesting legal opinions from international specialists when the agreements are established under foreign law.

Financial collaterals are formalised before a notary via a public document so that they are effective before third parties. These public documents, in the case of mortgage loans, are also registered at the relevant registries, to acquire effectiveness with respect to third parties. In the case of pledges, the pledged goods are regularly deposited in the entity. Unilateral cancellation by the debtor is not permitted, and the guarantee shall remain valid until repayment in full of the debt.

The personal guarantees or bonds are established in favour of the entity and, except in certain exceptional scenarios, are also formalised before a notary public via a public document, to vest the agreement with the highest possible legal security of formalisation and to allow legal claims to be submitted through executive proceedings in case of non-payment. They constitute a credit right with respect to the guarantor that is irrevocable and payable on first demand.



G8

Overall risk profile by portfolio (distribution of credit risk exposures) %EAD (Exposure at default)

1	Large corporates	10.1%
2	Midsize businesses	11.4%
3	Small businesses	6.5%
4	Retailers and sole proprietors	1.6%
5	Mortgage loans	34.2%
6	Consumer loans	1.9%
7	Banks	1.9%
8	Sovereigns	20.4%
9	Other risks	12.0%

In addition to the mitigation of the risk derived from the guarantees formalised between the debtors and the entity as a result of the acquisition of Banco CAM, the group has an additional guarantee for a certain asset portfolio, provided by the APS, with retroactive effects from 31 July 2011, and for a period of ten years (see further details in Note 2 of the 2015 consolidated annual accounts).

The bank has not received significant guarantees which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantee, except for those intrinsic in the treasury activity, which are mostly the temporary acquisition of assets with maturities of no more than three months, therefore their fair value does not differ substantially from their carrying value (details are included in Note 6 of the 2015 consolidated annual accounts).

The fair value of the assets sold with a buyback agreement derived from the temporary acquisition is included under the heading Trading portfolio of liabilities, within the short positions of securities.

Conversely, transferred assets from the same operation amount to €768,994,000 and are included under Temporary transfers, depending on their nature.

The main concentration of risk in relation to all these types of in financial guarantees or credit improvements corresponds to the use of the mortgage bonds as a credit risk mitigation technique in exposures of loans for use in the financing or construction of housing or other types of real estate. In relative terms, the exposure secured with mortgages represents 66.6% of the overall gross investment.

In terms of risks with LTV >80%, which mainly correspond to operations from acquired institutions or business operations in which, as a supplement to the valuation of the operation, a mortgage guarantee is available for its coverage. Similarly, there are other additional reasons for approval, which mainly respond to solvent borrowers with proven payment capacity, as well as customers with a good profile who contribute additional guarantees (personal and/or pledged) to the mortgage guarantees already considered in the LTV ratio.

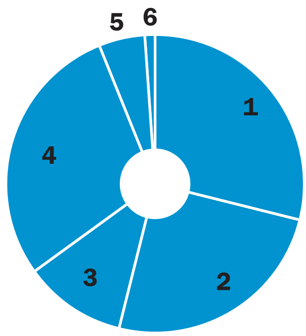
In the case of market operations, in line with general trends, the Banco Sabadell group also provides rights and contractual compensation (netting) agreements with most financial counterparties with which derivative instruments and some collateral agreements (CSA) are contracted, in order to mitigate the exposure to credit risk and avoid excessive concentrations.

The guarantees deposited at Banco Sabadell as collateral at the closing of 2015 amounted to €218 million (€426 million at the closing of 2014).

Credit quality of financial assets

As stated earlier, in general terms, the group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. Such models have been designed considering the best practices proposed by the NBCA. Nonetheless, not all portfolios where a credit risk is incurred use internal models, partly due to the fact that a minimum level of experience in cases of non-payments is required for their reasonable design. Therefore, in order to best describe the quality of the portfolio from an overall perspective, figure G9 uses the rating system of the Bank of Spain to analyse the group's credit risk exposure and to estimate the hedging requirements due to impaired values of debt instrument portfolios.

The (original) percentage exposure, calculated using internal models, in terms of solvency for the bank is 52.15%.



G9

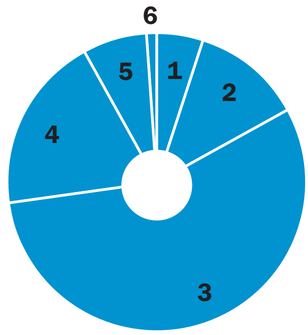
Credit quality of financial assets (%)

1	No appreciable risk	29
2	Low risk	25
3	Medium-low risk	11
4	Medium risk	29
5	Medium-high risk	5
6	High risk	1

Problem assets have been reduced by €3.2 billion in 2015.

The breakdown of the total exposure, rated based on the internal rating levels, is shown in figure G10.

During 2015 there has been an improvement in the evolution of problem assets. The reduction in doubtful balances resulted in a loan-loss ratio of 7.79% at 2015 year-end. Further information on the quantitative details of hedging and doubtful assets is included in Note 11 of the 2015 consolidated annual accounts, Loans and advances to customers.



G10

Breakdown of exposure by credit rating (%)

1	AAA/AA	5
2	A	12
3	BBB	56
4	BB	19
5	B	7
6	Rest	1

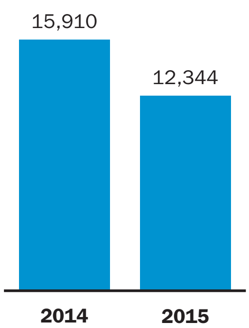
The balance of doubtful assets has declined at a faster pace than expected.

G11

Evolution of balance of doubtful assets*
Figures include 20% of APS.
In millions of euros.

-22.4%

A reduction of €3,566 million, of which €800 million correspond to the last quarter



* Ex TSB

Evolution of problem assets*
Figures include 20% of APS.
In millions of euros.

-12.8%

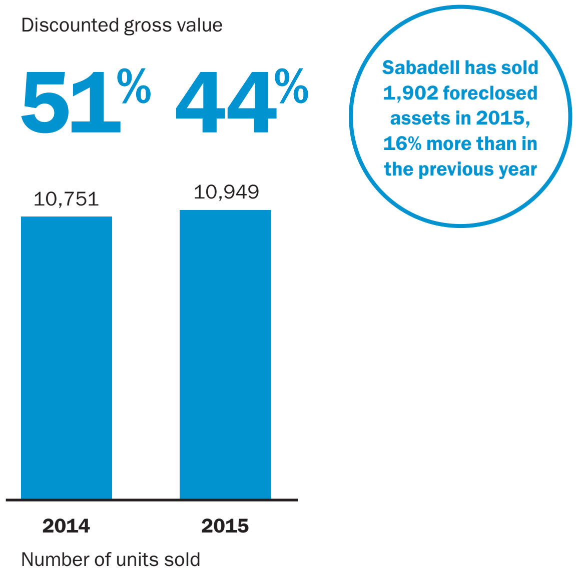
* Ex TSB

The total balance of problem assets has fallen by €3,180 million In 2015

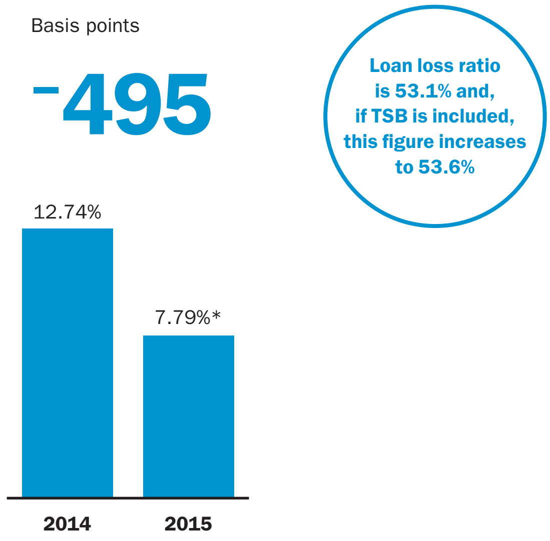
There have been more sales of real estate assets.

The loan-loss ratio has fallen to single-digit figures.

G12 Sales of foreclosed assets in units and discounted gross value



G13 Loan loss ratio (%)



* Ex TSB, loan loss ratio falls to 9.86%.

T2 Loan-loss ratio by funding segment

%

	4Q14	Proforma 2Q15 (*)	2Q15	Proforma 4Q15 (*)	4Q15
Real estate development & construction	52.17	47.21	47.07	38.81	38.71
Non-real estate construction	8.08	8.74	8.74	14.36	14.35
Companies	6.46	6.14	6.14	4.62	4.62
SMEs and independent contractors	12.60	11.96	11.88	10.83	10.76
Private individuals with 1st mortgage guarantee	9.25	8.76	5.52	7.83	4.71
Banco Sabadell group loan-loss ratio	12.74	10.98	9.01	9.86	7.79

(*) Corresponds to loan-loss ratio ex TSB.

Concentration risk

Concentration risk refers to exposures than can potentially generate enough losses large enough to threaten the financial solvency of the institution or the viability of its ordinary business activity. This type of risk is divided into two basic subtypes:

— Individual concentration risk: imperfect diversification of idiosyncratic risk in the portfolio, due either to its small size or to very large exposures to specific customers.
— Sectorial concentration risk: imperfect diversification of systematic risk components in the portfolio. Such concentrations may occur in particular sectors or geographical regions, for example.

Further details and information on the risk concentration by activity and at the level of Spanish autonomous communities, as well as the concentration of the real estate construction and development can be found in the 2015 consolidated annual accounts.

In order to ensure an efficient management of concentration risk, Banco Sabadell has a series of specific tools and policies:

— Quantitative metrics in the risk appetite statement and their subsequent monitoring as top-level metrics.
— Individual limits for risks and customers considered to be significant, which are established by the Executive Committee.
— A structure of delegation which requires that relevant

customer transactions be approved by the Credit Operations Committee, or even by the Executive Committee.

Exposure to customers or significant risks
At 31 December 2015 there were no borrowers with a ceded risk that individually exceeded 10% of the group's equity.

Exposure to customers or significant risks
The country risk is that applicable to the debts of a country, globally considered to be due to reasons inherent in the sovereignty and the economic situation of a country, i.e. for circumstances other than the regular credit risk. It manifests itself in the eventual inability of a debtor to meet their foreign currency payment obligations as regards external creditors, among other reasons, for failing to allow the country access to foreign currency, the inability to transfer it, the ineffectiveness of legal actions against borrowers for reasons of sovereignty, or for reasons of war, expropriation or nationalisation.

Country risk not only affects debts contracted with a State or entities guaranteed by it, but also the entire group of private debtors forming part of that State and that for reasons outside of their own control or decision, have experienced a general inability to honour their debts.

There are no significant restrictions (such as statutory, contractual and regulatory restrictions) on the ability to access or use assets and settle liabilities of the group provided that the entity complies with regulatory requirements established in each country.

An overall exposure limit is set for each country and this applies across the whole Banco Sabadell group. These limits are approved by the Executive Committee and the corresponding decision-making bodies, depending on the level of delegation, and are constantly monitored to ensure that any deterioration in the political, economic or social situation in a country can be detected in good time.

A range of different tools and indicators are used to manage country risk: credit ratings, CDS, macroeconomic indicators, etc.

Exposure to sovereign risk
The exposure to sovereign risk, broken down by types of equity instrument, with the criteria established by the European Banking Authority (henceforth, EBA) at 31 December 2015, is shown in figure G15.

Counterparty risk

The counterparty risk management philosophy is aligned with the business strategy, which pursues value creation through the efficient use of capital allocated to the business units. Strict criteria have been established for managing counterparty risk deriving from the financial markets, to guarantee the integrity of the Banco Sabadell group's capital.

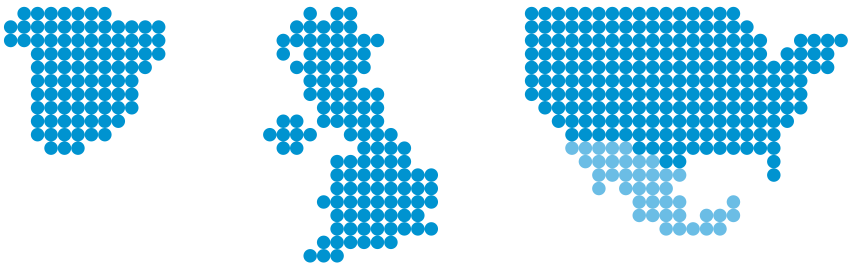
T3 Breakdown of risk concentration by activity throughout the world

€ million

	31/12/2015				
	Spain	Rest of European Union	America	Rest of the world	TOTAL
Credit institutions	**4,394.88**	**4,128.43**	**655.93**	**382.85**	**9,562.09**
Public authorities	**14,979.84**	**8,671.84**	**3,289.08**	**35.42**	**26,976.18**
Central government	10,208.89	8,653.70	3,289.08	35.42	22,187.09
Rest	4,770.95	18.14	—	—	4,789.09
Other financial institutions	**3,720.61**	**304.73**	**1,083.59**	**86.40**	**5,195.33**
Non-financial companies and individual entrepreneurs	**57,281.42**	**3,538.60**	**6,818.51**	**379.12**	**68,017.65**
Real estate development and construction	6,646.22	99.76	268.45	0.37	7,014.80
Civil engineering construction	1,876.89	16.78	19.72	3.46	1,916.85
Other purposes	48,758.31	3,422.06	6,530.34	375.29	59,086.00
Large companies	22,333.34	2,447.84	4,748.99	296.68	29,826.85
SMEs and individual entrepreneurs	26,424.97	974.22	1,781.35	78.61	29,259.15
Other households and NPISHs	**40,366.74**	**37,990.20**	**1,546.91**	**692.09**	**80,595.94**
Home loans	31,926.68	34,916.46	1,513.35	660.44	69,016.93
Consumer loans	5,607.39	1,882.20	18.32	18.58	7,526.49
Other purposes	2,832.67	1,191.54	15.24	13.07	4,052.52
Less: Adjustments due to asset impairment not allocated to specific operations	**—**	**—**	**—**	**—**	**345.11**
TOTAL	**120,743.49**	**54,633.80**	**13,394.02**	**1,575.88**	**190,002.08**

32% of performing loans and advances are located outside of Spain.

G14



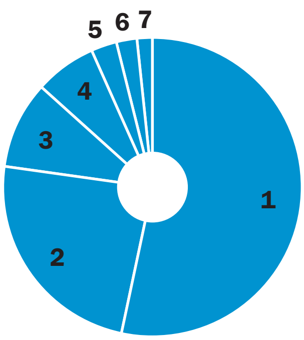
Spain **68%**

United Kingdom **27%**

USA and Mexico **5%**

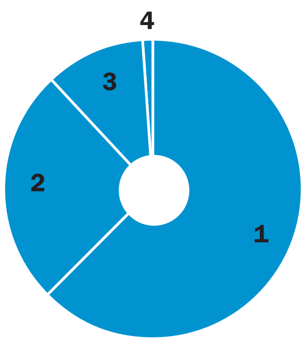
The Banco Sabadell group has a system for evaluating and managing those risks, which allows it to monitor and control compliance with approved limits on a daily basis. Figures G16 and G17 show the distribution of counterparty risk by geographical region and credit rating.

Additionally, to mitigate exposure to counterparty risk, Banco Sabadell has Credit Support Annexes (CSA) and Global Master Repurchase Agreements (GMRA) with most counterparties, which notably reduce the risks incurred through the provision of collateral, as explained previously.



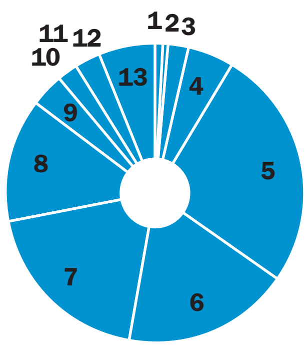
G15 Breakdown of exposure to sovereign risk

1	Spain	53.5%
2	Italy	23.9%
3	USA	9.5%
4	UK	6.7%
5	Portugal	2.7%
6	Mexico	2.3%
7	Rest of the world	1.4%



G16 Distribution of counterparty risk (by geographical region)

1	Eurozone	62.6%
2	Rest of Europe	25.6%
3	USA and Canada	10.9%
4	Rest of the world	0.9%



G17 Distribution of counterparty risk by credit rating (%)

1	AAA / Aaa	1.0%
2	AA+ / Aa1	0.6%
3	AA / Aa2	2.1%
4	AA- / Aa3	5.0%
5	A+ / A1	26.2%
6	A / A2	18.1%
7	A- / A3	19.0%
8	BBB+ / Baa1	13.3%
9	BBB / Baa2	3.8%
10	BBB- / Baa3	2.2%
11	BB+ / Ba1	0.0%
12	BB / Ba2	2.7%
13	Other	6.0%

Assets pledged in financing activities

At the end of 2015, there are certain financial assets pledged in financing operations, i.e. offered as collateral or guarantee for certain liabilities. Such assets correspond mainly to loans linked to the issue of mortgage covered bonds, territorial bonds or long-term securitisation bonds (see Note 21 and Schedules III and IV of the 2015 consolidated annual accounts). The remaining pledged assets are debt securities that are submitted in operations of assets ceded under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing operations with central banks and all types of collateral provided to guarantee derivatives.

On the other hand, the bank has used part of its loan portfolio and harmonised loans in fixed income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations where there is no substantial risk transfer cannot be derecognised from the balance sheet (further details on securitisation funds are included in Schedule II of the 2015 consolidated annual accounts).

For further information on funding programs in the capital market, refer to the section below on liquidity risk.

Liquidity risk

Description

Liquidity risk arises from the possibility of losses being incurred as a result of the bank's being unable, albeit temporarily, to honour payment commitments 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 associated with factors of a systemic nature or specific to the bank itself.

The group is exposed to daily demands on its available cash resources to meet contractual obligations related to financial instruments with which it trades, such as maturing deposits, drawdowns of credit facilities, settlements of 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.

In this regard, the objective of the Banco Sabadell group is to maintain liquid assets and a financing structure that, in line with its strategic objectives and based on its risk appetite statement, allows it to fulfil its payment commitments normally and at a reasonable cost, under business as usual conditions or under a stress situation caused by both systemic and idiosyncratic factors.

In order to fulfil these objectives, the group's current liquidity risk management plan is based on the following principles and pillars, serving the group's retail business model and defined strategic objectives:

- Involvement of the Board of Directors and Senior Management in the management and control of liquidity risk and funding.
- Clear segregation of functions between the different areas of the organisation, with a clear delineation of the three lines of defence, providing independence in the valuation of positions and in risk control and analysis.
- Decentralised liquidity risk management system for the most significant units, but with a centralised risk monitoring and management system.
- Sound processes of identification, measurement, management, control and information of the different liquidity and financing risks facing the group.
- Existence of a price transfer system to transfer financing costs.
- Balanced financing structure, based primarily on customer deposits.
- Wide range of unencumbered and immediately available liquid assets to generate liquidity, which make up the group's first line of defence.
- Diversification of funding sources, with controlled use of short-term wholesale funding and which is not dependent on providers of individual funds.
- Self-funding of significant foreign banking subsidiaries.
- Oversight of the level of encumbrance of the group's balance sheet.
- Maintenance of a second line of liquidity that makes up the capacity of issuing mortgage covered bonds and territorial bonds.
- Availability of a liquidity contingency plan.

Liquidity management

The purpose of managing liquidity in Banco Sabadell is to guarantee the financing of commercial activities at an adequate cost and within a reasonable time frame, thus minimising the liquidity risk. In recent years, the bank's financing policy has focused on generating a liquidity gap in commercial business, reducing total financing in wholesale markets (which stood at €27,436 million at the end of 2015) and increasing the bank's liquidity position.

Basic policies state that all management units must comply with local regulatory requirements and with internal limits. These limits are established in the first instance for the consolidated companies in the Banco Sabadell group, and as management limits for each of the management units. Standardised individual limits are also established for each management unit which are adapted to the specific aspects of each business and to the risk of each jurisdiction. These limits, at group-level and at management unit-level are established for the following variables:

- Collateral guarantees under agreement with the Bank of Spain: a minimum figure is set which may be achieved through discountable assets within the National Central Banks of the European Central Bank System as a whole.

— Cash ratio coverage: the cumulative position in coverage of minimum reserves in all group banks on any day shall be between the following upper and lower limits:
  1. Minimum balance in Bank of Spain account.
  2. Monitoring indicator for maximum cumulative daily balance.
  3. Lower limit of cumulative daily balance.
— Sensitivity matrix by term and product: A certain interest rate risk could arise in operative liquidity management which is limited for each term and product through a maximum sensitivity matrix.
— Maximum level of financing needs on the trading balance sheet.
— Unutilised commitments indicator: a maximum figure is established for loan agreements, credit card facilities, discount facilities and personal mortgage loans as a whole which represent a commitment towards third parties and which have yet to be utilised. This indicator is to be checked on a monthly basis.
— Available liquid assets: high quality assets must be available at all times as defined by the regulatory LCR (Liquidity Coverage Ratio), in accordance with regulatory requirements plus a management buffer on net outflows in 30 days provided for by said ratio.
— Interbank lines: For wholesale market funding lines are set with banking counterparties and clearing houses.
— Survival horizon: the bank must have a buffer of sufficient liquid assets to overcome a stress situation so that it can remain at least one year in a situation wherein it does not acquire liquidity and where this does not affect its operation.
— Loan to deposit (LtD): a target LtD level is set to guarantee the stability of the group's funding structure.

In order to manage its liquidity, the group follows a structure based on Liquidity Management Units (LMU). Each LMU is responsible for managing its own liquidity and for setting its own liquidity risk control metrics in coordination with the group's corporate area. Current LMUs are: Banco Sabadell, including consolidated subsidiaries, Sabadell United Bank (SUB), Banc Sabadell d'Andorra (BSA), Banco Sabadell Mexico and TSB.

Tools/metrics for monitoring and control of risk management

The basic tools for managing and measuring liquidity risk are:

— Information on daily asset and liability balances.
— Information on the status of liquid assets and second lines of liquidity based on discountable assets at the ECB and on the capacity to generate them. Additionally, Banco Sabadell analyses the robustness of its liquid asset portfolio as discountable assets at the ECB by assessing the sensitivity of the eligible asset base to various combined scenarios of downgrades in rating and impacts on the market price of the assets, in order to verify that the bank's eligible asset base is sufficiently robust to guarantee that the bank has sufficient eligible assets available, considering its current position with the ECB.
— Information on short, medium and long-term maturities of financing operations in wholesale financial markets.
— Regular stress tests. Banco Sabadell regularly carries out stress tests centred on the bank's position in the institutional market, where a prolonged closure of capital and interbank markets is considered, combined with a divestment of deposits from institutions and companies that professionally manage the group's treasury funds. These tests set a survival horizon, identifying the period over which the group can remain in a situation where no new liquidity is acquired without affecting its activities; this guarantees that the group has the necessary liquid asset buffer to cover the net income and expenses balance in a stress situation.

  To complement this exercise, the bank carries out a stress test which, unlike the previous tests and as an additional measure, considers the full provision of all available assets in the bank over a one-month period, the outflow of 7.5% of the deposit base of retail customers (households and SMEs), 15% of the deposit base of public administrations and companies over a one-month period and the non-renewal of all securities placed with retail customers.

  Additionally, Banco Sabadell establishes a monthly contingency plan in which two liquidity stress scenarios are considered: a systemic crisis and a crisis specific to Banco Sabadell. This contingency plan takes into account the bank's issuing capacity in a capital market under each of the two scenarios, as well as all that of the on-balance assets that are able to generate liquidity, establishing the percentage that could become liquid for each type of asset and in line with the crisis scenario within the space of one week and one month, thus calculating the entity's contingent liquidity in a liquidity crisis scenario.
— Early Warning Indicators (EWI). Banco Sabadell has designed and implemented an early warnings system to identify any possible strain in capital markets and within the group's own funding structure that could endanger the group's liquidity position. These EWIs set limits for the entity's different financial variables, in such a way that once these limits are exceeded the entity must consider adopting different measures and corrective actions to maintain the group's liquidity.
— General information relating to the situation of financial markets: issuances, spreads, reports from external credit agencies, etc.

The risk control and reporting framework for the liquidity risk management limits is comprised of:
— Supervision of global liquidity risks, independently calculating the risk management metrics within risk systems.

The generation of a liquidity gap in commercial business has continued, reducing total funding of wholesale markets and increasing the liquidity position.

— Define the risk measurement methodologies and verify the correct operation of control and measurement systems.
— Daily monitoring of risk indicators and limits, reporting to the various management units (Treasury Management and Capital Market and Financial Management Division).
— Systematic control and analysis of the adherence to limits, identifying instances of non-fulfilment and activating the necessary protocols for their correction.
— Establish and generate the necessary reporting framework for optimum monitoring and control of risk management limits.

Funding strategy and liquidity evolution in 2015

The main source of funding of the group is the customer deposits base (mainly demand accounts and time deposits collected through the branch network), complemented by financing through interbank markets and capital markets, where the entity has various short and long-term financing programs to achieve an appropriate level of diversification by product type, term and investor. The entity also maintains a diversified portfolio of liquid assets, mostly eligible as collateral for the financing operations with the European Central Bank (ECB).

On-balance sheet customer funds
At 31 December 2015, on-balance sheet customer funds amounted to €131,489 million, compared with €94,461 million at 2014 year-end and €94,497 million at 2013 year-end (a 39.2% increase in December 2015 compared with December 2014 as a result of the acquisition of TSB in June 2015 and a -0.04% reduction in December 2014 compared with December 2013). In 2015, the movement of balances from time deposits to demand accounts and mutual funds has continued, as a result of the downward evolution of interest rates. At 31 December 2015, the balance of demand accounts (checking accounts, together with savings accounts) totalled €84,536 million euros (+95.3%), to the detriment of time deposits, which showed a -11.7% decrease (T4).
Off-balance sheet customer funds managed by the group and those traded but not under management are shown in Note 31 of the 2015 consolidated annual accounts.

The deposits of the entity are traded through the following units/companies of the group (Commercial Banking, Corporate Banking and Global Businesses, Private Banking, SUB and TSB). Details of the volumes of these business units are included in the section on Business results of the Directors' Report.

During 2015, the generation of commercial gap has stabilised, with the positive trend seen over the last years continuing, although more moderately. This has allowed, on the one hand, continuing with the bank's policy of partially refinancing maturities in capital markets and, at the same time, with the system for the reduction of the loan to deposit (LtD) ratio of the group (from 147% at the end of 2010 to 106.5% at the end of 2015). The evolution of the ratio over the year has also been positively affected by the incorporation of TSB in June 2015, with a financing structure that is mainly concentrated on customer deposits.
To calculate the loan to deposit (LtD) ratio, the net credit investment, adjusted by subsidised financing, is used as the numerator, and the retail financing as denominator.

Capital market
As a result of deleveraging by the group and its successful campaign to attract deposits, the proportion of funding raised on the wholesale markets has declined steadily in recent years. At the end of 2015, the outstanding balance of capital market funding was €27,436 million, which excluding TSB amounted to €22,961 million, compared with an outstanding balance of €23,106 million at 2014 year-end. By type of product, at December 2015, €13,628 million of the total amount placed in capital markets corresponded to mortgage covered bonds, €2,816 million to commercial paper and Euro Commercial Paper (ECP) aimed at wholesale investors, €2,595 million corresponding to senior debt (of which €1,058 million were for transactions with State guarantees as a result of the acquisition of Banco CAM), €1,388 million corresponded to issuances of subordinated debt and preference shares placed on the market, €6,974 million corresponded to securitisation bonds placed on the market (of which €3,951 million corresponded to TSB) and €34 million corresponded to other medium- and long-term equity instruments (T5).

The Banco Sabadell group performs activities and maintains certain financing programs active on capital markets to diversify its various sources of liquidity.

€ million

T4 On-balance sheet customer funds by maturity

	2015	3 months	6 months	12 months	>12months	No mat.
Total on-balance sheet customer funds (*)	**131,489**	**8.7%**	**8.0%**	**12.7%**	**6.3%**	**64.3%**
Time deposits	42,947	25.2%	22.5%	34.6%	17.7%	0.0%
Demand accounts	84,536	0.0%	0.0%	0.0%	0.0%	100.0%
Retail issuances	4,006	15.9%	21.6%	46.4%	16.1%	0.0%

(*) Includes customer deposits (ex repos) and other liabilities placed by the branch network: mandatory convertible bonds, straight bonds of Banco Sabadell, commercial paper and others.

€ million

T5 Maturities of issues to institutional investors by product type

	2016	2017	2018	2019	2020	2021	>2022	Outstanding balance
Mortgage bonds and covered bonds	2,876	2,022	1,561	1,124	2,172	2,013	1,859	13,628
Secured issuances	—	1,058	—	—	—	—	—	1,058
Senior debt	1,412	—	100	—	—	—	25	1,537
Subordinated debt and preferential bonds	299	66	—	—	425	565	33	1,388
Other medium- and long-term financial instruments	—	—	18	—	—	10	6	34
Total	**4,587**	**3,146**	**1,679**	**1,124**	**2,597**	**2,589**	**1,923**	**17,645**

In terms of short-term financing, the entity maintains a company promissory notes program and a Euro Commercial Paper (ECP) program:

— Company promissory notes program: this program regulates issues of promissory notes and is aimed at institutional and minority investors. On 5 March 2015, the promissory notes program of Banco Sabadell for 2015 was registered with the CNMV (Spanish Securities Commission), with an issue limit of €6 billion, extendible to €9 billion. The outstanding balance of the promissory notes program has increased over the year, in terms of both the outstanding balance of unqualified investors, and the institutional customer base. At 31 December, the outstanding balance was of €3,661 million (net of promissory notes subscribed by companies of the group), vis-à-vis the €2,745 million euros at 31 December 2014.
— Euro Commercial Paper (ECP) Program, aimed at institutional investors, whereby securities are issued for the short term in various foreign currencies: euro, USD and GBP. On 18 December 2015, Banco Sabadell renewed this program for a maximum nominal amount of €3.5 billion. This program has been increased from €165.2 million euros at the end of 2014, to €275.9 million euros at 31 December 2015.

Regarding medium- and long-term financing, the entity maintains the following programs in place:

— Program for the issue of non-equity securities registered with CNMV (fixed income program): this program regulates the issues of bonds and debentures, both straight and subordinated, and mortgage covered bonds, territorial bonds and structured bonds, made under Spanish law through the CNMV and aimed at both national and foreign investors. The limit available for new issues under the program for the issue of non-equity securities for 2015 of Banco Sabadell at 31 December 2015, was of €6,145.8 million (at 31 December 2014, the outstanding balance under the fixed income program of 2014 was of €5,912.7 million).

During 2015, Banco Sabadell has issued securities under the fixed income program effective at any time for a total of €10,354.2 million, including retained and placed issues. Over the year, the entity has accessed the market on several occasions, taking advantage of available liquidity windows. Specifically, Banco Sabadell made two public issues of five-year mortgage covered bonds in May and October 2015 for an aggregate of €750 million and €1 billion, respectively; two issues of 8-year mortgage covered bonds for a total amount of €300 million, subscribed in full by the European Investment Bank (EIB); ten issues of senior debt at 1 and 2 year terms, for a total amount of €2,750 million and nine issues of structured bonds for a total of €111 million and terms spanning between 1 and 5 years. In the current market context, the entity would have the capacity to issue in various formats and terms.

— Asset securitisation: Since 1993, the group has been very active on this market and has participated in various securitisation programs, in some cases together with other highly solvent entities, granting mortgage loans, loans to small and medium sized enterprises, consumer loans and credit rights derived from financial lease agreements.

  There are currently 35 outstanding asset securitisation operations (including the securitisation of Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB), although part of the bonds issued were withheld by the entity as liquid assets eligible for financing operations with the European Central Bank, the rest of the bonds were placed on capital markets. At the closing of 2015, the balance of securitisation bonds placed on the market was of €6,974.4 million euros.

  For efficiency reasons, during 2015, seven securitisation operations with relatively small outstanding balances were cancelled early (see further details on securitisation funds in Schedule II of the memorandum).

Overall, in 2015 market performance has been positive, although there have been various episodes of volatility that have resulted in tensions and even the closing of markets over relatively extended periods of time. The system as a whole has not seen the refinancing of a large part of the market maturities. This, combined with the ECB stimulation measures over the last quarter of 2014, has caused an excess of liquidity.

Banco Sabadell has taken part in these ECB stimulation measures by attending targeted four-year liquidity auctions (TLTRO or Targeted Longer-term refinancing operations) in both 2014 and 2015, for a total amount of €11 billion. The entity has also participated in the Covered Bond Purchase Program (CBPP3) implemented by the European Central Bank.

The excess of liquidity in the market, together with a scenario of negative short-term interest rates, have driven down prices in repo financing compared to other alternatives. At 31 December 2015, the net amount of repo financing in nominal terms amounted to€ 5,303 million.

Liquid assets

In addition to these sources of funding, Banco Sabadell also maintains a liquidity buffer in the form of liquid assets to face any possible liquidity needs (T6).

In the case of TSB, the first line of liquidity at 31 December 2015, consists mainly of gilts amounting to €1,718 million and an excess of reserves at the Central Bank of England (BoE) of €3,383 million.

There are no significant amounts of cash and cash equivalents that are not available for use by the group.

In addition to the first line of liquidity, the entity maintains a buffer of mortgage assets and loans to public administrations eligible as collateral for mortgage covered bonds and territorial bonds, respectively, which at the end of 2015 provided an additional €7,376 million in terms of the capacity to issue own new bonds eligible as collateral to be discounted at the ECB. At the closing of 2015, available liquidity amounted to €29,623 million in cash, corresponding to the amount of the first line of liquidity plus the capacity to issue mortgage covered bonds and territorial bonds of the entity at year end.

Fulfilment of regulatory ratios

The Banco Sabadell group has included, as part of its liquidity management, the monitoring of the new short-term Liquidity Coverage Ratio or LCR and the Net Stable Funding Ratio or NSFR, reporting to the regulator on the required information on a monthly and quarterly basis, respectively. The measurement of liquidity based on these metrics forms part of the liquidity risk control in the set of the LMUs.

In terms of the LCR ratio, since 1 October 2015, the statutory minimum payment is 60%, a level that is widely surpassed by all LMUs of the entity, with the cases of TSB and Banco Sabadell España being noteworthy, with high levels of LCR. At the group level, the LCR ratio of the entity has been permanently and stably positioned over the year at well above 100%.

As regards the NSFR ratio, it is still in the analysis and final definition stage. The date set for its implementation is January 2018, and just as for the LCR ratio, a period of gradual application is planned. The bank has nonetheless already commenced the monitoring of this ratio as a liquidity metric at the LMU level.

Given the funding structure of the entity, with a high level of customer deposits, and the majority of the market financing being focused on the medium-/long-term, the entity has remained stable at levels that are well above 100%.

Market risk

Market risk arises from the possibility of incurring losses in the market value of positions maintained in financial assets, due to changes in risk factors which affect its prices and shares, its volatilities and their interconnections (for example: equity, interest rates or exchange rates).

These positions that generate market risk are normally kept for the treasury intermediation or capital markets management business or to maintain the entity's own positions of a discretionary nature.

It may also arise simply by maintaining global balance sheet positions (also known as structural positions) that in net terms are left open. In the latter case, the group uses the market risk management and monitoring system to treat the structural exchange rate risk position. Other market risks of a structural nature, affected by such factors as interest or liquidity rates, are addressed in the relevant sections.

The market risk acceptance, management and control system is based on the establishment of limits for expressly allocated positions and the approval of transactions

€ million

T6

	2015
Cash(*) + Net interbank position	4,016
Available in policy	4,349
Pledged assets in policy(**)	15,899
Drawn balance in Banco of Spain policy (***)	11,550
ECB eligible assets not included in policy	10,785
Other ECB ineligible marketable assets (****)	3,097
Total available liquid assets	**22,247**

(*) Surplus reserves in central banks.
(**) At market value and after applying ECB reductions on monetary policy transactions.
(***) Of which in 2015, €11,000 correspond to ECBr-year TLTRO auctions (Targeted longer-tterm refinancing operations).
(****) At market value and after applying reductions on the Liquidity Coverage Ratio (LCR). Includes fixed income, which is considered to be a high-quality and high-liquidity asset in terms of its LCR (HQLA) and other marketable assets from different companies in the group.

in each business unit, such that different management units have the obligation to manage their positions within the agreed limits at all times and their transactions are subject to approval by the risk department.

The changes in commodities prices have not had an impact in 2015, as the group maintains residual exposures, both direct and in underlying assets.

Trading activity

Market risk is measured using the VaR and stressed VaR methodology, which allows the harmonisation of the risks in various types of financial market operations.

The VaR provides an estimate of the maximum potential loss posed by a position due to an adverse but normal movement of any of the identified parameters influencing market risk. This estimate is expressed in monetary terms and refers to a specific date, a specified level of confidence and a specific time horizon. The various market risk factors are taken into consideration for this purpose.

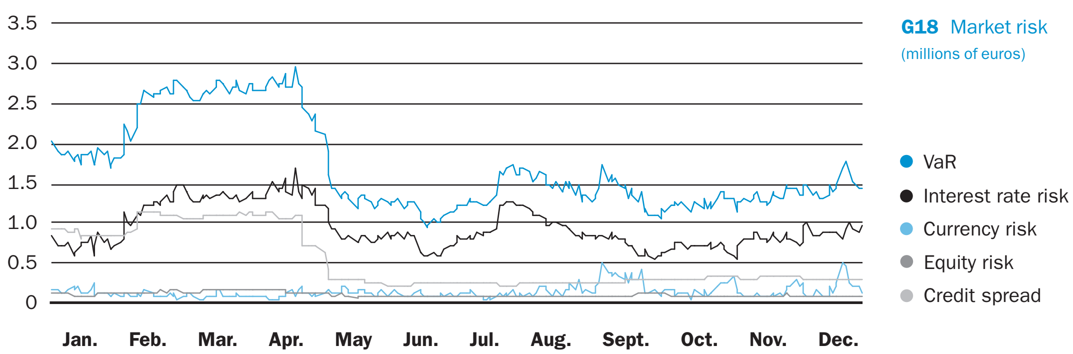
The feasibility of the VaR methodology used is verified using back testing techniques, used to ensure that the VaR estimates are within the considered confidence level.

Stressed VaR is calculated in the same way as the VaR but with a historical window of variations of the risk factors in stressed market conditions. Its monitoring is complemented with specific simulation exercises and adverse market scenarios (stress testing), which analyse the impact of various historical and theoretical scenarios on the portfolios, and the calculation of management results, used to monitor stop-loss limits.

Market risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits assigned to each unit established by the Risk Control Committee are sent to the control bodies (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 adverse market scenarios (stress testing), which provide the positions' risk profile. Therefore, the use of this methodology does not imply any restriction on the ability to incur losses that exceed the established limits, as significant changes in market conditions may exceed the established confidence levels. The reliability of the VaR methodology is validated by back testing techniques that are used to verify that VaR estimates are consistent with the specified confidence level.

Market risk by trading activity incurred in terms of the VaR at day 1 with 99% confidence for 2015 is shown in figure G18.



G18 Market risk
(millions of euros)

Structural risks concerning interest rates and exchange rates

Structural interest rate risk

Structural Interest rate risk arises from changes in market rates of interest that impact on different balance sheet assets and liabilities, which present temporary mismatches in the maturity or repricing dates, as is common in banking. Exposure to this risk in the event of unexpected interest rate movements may ultimately feed through into unforeseen changes in interest margins and economic value.

The metrics developed for the control and monitoring of structural interest rate risk in the group are aligned with the market best practices and are consistently implemented throughout the Balance sheet Management Units (BMUs) and at the heart of each of the local assets and liabilities committees. The diversification effect between currencies and BMUs is taken into account when presenting key figures at the global level.

The group therefore has two main objectives in terms of interest rate risk management:

— Optimise the net interest income.
— Maintain the economic value of the balance sheet.

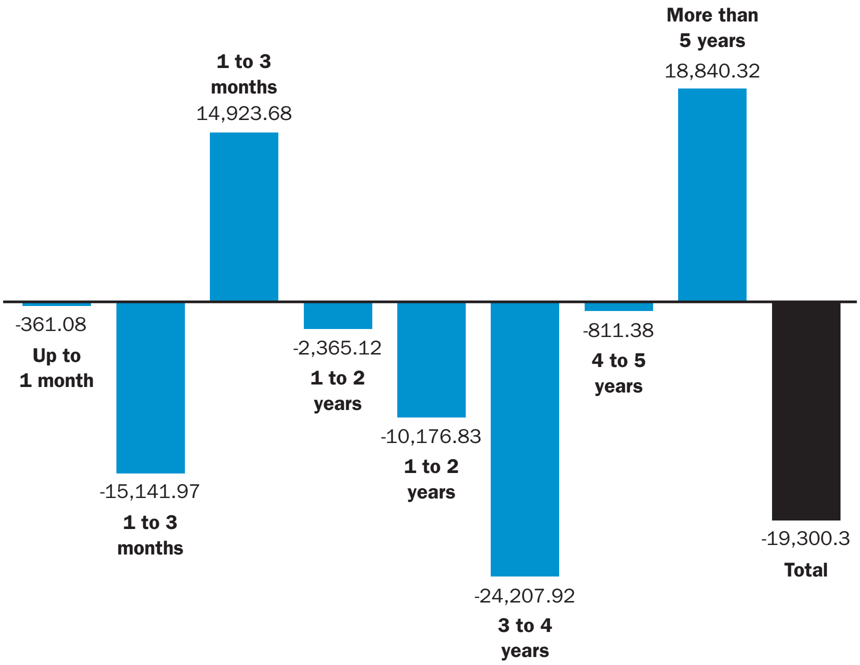
To accomplish these objectives and at the same time stay within the limits set for risk appetite, an active management of the balance sheet is used both through the development of commercial strategies providing natural hedges, and the contracting of market operations seeking to minimise the risk level assumed.

The set of risk sources taken into account in the control and monitoring process depends on the materiality of each in the various BMUs and is as follows:

— Repricing risk: is that arising as a result of the different rate at which assets and liabilities renew their interest rates.
— Yield curve risk: is that arising as a result of the shifts of various different types that may be experienced by the market interest rates curve.
— Basis risk: is that arising from the unequal or disparate movements that may be seen in the various interest rate curves to which the sensitive assets and liabilities on the balance sheet are subject.
— Optionality risk: is that arising as a result of the contractual characteristics of certain products and instruments on the balance sheet. The optionality may be explicit, when clearly established in terms of an observable or implicit market variable, when it depends on possible considerations of customers. The latter case encompasses the prepayment and early withdrawal options.

The metrics used are as follows:
— Interest rate gap (G19), a static measure showing the distribution of maturities and repricing of sensitive items on the balance sheet. For amounts with no contractual maturity, estimated expected maturities based on the experience of the entity have been used, establishing assumptions of stability and remuneration according to product type.

G19 Interest rate gap



— Net interest income sensitivity: measures the short and medium-term impact of fluctuations in interest rates. It is obtained by comparing the net interest income over a one-year period in the baseline scenario, which is obtained from implicit market rates, and that obtained from parallel and instantaneous movements of ±100 basis points (*), always considering the most unfavourable scenario.
— Economic value sensitivity: measures the long-term impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario and that of parallel and instantaneous movements of ±100 basis points (*), always considering the most unfavourable scenario.
— Other statistical and econometric models estimating correlations between various market variables or between these and the historical behaviour of the customer base.

Table T7 shows the interest rate risk levels in terms of sensitivity of the main foreign currencies of the group at the end of 2015.

Derivatives from financial markets are used as risk hedging instruments, mainly interest rate swaps (IRS), which are considered as hedging instruments for accounting purposes. Two different forms of macro-hedging are used:

— Macro-hedging of interest rates of cash flows, the purpose of which is to reduce the volatility of the net interest income as a result of interest rate variations, for a one-year time horizon.
— Macro-hedging of interest rates at fair value, the purpose of which is to maintain the economic value of the hedged items, consisting of assets and liabilities at a fixed interest rate.

The balance sheet items recorded at amortised cost do not present any valuation adjustments associated to fluctuations in interest rates. However, for financial assets classified as Financial assets available for sale recorded at fair value, changes in risk premiums have had a more significant impact than the fall in interest rates that has taken place during this year.

%

T7

	Immediate and parallel increase of 100 bp	
Interest rate sensitivity	**Impact on net interest income**	**Impact on net interest income**
EUR	(0.1)	(1.1)
GBP	2.0	(0.9)
USD	(0.2)	(1.8)

* Due to the current level of market interest rates, in the downturn scenario, a maximum displacement of 100 basis points is used in each term, so that the resulting rate is always greater than or equal to zero.

Structural exchange rate risk

This risk arises from changes (if any) in the market exchange rates between currencies, which may generate losses in financial investments or in permanent investments in offices and subsidiaries abroad which use currencies other than the euro.

Exchange rate risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits assigned by the Risk Committee are sent to the risk control bodies.

The Financial Department, through the ALCO, designs and implements the strategies for hedging the structural position in foreign currency with the priority objective of minimising the negative impact on capital ratios -CET1- of fluctuations in exchange rates.

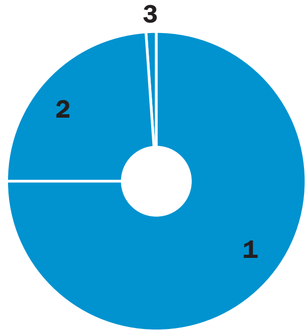
The Market Risk Department and the Audit and Control Department oversee compliance with the objectives and policies of the group and their effectiveness, reporting to the Risk Committee and the Audit and Control Committee, respectively.

The exchange value in euro of assets and liabilities in foreign currencies maintained by the group at 31 December 2015, classed in line with their nature, is shown in figure G20.

The net position of foreign currency assets and liabilities includes the entity's structural position valued at historic exchange rates which includes €1,656 million corresponding to permanent investments in GBP and €734 million corresponding to permanent investments in USD. The net total of assets and liabilities valued at the fixing exchange rate is covered by forwards operations and currency options, following the group's risk management policy and resulting in a total net open position of €58 million at 31 December 2015.

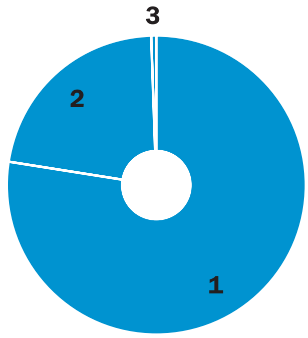
At year-end 2015 the equity exposure sensitivity to a 1% depreciation in exchange rates against the euro of the main currencies to which exposure exists amounted to €21 million, of which 60% pertains to the British Pound Sterling, 36% pertains to the US Dollar and the remaining amount pertains to other currencies.

G20 Exchange value in euro of assets and liabilities in foreign currencies (%)



Assets in foreign currencies

1	GBP	75.0%
2	USD	23.9%
3	Other currencies	1.1%



Liabilities in foreign currencies

1	GBP	77.5%
2	USD	22.1%
3	Other currencies	0.4%

Operational risk

Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes and systems or from unforeseen external events. This definition includes reputational risk (which in turn includes behavioural risk), technological risk and model risk.

Management of operational risk is decentralised and devolved to process managers throughout the organisation. All of those processes are identified on a corporate process map, thus facilitating the compilation of information in a way that reflects the structure of the organisation. The group has a specialised central unit to manage operational risk, whose main functions are to coordinate, supervise and promote the identification, assessment and management of risks by process managers in line with the Banco Sabadell group's management model.

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 group. 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. Operational risk management is based on two lines of action.

The first line of action is based on the analysis of processes, the identification of risks associated with said processes that may result in losses, a qualitative assessment of the risks and the associated controls, carried out jointly between process managers and the central operational risk unit. This provides an assessment which lets the entity know its future exposure to the risk in terms of expected and unexpected loss, and also allows trends to be foreseen and the corresponding mitigating actions to be efficiently planned.

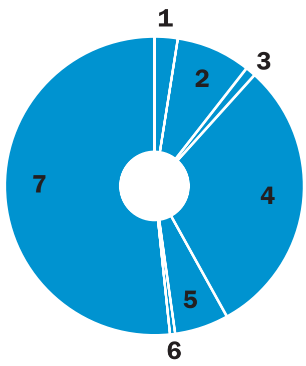
This is complemented by the identification, monitoring and active management of the risk through the use of key indicators, causing the establishment of alerts to warn of any increase in this exposure, the identification of the causes for this increase, and the measurement of the efficiency of the resulting controls and improvements.

At the same time, any processes in which a high criticality has been identified due to a lack of service are defined and specific business continuity plans are implemented. In terms of the identified risks, a qualitative estimate is made of the reputational impact that these risks could cause in the event of their occurrence.

The second line of action is based on experience. It consists of recording all losses suffered by the entity in a database, providing information for operational risks encountered by each line of business, as well as their causes, so that action may be taken to minimise these risks.

Additionally, this information allows the coherence between the estimates made on potential and actual losses to be compared and contrasted, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

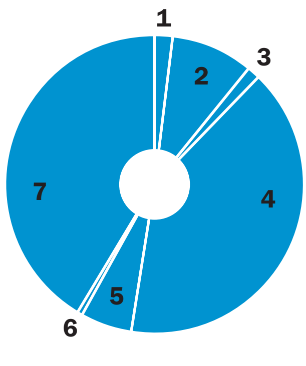
A database is available containing historical records of actual losses resulting from operational risk going back to 2002. It is constantly being updated as information is received on losses and recoveries, whether resulting from the bank's own efforts or from insurance provisions (G21 and G22).



G21

Breakdown of operational risk events by amount (12 months) (%)

1	Internal fraud	2.6%
2	External fraud	8.1%
3	Staff relations and job security issues	1.1%
4	Customers, products and business practices	30.3%
5	Property damage	5.7%
6	Business disruption/ systems failure	0.6%
7	Process execution, delivery and management	51.7%



G22

Breakdown of operational risk events by amount (last 5 years) (%)

1	Internal fraud	2.0%
2	External fraud	9.1%
3	Staff relations and job security issues	1.4%
4	Customers, products and business practices	40.0%
5	Property damage	5.7%
6	Business disruption/ systems failure	0.4%
7	Process execution, delivery and management	41.4%

Operational risk includes management and control of the following main risks:

- Reputational risk: the possibility of losses arising from negative publicity related to the bank's practices and activities, potentially leading to a loss of trust in the institution with an impact on its solvency.
- Technology risk: possibility of losses due to inability of the systems infrastructure to fully support the continuation of ordinary business activity.
- Model risk: the possibility of losses arising from decision-making based on the use of inadequate models.

Tax risk

Tax risk reflects the possibility of a breach or of uncertainty over the interpretation of tax legislation in any of the jurisdictions where the bank operates.

The Banco Sabadell group's objective in this area is to ensure compliance with tax obligations while guaranteeing adequate returns for our shareholders.

The Board of Directors determines the tax risk control and management policies, as well as the tax strategy, with the two-fold objective of ensuring that legal obligations are met and ensuring greater returns for shareholders.

The Tax Advisory Area provides an independent review of the bank's operations to ensure that they conform to the lax legislation in force. Specifically, its functions are divided into two areas, depending on Banco Sabadell's situation in each case:

- As a taxpayer: with a view to ensuring that Banco Sabadell meets its tax obligations accurately and on time, the Tax Advisory Area performs regular and periodic checks that the bank's general situation complies with the tax legislation, and sporadic checks, as required, that specific operations are compliant .
- As a developer of new products: the bank's ordinary activity involves creating new products to be offered to our customers. The development of these products must include an analysis of their tax situation with a view to describing their characteristics in a transparent way.

Compliance risk

Compliance risk is defined as the risk of incurring legal or administrative penalties, significant financial losses or an impairment of reputation due to a breach of laws, regulations, internal rules and codes of conduct applicable to the banking industry.

One of the essential aspects of the Banco Sabadell group's policy, and the basis of its organisational culture, is rigorous compliance with all legal provisions. The pursuit of its business objectives must be compliant at all times with the current legislation and with best practice.

With this aim in mind, the group has a Compliance Department responsible for promoting and ensuring the highest possible degree of compliance with current regulations, as well as the professional ethics within the group. It also seeks to minimise the possibility of infringement and to ensure that any possible infringements are diligently identified, reported and resolved, and ensure that the corresponding preventive measures are adopted if they are not in place already.

Banco Sabadell has a compliance model that handles the setting of policies, procedures and controls centrally at head office, and carries out control programs, delegating their implementation and functional responsibility to its subsidiaries and branches in other countries.

This is a flexible risk-focused approach that can adapt with agility to the group's strategy at any given time and which takes advantage of synergy, particularly in areas with complex far-reaching impacts and/or which require technology to be developed, while it can also adapt to the specific situations and legislation affecting each business or country.

The main challenge is the standardisation throughout the group of compliance control levels, setting minimum standards whose fulfilment is mandatory, regardless of the activity carried out or the country in which it is carried out.

This model is comprised of two main pillars:

- A central unit providing services to the entire group and aimed at the global management of the compliance risk. Its main activity is the analysis, distribution and control of the implementation of any new regulations with impact on the group, as well as the risk-focused control of the correct compliance with regulations already in place.

  It is also directly responsible for the implementation of various processes, classified as of high risk, as they require direct and comprehensive control: money laundering prevention and countering the financing of terrorism; the control of market abuse practices; control of compliance with the Internal Code of Conduct and the implementation and monitoring of investor protection elements (MiFID).
- A network of compliance managers located at each foreign subsidiary and branch (functionally dependent on the central compliance unit and hierarchically dependent on the Director of the foreign subsidiary or branch) implementing its own control programs and reporting regularly to the central unit, ensuring compliance with internal standards and legislation in force in all countries and activities in which it operates.

  To ensure its efficiency, this model is carried out and implemented using six catalysts (technology, training, procedures, communication channels, control and monitoring programs and product and regulations approval processes).

Roadmap of published information

R

Block	Document	Website section
Corporate Governance System		
General information	General information about the group	Group
General Meeting	Regulations, representation, shareholder information, previous General Meetings and electronic shareholders' forum	Shareholder and investor information_ Corporate governance
Corporate Governance	Members of the Board of Directors and CVs, members of the Delegated Committees	Shareholder and investor information_ Corporate governance
Legal documents	Banco Sabadell Articles of Association, Regulations of the Board of Directors, Internal Regulations	Shareholder and investor information_ Corporate governance
Remuneration policy	Annual report on Directors' Remuneration	Shareholder and investor information_ Corporate governance _ General Meeting Convened
Committee reports	Committees: Audit, Appointments and Remuneration	Shareholder and investor information_ Corporate governance
Annual report on Corporate Governance	Annual report on Corporate Governance	Shareholder and investor information_ Corporate governance
	Legal information 2015_Annual accounts_ and Directors' report	Shareholder and investor information _ Financial information_Annual reports_ legal information
The Banco Sabadell share	Quote, capital, key data, Investor's calendar, Shareholder structure	Shareholder and investor information _ The Banco Sabadell share
	Shareholder remuneration and Sabadell Scrip Dividend	Shareholder and investor information _ The Banco Sabadell share
	Shareholder information	Shareholder and investor information_ Products and Services
	Annual report_sub-chapter Shareholders	Shareholder and investor information_ Financial information_Annual reports
Economic and regulatory environment	Annual report_sub-chapter Economic environment	Shareholder and investor information_ Financial information_Annual reports
Financial information		
Strategy	Annual report_sub-chapter Triple Plan	Shareholder and investor information_ Financial information_Annual reports
	Financial reports (quarterly)	Shareholder and investor information _ Financial information
	Legal information 2015_Annual accounts_ Directors' report	Shareholder and investor information_ Financial information_Annual reports
Balance sheet and results	Annual report_chapter Group financial information	Shareholder and investor information_ Financial information_Annual reports
	Legal information 2015_Annual accounts_ Directors' report	Shareholder and investor information_ Financial information_Annual reports _ legal information
Businesses		
General data	General data on Businesses	Businesses
Description, data and milestones of the year	Annual report_Business chapter	Shareholder and investor information_ Financial information_Annual reports
Financial data – main businesses	Legal information 2015_Annual accounts_ Directors' Report	Shareholder and investor information_ Financial information_Annual reports _ legal information
Risks and Solvency	Annual report_Risks chapter	Shareholder and investor information_ Financial information_Annual reports
	Annual accounts 2015_Note 4 and Note 5	Shareholder and investor information_ Financial information_Annual reports _ legal information
	Report of Prudential relevance	Shareholder and investor information _ Financial information
Corporate Social Responsibility	General information	CSR
	Codes and policies	CSR

Statutory information

Director’s statement of responsibility
Auditor’s report
Annual accounts
Report of the directors

Sabadell

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 20th 2016 and with the personal attendance of Mr. José Oliu Creus, Mr. José Javier Echenique Landiribar, Mr. Jaime Guardiola Romojaro, Mr. Joan Llonch Andreu, Mr. Joaquín Folch-Rusiñol Corachán, Mr. Hector María Colonques Moreno, Ms. María Teresa García-Milá LLoveras, Mr. José Ramón Martínez Sufrategui, Mr. António Vitor Martins Monteiro, Mr. José Luís Negro Rodríguez, Mr. José Manuel Martínez Martínez, Ms. Aurora Catá Sala, Mr. José Manuel Lara García and Mr. David Vegara Figueras, with justified absence of Mr. David Martínez Guzmán, under the chairmanship of Mr. Oliu, and the undersigned acting as Secretary and as Vice Secretary Ms. María José García Beato, after due deliberation and amongst other items that do not contradict them, the following was unanimously resolved:

> 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 2015, approved by them today and drawn up in accordance with the 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 they face.

Express mention is hereby made of the reading of the minutes of the aforesaid meeting of the Board in which the above resolution was 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 hereby issue this certificate with the approval of the Chairman and the signature of the Secretary of Banco de Sabadell, SA, in Barcelona on this day, January 28th in the year two thousand and sixteen.

APPROVED BY

The Chairman | The Secretary

This version of our report is a free translation of the original, which was prepared in Spanish. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

INDEPENDENT AUDITOR´S REPORT ON CONSOLIDATED ANNUAL ACCOUNTS

To the shareholders of Banco de Sabadell, S.A.:

Report on the consolidated annual accounts

We have audited the accompanying consolidated annual accounts of Banco de Sabadell, S.A. (herein after the parent company) and its subsidiaries (herein after the Group), which comprise the consolidated balance sheet as at December 31, 2015, the consolidated income statement, the consolidated statement of recognised income and expenses, the consolidated statement of changes in total equity, the consolidated cash flow statement and related notes for the year then ended.

Directors' responsibility for the consolidated annual accounts

The parent company´s directors are responsible for the preparation of these consolidated annual accounts, so that they present fairly the consolidated equity, financial position and financial performance of Banco de Sabadell, S.A. and its subsidiaries, in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable to the Group in Spain and for such internal control as directors determine is necessary to enable the preparation of consolidated annual accounts that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated annual accounts based on our audit. We conducted our audit in accordance with legislation governing the audit practice in Spain. This legislation requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated annual accounts. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated annual accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the parent company´s directors´ preparation of the consolidated annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the consolidated annual accounts taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PricewaterhouseCoopers Auditores, S.L., Avinguda Diagonal, 640, 08017 Barcelona, España
Tel.: +34 932 532 700 / +34 902 021 111, Fax: +34 934 059 032, www.pwc.es

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

Opinion

In our opinion, the accompanying consolidated annual accounts present fairly, in all material respects, the consolidated equity and financial position of Banco de Sabadell, S.A. and its subsidiaries as at December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards, as adopted by the European Union, and other provisions of the financial reporting framework applicable in Spain.

Report on other legal and regulatory requirements

The accompanying consolidated directors' Report for 2015 contains the explanations which the parent company´s directors consider appropriate regarding Banco de Sabadell, S.A. and its subsidiaries´ situation, the development of their 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 directors' Report is in agreement with that of the consolidated annual accounts for 2015. Our work as auditors is limited to checking the directors' Report in accordance with the scope mentioned in this paragraph and does not include a review of information other than that obtained from Banco de Sabadell, S.A. and its subsidiaries´ accounting records.

PricewaterhouseCoopers Auditores, S.L.

PRICEWATERHOUSECOOPERS AUDITORES, S.L.

Original in Spanish signed by
Raúl Ara Navarro

January 29, 2016

Translation of the Consolidated Annual Accounts originally issued in Spanish and prepared in accordance with EU-IFRSs, as adopted by the European Union. In the event of a discrepancy the Spanish-language version prevails.

BANCO DE SABADELL, S.A. AND COMPANIES FORMING THE BANCO SABADELL GROUP

Consolidated annual accounts
for the year ended
31 December 2015

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Directors' Report

Consolidated balance sheets of the Banco Sabadell Group

At 31 December 2015 and 31 December 2014

Thousand euro

Assets	Note	2015	2014 (*)
Cash and balances with central banks		**6,139,459**	**1,189,787**
Financial assets held for trading		**2,312,118**	**2,206,035**
Loans and advances to credit institutions		-	-
Loans and advances to customers		-	-
Debt securities	8	792,460	578,797
Equity instruments	9	11,212	45,068
Trading derivatives	10	1,508,446	1,582,170
Memorandum item: loaned or pledged		-	-
Other financial assets at fair value through profit or loss		**77,328**	**137,148**
Loans and advances to credit institutions		-	-
Loans and advances to customers		-	-
Debt securities		-	-
Equity instruments	9	77,328	137,148
Memorandum item: loaned or pledged		-	-
Available-for-sale financial assets		**23,460,356**	**21,095,619**
Debt securities	8	22,887,626	20,393,061
Equity instruments	9	572,730	702,558
Memorandum item: loaned or pledged		*5,778,397*	*6,393,792*
Loans and receivables		**154,754,303**	**117,895,179**
Loans and advances to credit institutions	7	6,206,088	4,623,197
Loans and advances to customers	11	146,815,737	110,835,723
Debt securities (Note 5)	8	1,732,478	2,436,259
Memorandum item: loaned or pledged		*1,349,574*	*772,211*
Held to maturity investments		**-**	**-**
Memorandum item: loaned or pledged		-	-
Adjustments to financial assets and liabilities due to macro-hedges	12	**7,693**	**-**
Hedging derivatives	13	**700,813**	**910,173**
Non-current assets held for sale	14	**2,542,386**	**2,249,935**
Investments	15	**340,996**	**513,227**
Associates		340,996	513,227
Insurance contracts linked to pensions	25	**153,631**	**162,713**
Reinsurance assets		**14,739**	**11,827**
Tangible assets	16	**4,188,526**	**3,982,866**
Property, plant and equipment		1,846,621	1,613,287
For own use		1,709,523	1,532,917
Leased out under operating leases		137,098	80,370
Investment property		2,341,905	2,369,579
Memorandum item: Acquired under finance leases		-	-
Intangible assets	17	**2,080,570**	**1,591,296**
Goodwill		1,092,777	1,084,146
Other intangible assets		987,793	507,150
Tax assets		**7,255,450**	**7,127,981**
Current		678,938	983,818
Deferred	44	6,576,512	6,144,163
Other assets	18	**4,599,403**	**4,271,887**
Inventories		3,655,548	4,021,357
Other		943,855	250,530
Total assets		**208,627,771**	**163,345,673**

(*) Presented for comparative purposes only (see Note 1, Comparability).

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

Consolidated balance sheets of the Banco Sabadell Group

At 31 December 2015 and 31 December 2014

Thousand euro

Liabilities	Note	2015	2014 (*)
Financial liabilities held for trading		**1,636,826**	**1,726,143**
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Customer deposits		-	-
Marketable debt securities		-	-
Trading derivatives	10	1,484,922	1,549,973
Short positions		151,904	176,170
Other financial liabilities		-	-
Other financial liabilities at fair value through profit or loss		**-**	**-**
Deposits from central banks		-	-
Deposits from credit institutions		-	-
Customer deposits		-	-
Marketable debt securities		-	-
Subordinated liabilities		-	-
Other financial liabilities		-	-
Financial liabilities at amortised cost		**189,468,677**	**145,580,114**
Deposits from central banks		11,566,070	7,201,546
Deposits from credit institutions	19	14,724,718	16,288,193
Customer deposits	20	132,876,312	98,208,370
Marketable debt securities	21	26,406,617	20,196,329
Subordinated liabilities	22	1,472,779	1,012,362
Other financial liabilities	23	2,422,181	2,673,314
Adjustments to financial assets and liabilities due to macro-hedges	12	**16,330**	**68,020**
Hedging derivatives	13	**681,461**	**460,296**
Liabilities associated with non-current assets held for sale	14	**-**	**-**
Liabilities under insurance contracts	24	**2,218,295**	**2,389,571**
Provisions	25	**346,225**	**395,215**
Provisions for pensions and similar obligations		115,018	122,441
Provisions for taxes and other legal contingencies		51,971	51,821
Provisions for contingent exposures and commitments		113,679	131,861
Other provisions		65,557	89,092
Tax liabilities		**580,357**	**879,855**
Current		88,214	66,094
Deferred	44	492,143	813,761
Other liabilities		**911,939**	**630,507**
Total liabilities		195,860,110	152,129,721

(*) Presented for comparative purposes only (see Note 1, Comparability).

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

Consolidated balance sheets of the Banco Sabadell Group

At 31 December 2015 and 31 December 2014

Thousand euro

Equity	Note	2015	2014 (*)
Shareholders' funds	26	**12,274,945**	**10,223,743**
Capital		679,906	503,058
Issued		679,906	503,058
Less: Uncalled capital		-	-
Share premium		7,935,665	5,710,626
Reserves		3,175,065	2,991,627
Accumulated reserves (losses)		3,022,769	2,890,915
Reserves (losses) in companies accounted for by the equity method		152,296	100,712
Other equity instruments		14,322	734,131
Equity component of compound financial instruments		-	727,567
Other equity instruments		14,322	6,564
Less: Treasury shares		*(238,454)*	*(87,376)*
Profit for the year attributed to the parent company		708,441	371,677
Less: Dividends and remuneration		-	-
Valuation adjustments	27	**455,606**	**937,416**
Available-for-sale financial assets		579,295	844,641
Cash flow hedging		16,412	237,552
Hedging of net investment in foreign transactions		17,927	-
Exchange differences		(23,690)	2,005
Non-current assets held for sale		-	-
Entities accounted for by the equity method		16,510	17,964
Other valuation adjustments		(150,848)	(164,746)
Non-controlling interests	28	**37,110**	**54,793**
Valuation adjustments		(39)	1,517
Rest		37,149	53,276
Total equity		**12,767,661**	**11,215,952**
Total liabilities and equity		**208,627,771**	**163,345,673**

Memorandum item			
Contingent risks	29	**8,356,167**	**9,132,560**
Contingent commitments	30	**21,130,614**	**14,769,638**

(*) Presented for comparative purposes only (see Note 1, Comparability).

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

Consolidated income statements of the Banco Sabadell Group

for the years ended 31 December 2015 and 2014

Thousand euro

	Note	2015	2014 (*)
Interest and similar income	32	**4,842,356**	**4,513,497**
Interest and similar expenses	32	**(1,639,526)**	**(2,253,791)**
Net interest income		**3,202,830**	**2,259,706**
Return on equity instruments		**2,912**	**8,628**
Share of profit/(loss) of companies accounted for by the equity method		**48,795**	**101**
Fee and commission income	33	**1,166,677**	**970,588**
Fee and commission expenses	33	**(163,333)**	**(109,697)**
Net gains/(losses) on financial assets and liabilities	34	**1,208,161**	**1,763,604**
Financial instruments held for trading		150,440	42,968
Other financial instruments at fair value through profit or loss		109	476
Financial instruments not measured at fair value through profit or loss		1,052,288	1,721,229
Other		5,324	(1,069)
Exchange differences (net)		**137,926**	**99,556**
Other operating income	35	**390,944**	**437,711**
Income from insurance and reinsurance contracts		174,226	256,332
Sales and income from non-financial services		61,507	30,910
Rest of other operating income		155,211	150,469
Other operating expenses	36	**(516,542)**	**(629,671)**
Expenses on insurance and reinsurance contracts		(218,431)	(306,699)
Difference between opening and closing inventories		-	(4,186)
Rest of other operating expenses		(298,111)	(318,786)
Gross income		**5,478,370**	**4,800,526**
Administration costs	37	**(2,286,515)**	**(1,773,318)**
Personnel expenses		(1,457,341)	(1,202,604)
Other general administrative expenses		(829,174)	(570,714)
Depreciation and amortization	16 y 17	**(328,862)**	**(278,104)**
Provisions (net)		**20,216**	**170,094**
Impairment losses on financial assets (net)	38	**(1,528,567)**	**(1,779,558)**
Loans and receivables		(1,396,177)	(1,763,848)
Other financial instruments not measured at fair value through profit or loss	9	(132,390)	(15,710)
Operating profit/(loss)		**1,354,642**	**1,139,640**

(*) Presented for comparative purposes only (see Note 1, Comparability).

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

Consolidated income statements of the Banco Sabadell Group

for the years ended 31 December 2015 and 2014

Thousand euro

	Note	2015	2014 (*)
Impairment losses on other assets (net)	39	**(643,944)**	**(451,562)**
Goodwill and other intangible assets	17	(1)	-
Other assets	18	(643,943)	(451,562)
Gains/(losses) from disposals of assets not classified as non-current assets held for sale	40	**(16,960)**	**236,948**
Negative goodwill on business combinations	41	**231,891**	**-**
Gains/(losses) from non-current assets held for sale not classified as discontinued operations	42	**(180,868)**	**(438,633)**
Profit/(loss) before discontinued operations and taxes		**744,761**	**486,393**
Income tax	44	**(32,516)**	**(109,748)**
Profit/(loss) for the year before discontinued operations		**712,245**	**376,645**
Profit/(loss) from discontinued operations (net)		**-**	**-**
Consolidated profit/(loss) for the year		**712,245**	**376,645**
Profit/(loss) attributed to the parent company		**708,441**	**371,677**
Profit/(loss) attributed to non-controlling interests	28	**3,804**	**4,968**
Earnings per share (€)		*0.14*	*0.09*
Basic earnings per share adjusted for effect of mandatorily convertible bonds and other equity instruments (€)		*0.14*	*0.08*
Diluted earnings per share (€)		*0.14*	*0.08*

(*) Presented for comparative purposes only (see Note 1, Comparability).

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

Statements of changes in equity of the Banco Sabadell Group

Consolidated statements of recognised income and expenses

for the years ended 31 December 2015 and 2014

Thousand euro

	2015	2014 (*)
Consolidated profit/(loss) for the year	**712,245**	**376,645**
Other recognised income and expenses	**(483,367)**	**818,130**
Items not to be reclassified to income statement	**(10,317)**	**16,323**
Actuarial gains /(losses) - defined benefit pension plans	(14,738)	23,319
Non-current assets held for sale	-	-
Companies accounted for by the equity method	-	-
Income tax related to items not to be reclassified to the income statement	4,421	(6,996)
Items that may be reclassified to income statement	**(473,050)**	**801,807**
Available-for-sale financial assets:	(379,597)	880,790
Valuation gains/(losses)	723,428	2,157,190
Amounts transferred to income statement	(1,103,025)	(1,276,400)
Other reclassifications	-	-
Cash flow hedging	(315,914)	384,531
Valuation gains/(losses)	(392,627)	380,340
Amounts transferred to income statement	76,713	4,191
Amounts transferred to initial carrying amount of hedged items	-	-
Other reclassifications		-
Hedging of net investment in foreign transactions	25,611	-
Valuation gains/(losses)	25,611	-
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Exchange differences:	(38,401)	24,405
Valuation gains/(losses)	(38,401)	24,405
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Non-current assets held for sale:	-	-
Valuation gains/(losses)	-	-
Amounts transferred to income statement	-	-
Other reclassifications	-	
Companies accounted for by the equity method	(1,454)	15,604
Valuation gains/(losses)	(1,454)	15,604
Amounts transferred to income statement	-	-
Other reclassifications	-	-
Other recognised income and expenses	34,593	(166,579)
Income tax related to items that may be reclassified to the income statement	202,112	(336,944)
Total recognised income and expenses	**228,878**	**1,194,775**
Attributed to the parent company	**226,631**	**1,188,279**
Attributed to non-controlling interests	**2,247**	**6,496**

(*) Presented for comparative purposes only (see Note 1, Comparability).

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

The consolidated income and expense statement, together with the consolidated statements of total equity changes in Banco Sabadell group make up the net equity changes

Statements of changes in equity of the Banco Sabadell Group

Consolidated statements of changes in total equity

for the years ended 31 December 2015 and 2014

Thousand euro

	Equity attributed to the parent company											Non-controlling interests	Total equity
	Shareholders' funds												
	Capital/ Assigned capital	Issue premium	Accumulated reserves (losses)	Reserves (losses) in companies accounted for by the equity method	Other equity instruments	Less: treasury shares	Profit for the year attributed to the parent company	Less: Dividends and remuneration	Total shareholders' funds	Valuation adjustments	Total		
Closing balance at 31/12/2014 (*)	**503,058**	**5,710,626**	**2,890,915**	**100,712**	**734,131**	**(87,376)**	**371,677**	**-**	**10,223,743**	**937,416**	**11,161,159**	**54,793**	**11,215,952**
Adjustments due to changes in accounting standards	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted opening balance (*)	**503,058**	**5,710,626**	**2,890,915**	**100,712**	**734,131**	**(87,376)**	**371,677**	**-**	**10,223,743**	**937,416**	**11,161,159**	**54,793**	**11,215,952**
Total recognised income and expenses	**-**	**-**	**-**	**-**	**-**	**-**	**708,441**	**-**	**708,441**	**(481,810)**	**226,631**	**2,247**	**228,878**
Other changes in equity	**176,848**	**2,225,039**	**131,854**	**51,584**	**(719,809)**	**(151,078)**	**(371,677)**	**-**	**1,342,761**	**-**	**1,342,761**	**(19,930)**	**1,322,831**
Increases in share capital/assigned capital	175,559	2,209,489	(44,256)	-	(727,567)	-	-	-	1,613,225	-	1,613,225	-	1,613,225
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into capital (**)	1,289	18,409	-	-	-	-	-	-	19,698	-	19,698	-	19,698
Increase in other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution	-	-	-	-	-	-	-	-	-	-	-	-	-
Transactions involving own equity instruments (net)	-	-	7,440	-	-	(201,756)		-	(194,316)	-	(194,316)	-	(194,316)
Transfers between equity items (***)		(50,678)	320,093	51,584	-	50,678	(371,677)	-	-	-	-	-	-
Increases /(reductions) due to business combinations	-	-	-	-	-	-	-	-	-	-	-	-	-
Discretionary appropriation to community projects and social funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity settled payments (****)	-	-	1,371	-	7,758	-	-	-	9,129	-	9,129	-	9,129
Other increases /(decreases) in equity		47,819	(152,794)		-	-	-	-	(104,975)	-	(104,975)	(19,930)	(124,905)
Closing balance at 31/12/2015	**679,906**	**7,935,665**	**3,022,769**	**152,296**	**14,322**	**(238,454)**	**708,441**	**-**	**12,274,945**	**455,606**	**12,730,551**	**37,110**	**12,767,661**

(*) Presented for comparative purposes only (see Note 1, Comparability).

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

Details of movements of shareholders' funds are given in Note 26, unless otherwise indicated

The consolidated income and expense statement, together with the consolidated statements of total equity changes in Banco Sabadell group make up the net equity changes statement.

(**) See Note 22

(***) See Note 3

(****) See Note 37

Statements of changes in equity of the Banco Sabadell Group

Consolidated statements of changes in total equity

for the years ended 31 December 2015 and 2014

Thousand euro

	Equity attributed to the parent company												
	Shareholders' funds												
	Capital/ Assigned capital	Issue premium	Accumulated reserves (losses)	Reserves (losses) in companies accounted for by the equity method	Other equity instruments	Less: treasury shares	Profit for the year attributed to the parent company	Less: Dividends and remuneration	Total shareholders' funds	Valuation adjustments	Total	Non-controlling interests	Total equity
Balance at 31/12/2013 (*)	**501,435**	**5,760,506**	**2,794,955**	**153,523**	**738,476**	**(57,442)**	**145,915**	**-**	**10,037,368**	**120,814**	**10,158,182**	**58,243**	**10,216,425**
Adjustments due to changes in accounting standards	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjustments due to errors	-	-	-	-	-	-	-	-	-	-	-	-	-
Adjusted balance	**501,435**	**5,760,506**	**2,794,955**	**153,523**	**738,476**	**(57,442)**	**145,915**	**-**	**10,037,368**	**120,814**	**10,158,182**	**58,243**	**10,216,425**
Total recognised income and expenses	**-**	**-**	**-**	**-**	**-**	**-**	**371,677**	**-**	**371,677**	**816,602**	**1,188,279**	**6,496**	**1,194,775**
Other changes in equity	**1,623**	**(49,880)**	**95,960**	**(52,811)**	**(4,345)**	**(29,934)**	**(145,915)**	**-**	**(185,302)**	**-**	**(185,302)**	**(9,946)**	**(195,248)**
Increases in share capital/assigned capital	247	6,905	(182)	-	(6,970)	-	-	-	-	-	-	-	-
Capital reductions	-	-	-	-	-	-	-	-	-	-	-	-	-
Conversion of financial liabilities into capital	1,376	23,002	-	-	-	-	-	-	24,378	-	24,378	-	24,378
Increase in other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Reclassification of financial liabilities to other equity instruments	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend distribution (**)	-	-	-	-	-	-	(40,115)	-	(40,115)	-	(40,115)	-	(40,115)
Transactions involving own equity instruments (net)	-	-	17,272	-	-	(108,825)	-	-	(91,553)	-	(91,553)	-	(91,553)
Transfers between equity items (**)	-	(78,891)	158,611	(52,811)	-	78,891	(105,800)	-	-	-	-	-	-
Increases /(reductions) due to business combinations	-	-	(36,363)	-	-	-	-	-	(36,363)	-	(36,363)	-	(36,363)
Discretionary appropriation to community projects and social funds	-	-	-	-	-	-	-	-	-	-	-	-	-
Equity settled payments	-	-	-	-	6,564	-	-	-	6,564	-	6,564	-	6,564
Other increases /(decreases) in equity	-	(896)	(43,378)	-	(3,939)	-	-	-	(48,213)	-	(48,213)	(9,946)	(58,159)
Closing balance at 31/12/2014	**503,058**	**5,710,626**	**2,890,915**	**100,712**	**734,131**	**(87,376)**	**371,677**	**-**	**10,223,743**	**937,416**	**11,161,159**	**54,793**	**11,215,952**

(*) Presented for comparative purposes only (see Note 1, Comparability).

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

(**) See note 3.

Consolidated cash flow statements of the Banco Sabadell Group

for the years ended 31 December 2015 and 2014

Thousand euro

	Note	2015	2014 (*)
Cash flows from operating activities		**1,705,568**	**(663,949)**
Consolidated profit/(loss) for the year	**26**	**712,245**	**376,645**
Adjustments to obtain cash flows from operating activities		**2,175,554**	**2,747,918**
Depreciation and amortisation	16 and 17	328,862	278,104
Other adjustments (a)		1,846,692	2,469,814
Net increase/decrease in operating assets		**8,374,625**	**3,012,073**
Financial assets held for trading		53,282	316,411
Other financial assets at fair value through profit or loss		(59,820)	(3,386)
Available-for-sale financial assets		1,344,438	1,254,942
Loans and receivables		6,815,892	173,366
Other operating assets		220,833	1,270,740
Net increase/decrease in operating liabilities		**7,497,237**	**(601,011)**
Financial liabilities held for trading		(137,280)	280,598
Other financial liabilities at fair value through profit or loss		-	-
Financial liabilities at amortised cost		8,318,813	(1,702,215)
Other operating liabilities		(684,296)	820,606
Income tax collections/payments		**(304,843)**	**(175,427)**
Cash flows from investing activities		**2,028,121**	**(1,137,467)**
Payments made		**4,665,091**	**2,267,971**
(-) Tangible assets	16	626,863	634,313
(-) Intangible assets	17	186,397	176,376
(-) Investments	15	116,469	75,795
(-) Subsidiaries and other business units	2	2,361,922	-
(-) Non-current assets held for sale and associated liabilities	14	1,373,440	1,381,487
(-) Held-to-maturity investments		-	-
(-) Other payments made related to investing activities		-	-
Payments received		**6,693,212**	**1,130,504**
(+) Tangible assets (b)	16	413,257	488,115
(+) Intangible assets		-	-
(+) Investments (d)	15	277,236	206,468
(+) Subsidiaries and other business units		-	-
(+) Non-current assets held for sale and associated liabilities (b)	14	581,311	435,921
(+) Held-to-maturity investments		-	-
(+) Other payments received related to investing activities	2	5,421,408	-

(*) Presented for comparative purposes only (see Note 1, Comparability).

(a) Includes transfers to funds for value adjustments due to impairment and to funds for provisions that have not resulted in a cash outflow for the Group.

(b) Amounts include gains and losses due to disposals.

(d) This heading mainly reflects payments made to cover the coupon (Note 26) and capital increase expenses.

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

Consolidated cash flow statements of the Banco Sabadell Group

for the years ended 31 December 2015 and 2014

Thousand euro

	Note	2015	2014 (*)
Cash flows from financing activities		**1,221,727**	**(227,242)**
Payments made		**710,165**	**596,800**
(-) Dividends	26	21,172	40,115
(-) Subordinated liabilities		87,505	52,306
(-) Redemption of own equity instruments		-	-
(-) Acquisition of own equity instruments	26	519,652	461,112
(-) Other payments related to financing activities		81,836	43,267
Payments received		**1,931,892**	**369,558**
(+) Subordinated liabilities		-	-
(+) Issuance of own equity instruments	26	1,606,556	-
(+) Disposal of own equity instruments	26	325,336	369,558
(+) Other payments received related to financing activities		-	-
Effect of exchange rate fluctuations		**(5,744)**	**16,547**
Net increase/(decrease) in cash and cash equivalents		**4,949,672**	**(2,012,111)**
Cash and cash equivalents at the beginning of the year		**1,189,787**	**3,201,898**
Cash and equivalents at the end of the year		**6,139,459**	**1,189,787**

Memorandum item		
Clash flows corresponding to:		
Interests received	4,888,454	4,174,193
Interests paid	1,930,625	2,656,839
Dividends received	2,912	8,628
Components of cash and cash equivalents at the end of the year		
(+) Cash and banks	734,362	512,935
(+) Cash equivalent balances in central banks	5,405,097	676,852
(+) Other financial assets	-	-
(-) Less: Bank overdrafts reimbursable on demand	-	-
Total cash and cash equivalents at end of the year	**6,139,459**	**1,189,787**
Of which: held by consolidated subsidiaries but not available to the group	**-**	**-**

(*) Presented for comparative purposes only (see Note 1, Comparability).

(**) Includes transfers to funds for value adjustments due to impairment and to funds for provisions that have not resulted in a cash outflow for the Group.

(***) Amounts include gains and losses due to disposals.

Notes 1 to 48 of the Memorandum and its schedules form an integral part of the consolidated balance sheet at 31 December 2015.

NOTES TO THE CONSOLIDATED ANNUAL ACCOUNTS OF THE BANCO SABADELL GROUP

For the years ended 31 December 2015 and 31 December 2014.

Note 1 – Business activity, accounting policies and practices

Activity

Banco de Sabadell, S.A. (also referred to as “Banco Sabadell” or “the Bank”), with registered office in Sabadell, Plaza de Sant Roc, 20, engages in the banking business and is subject to the standards and regulations governing banking institutions operating in Spain.

The bank is the parent company of a corporate group (see Schedule I) whose activity it controls directly or indirectly and which make up, together with the Bank, the Banco Sabadell Group (hereafter “the Group”).

Basis of presentation

The Group’s consolidated annual accounts for 2015 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union applicable at the end of 2015, considering the Bank of Spain Circular 4/2004 of 22 December 2004 (and as amended thereafter) and with any other legislation governing financial reporting applicable to the Group, in order to fairly present the Group’s consolidated equity and financial situation as at 31 December 2015 and the consolidated results of its operations, changes in equity and cash flows taking place in 2015.

The consolidated annual accounts have been prepared based on the accounting records kept by the Bank and each of the other entities in the Group, and include adjustments and reclassifications necessary to ensure the harmonisation to the accounting principles and policies and the measurement criteria applied by the Group, which are described below.

The information provided in these consolidated annual accounts is the responsibility of the directors of the Group’s parent company. The consolidated annual accounts for 2015 were signed off by the directors of Banco Sabadell at a meeting of the Board on 28 January 2016 and will be submitted to the shareholders at the Annual General Meeting for approval. It is expected that the shareholders will approve the accounts without significant changes.

Unless otherwise stated, these consolidated annual accounts are presented in thousand euro.

Standards and interpretations issued by the International Accounting Standards Board (IASB) that came into effect in 2015

No significant standards or interpretation has been adopted by the European Union in 2015.

IASB-issued standards and interpretations not yet in effect

At the date of preparation of these consolidated annual accounts, the most significant standards and interpretations for the Group that have been published by the IASB but which have not yet come into force, either because their effective date is subsequent to the date of the consolidated annual accounts or because they have not yet been endorsed by the European Union, are as follows:

Standards and interpretations	Title	Mandatory for years commencing:
Approved for application in EU		
Amendment of IAS 19	Defined Benefit Plans: employee contributions.	1 February 2015
Amendment to IAS 16 and IAS 38	Clarification of acceptable methods of depreciation and amortisation.	1 January 2016
Amendment to IFRS 11	Accounting for acquistiont of interests in joint operations.	1 January 2016
Amdedment of IFRS 10, IFRS 12 and IAS 28	Investment Institutions: Applying the exception to consolidation.	1 January 2016
Amendment to IAS 1	Disclosure initiative.	1 January 2016
Not approved for application in EU		
IFRS 9	Financial instruments.	1 January 2018
IFRS 15	Revenue from contracts with customers.	1 January 2018
IAS 12	Income tax expenses.	1 January 2017
IFRS 16	Leases.	1 January 2019

The Group carried out an assessment of the impacts resulting from these standards and decided not to exercise its option to adopt early, where possible. In addition, unless otherwise indicated below, Management considers that their adoption will not have a significant effect for the Group.

Approved for adoption in the EU.

Amendment to IAS 19 “Defined Benefit Plans: employee contributions”

These amendments to IAS 19 clarify and amend the accounting requirements for employee or third party contributions to a defined benefit plan.

In particular, if the amount of the contributions is independent of the number of years of service (for example, when contributions are a fixed percentage of employee wages), it allows an entity to recognise these contributions as a reduction in the cost of the service during the period in which the related service is rendered, instead of allocating the contributions to service periods.

If the amount of the contributions depends on the number of years of service, the amendments require an entity to allocate these contributions to service periods using the same allocation method required in IAS 19 for gross profits.

The above amendment will not affect the Group since the collective covered by the defined benefit plans does not make contributions to them.

Amendments to IAS 36 and IAS 38 “Clarification of acceptable methods of depreciation and amortisation”

The amendments to IAS 36 and 38 aim to clarify the use of revenue-based depreciation methods. Both standards establish that the depreciation method used must reflect the pattern of consumption by the entity of the asset’s future economic benefits. The IASB had clarified that, except in certain cases, a depreciation method based on revenues generated by an activity that includes the use of the asset is not an appropriate method. This is because it would depict the pattern of the economic benefits generated by operating the businesses (of which the asset forms part) instead of the economic benefits that are being consumed through the use of the asset.

The Group does not expect these amendments to affect the depreciation/amortisation methods currently in use as in most cases revenue-based methods are not used.

Amendments to IFRS 11 "Accounting for acquisitions of interests in joint operations"

The amendments to IFRS 11 provide guidance for accounting for the acquisition of an interest in a joint venture whose activities constitute a business. In particular, the amendments provide that all the principles contained in IFRS 3 and other IFRS concerning the accounting treatment of business combinations should be applied except those that conflict with the guidance of IFRS 11 (as amended).

During 2015 the Group has not acquired any interests that could come under the scope of these amendments (Note 2).

Amendment to IFRS 10, IFRS 12 AND IAS 28 "Investment Institutions: Applying the exception to consolidation".

The amendments clarify three aspects of enforcing the requirement for investment entities to value the dependents at fair value instead of consolidating them. The proposed amendments are:

• Confirming that the exception to presenting financial statements is still applied to the dependents of an investment entity which are themselves parent entities.

• Clarify when a parent entity should consolidate a dependent that provides services related to the investment instead of valuing that dependent at fair value; and

• Simplify the application of the equity method for an entity that is not in itself an investment entity, yet which has a stake in an associated company which is an investment entity.

They come into force for the year beginning 01 January, 2016, allowing for their early application.

Amendment to IAS 1 "Disclosure Initiative"

The amendments to IAS 1 arise from the IASB initiative for the improvement of information reported by entities, entailing changes in the current wording of IAS 1 for the purpose of facilitating the use of professional judgement in the preparation of said information. The amendments involve very specific changes to IAS1 and affect items such as relative importance, the structure of the notes and information to be disclosed on accounting policies, among others.

Although this amendment has still not been endorsed for application in the EU, when preparing these consolidated annual accounts the Group has taken into account the nature of its operations and the policies that users of the financial statements would expect to be disclosed, taking into consideration both the sector and the business in which it operates, consistent with the recommendations from the ESMA.

Not approved for application in the EU

IFRS 9 "Financial Instruments"

The IASB published the full version of IFRS 9 in July 2014, the date of first application being 1 January 2018. This standard, which will replace the current IAS 39 "Financial Instruments; recognition and measurement", lays down a comprehensive set of accounting requirements for recognising and measuring financial assets and liabilities.

Regarding the classification and measurement of financial assets, the approach of IFRS 9 is based on considering, jointly, both the characteristics of the cash flows derived from the instruments and the business model under which they are managed. In practice, this reduces the number of portfolios and impairment models currently envisaged in IAS 39, among them, the classifications of "available-for-sale financial assets" and "investments held to maturity". Financial assets with cash flows that represent only principal and interest payments and which are held under a business model with the objective of receiving those flows are to be measured at amortised cost. In contract, if the objectives of the business model are both to receive cash flows and sell the assets, the assets should be measured at fair value and the measurement changes should be recorded in Other recognised income and expense. The remaining financial assets, including those containing implicit derivatives, are to be measured in full at their fair value through profit of loss. This new approach will affect instruments that may be reported under IFRS 9 at amortised cost and at fair value through other comprehensive income.

With respect to all assets not measured at fair value through profit or loss, the entities must recognise the expected credit losses differentiating between assets whose credit risk has not significantly increased since initial recognition and those assets whose credit risk has significantly increased.

The most substantial changes of IFRS 9 as regards to the current IAS 39 model involve value impairments based on the calculation of losses incurred by credit risk. In particular, IFRS 9 requires entities to base their measurements of provisions for insolvency applying a focus on impairment that differentiates between three conditions. The measurement of expected losses depends on whether there has been a significant increase in credit risk since the initial recognition such that: (i) the expected loss in a time horizon of 12 months (condition 1) applies to all assets (since their initial recognition) provided that there is no significant increase in credit risk, (ii) the total expected loss (conditions 2 and 3) must be recorded when a significant increase in credit risk occurs, measured on an individualised or collective basis. Financial interests on financial assets considered to be impaired and classified in condition 3 shall be accrued at the net accounting value.

An assessment shall be made as to whether there has been a significant increase in credit risk based on reasonable and verifiable information that is available at no cost and that can be obtained without the need for disproportionate efforts, which indicates that the credit risk has increased since the initial recognition and shows historic, current and forward-looking data.

Changes between the new model for expected loss described in IFRS 9 as regards to the current model for incurred loss set out in IAS 39 include the following:

- IFRS 9 recognises losses due to credit risk for all common loan and credit activities originated in the Group, including new loans that are granted and all fixed-income (sovereign or otherwise) securities that are acquired, and irrespective of their credit rating at the time of their initial recognition,

- More judgements will be necessary to determine forward-looking information and credit assumptions during the life of a loan, and to determine how these assumptions are to be included in the assessment of expected loss,

- The method used to calculate expected loss is more complex, and in some cases is comparable to the complexity associated with advanced IRB models in terms of capital, using similar concepts such as PD (probability of default), LGD (loss given default) and EAD (exposure at default).

- More factors are considered that may give rise to changes in expected credit losses. For instance, changes in PDs will affect the total amount of losses recognisable as expected loss, which does not necessarily occur in the current incurred loss model.

In relation to financial liabilities, the categories envisaged in IFRS 9 are similar to those currently contained in IAS 39 and their measurement will not be altered except for the requirement to record the changes in fair value related to own credit risk as a component of equity in the event of financial liabilities to which the fair value option has been applied, have been recorded.

For hedge accounting (excluding the part relating to macro-hedges) the granularity of the current requirements under IAS 39 has been replaced by a new model that better reflects internal risk management activities in the financial statements. Changes have been made in a number of areas with respect to IAS 39, such as hedged financial instruments, accounting for the time value of options and effectiveness measurement. However, the greatest improvements refer to the possibility of hedging non-financial risks, and therefore they will be particularly applicable to non-financial institutions.

While the IASB continues to allow early application of IFRS 9, the European Commission has not yet endorsed this Standard and for this reason European enterprises are unable to apply this standard or any of its phases in advance.

Management estimates that the future application of IFRS 9 might have a significant impact on the value of currently reported financial assets and liabilities, particularly in terms of the estimated provisions for insolvencies. At the end of 2014, the Group started the preparatory works for the implementation of this standard, which have significantly intensified in 2015, particularly in terms of the works necessary for the development of a methodology to calculate expected loss, which will require extensive changes in the group's systems and processes, as well as its governance of financial information and its coherence with current risk management practices. The different work plans that support the implementation of IFRS 9 have not been completed at the date on which these annual accounts have been prepared.

In view of the aforementioned, to date the group has been unable to quantify the possible impact derived from the new expected loss model.

IFRS 15 "Revenue from contracts with customers"

IFRS 15 lays down new income recognition requirements based on the principle that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

This principle is reflected in a model for revenue recognition comprising five steps, in which entities must identify the separate performance obligations in contracts with customers, allocate the transaction price to the performance obligations identified and recognise revenue when, or as, the entity satisfies the performance obligation. This standard is therefore expected to have a greater impact on companies selling products and services on a combined basis or those that take part in long term projects, such as telecommunications, software, engineering, construction and property companies.

In view of the Group's core activities and the fact that the standard is not applicable to financial instruments and other contractual rights and obligations under the scope of IAS 39 (and IFRS 9), the Group does not expect any significant impact from the future application of this standard.

IAS 12 "Income Tax Expenses"

On January 19, the IASB published the amendments to IAS 12-Income Tax Expenses. Regulation 18 includes the necessary requirements to quantify deferred tax assets or liabilities; the amendments clarify the way in which the deferred tax assets related to the debt instrument valued at fair value should be accounted.

The regulation is mandatory, to be applied from 01 January 2017. Earlier application can be opted for.

IAS 16 "Leases"

In January 2016, IASB published new leasing regulations, which repeals IAS 17 "Leases", which is the result of a joint project with FASB. IASB and FASB have reached the same conclusions in many areas related to the accounting of the lease agreements, including the definition of a lease, and the requirement, as a general rule, to reflect the leases on the balance sheet as well as the valuation of lease liabilities. IASB and FASB also agreed not to make significant changes to the accounting on behalf of the lessor, maintaining similar requirements to the previous existing regulation. There are still differences between IASB and FASB regarding the recognition and presentation of the expenses related to the leases in the profit and loss accounts and the statement of cash flows.

The regulation is mandatory and applicable from 01 January 2019. Earlier application can be opted for, but only if it is applied at the same time to IFRS 15 "Revenue from contracts with customers."

Use of judgements and estimates in the preparation of the consolidated annual accounts

The preparation of the consolidated annual accounts requires the use of certain accounting assumptions. It also requires that management uses its best judgement in the process of applying the group's accounting principles. Said assumptions could affect the amount of assets and liabilities and the breakdown of the contingent assets and liabilities at the date of the consolidated annual accounts, as well as the amount of revenue and income during the same period. The main assumptions refer to the following concepts:

- Losses due to the impairment of certain financial assets (notes 1.d, 7, 8, 9, y 11).
- The assumptions used in the actuary's valuation of the liabilities and the commitments to post-employment remuneration, as well as those used in the valuation of the liabilities of insurance contracts (notes 1.p, 1.r, 24 y 25).
- The useful life of tangible and intangible assets (notes 1.j, 1.l, 16 y 17).
- The valuation of consolidated goodwill (notes 1.l y 17).
- The fair value of non listed financial assets (note 6).
- The fair value of real estate assets included in the balance sheet (notes 1i, 1j, 1m and note 6).

Although the estimates are based on management's best knowledge of the current and foreseeable circumstances, the final results could differ from these assumptions.

Accounting principles and policies, and measurement criteria

The most significant principles, accounting standards and measurement criteria that have been applied in preparing these consolidated annual accounts are as follows:

a) Consolidation principles

In the consolidation process a distinction is drawn between subsidiaries, joint ventures, associates and structured entities.

Subsidiaries

Subsidiaries are entities over which the Group has control. This occurs when the Group is exposed to or is entitled to variable returns derived from its involvement in the subsidiary and it has the ability to influence those returns through its power over the subsidiary.

For control to exist, the following must be present:

- Power: An investor has power over an investee when it holds rights which provide it with the capacity to direct the relevant activities, i.e. those that significantly affect the investee's results;
- Results: An investor is exposed, or has rights, to variable returns from its involvement in the investee when the returns it obtains from such involvement may vary depending on the investee's business performance. The returns may be only positive, only negative or both positive and negative.
- Relationship between power and results: An investor controls an investee if the investor not only has power over the investee and is exposed or has rights, to variable returns due to its involvement with the investee, but also the ability to use its power to affect the returns from its involvement with the investee.

Additionally, the Group takes into account any facts or circumstances which may affect the assessment of whether or not control exists and the analyses described in the application guidance for the implementation of the relevant legislation (for example, whether the Group holds a direct or indirect interest of more than 50% of the voting power of the entity being evaluated).

At the time of acquisition of control over a subsidiary, the Group applies the acquisition method provided for in the regulatory framework (see Note 1.b) except in the case of acquisitions of an asset or group of assets.

The subsidiaries' financial statements are consolidated with the Bank's financial statements using the full consolidation method.

Third parties' interests in the Group's consolidated equity are disclosed in the balance sheet under the heading non-controlling interests, and the portion of the profit or loss for the year attributable to these shareholders is reflected in the income statement under profit or loss attributable to non-controlling interests.

Joint ventures

These are entities covered by joint control agreements whereby decisions on the relevant activities are made unanimously by the entities which share control, and which hold a right to their net assets.

Interests in joint ventures are accounted for by the equity method i.e. they are accounted for in terms of the fraction of equity represented by each entity's shareholding in them, after taking account of any dividends received from them and any other equity eliminations.

The Group has no investments in joint ventures.

Associates

Associates are entities over which the Group has a significant influence which generally, but not exclusively, takes the form of direct or indirect interest representing 20% or more of the investee's voting rights.

In the consolidated annual accounts associates are accounted for using the equity method.

Structured entities

A structured entity is an entity that has been designed so that voting or other similar rights are not the determining factor when it comes to deciding who controls the entity.

In cases in which the group holds a stake in an entity, or constitutes an entity, for the purpose of transferring risks or for any other purposes, or to allow clients access to certain investments, whether or not there is control over the entity is determined based on the provisions of the regulatory framework, as described above and, subsequently, a determination is made as to whether or not they should be subject to consolidation. Specifically, the following factors, among others, are considered:

- Analysis of the influence of the group over the relevant activities of the entity that could have an influence on the amount of its returns:
- Implicit or explicit commitments of the group to provide financial support to the entity.
- Identification of the entity manager and analysis of the system of returns.
- Existence of exclusion rights (possibility of dismissing managers).
- Significant exposure of the group to the variable returns on the assets of the entity.

These entities include those known as “asset securitisation funds”, which are consolidated in cases where, based on the above analysis, it is determined that the group has maintained control. There are contractual agreements for financial aid commonly used in securitisation markets, but there are no significant financial aid agreements other than those established contractually. By reason of the foregoing, it is considered that for virtually all securitisations made by the group, the risks transferred cannot be derecognised from the balance sheet assets, and the issues of securitisation funds are recorded as liabilities on the Group balance sheet. At 31 December 2015, there was no significant financial aid from the group for unconsolidated securitisations.

In the case of investment firms and funds and pensions managed by the Group (in most cases, retail funds with no status as a legal entity over which the investors acquire proportional units providing them with ownership of the equity managed), they are considered not to meet the requirements of the regulatory framework for them to be considered structured entities, while they are analysed under the same criteria as the rest of the subsidiaries.

Such firms and funds are self-sufficient in terms of their activities, and their capital structure does not prevent them from carrying out their activities without further financial aid, therefore they are not consolidated.

Schedule II provides the details of the structured entities of the Group.

In all cases, the consolidation of the results obtained by the companies forming part of the Group during a given year is carried out considering only those relating to the period spanning between the acquisition date and year-end. Additionally, the consolidation of the results generated by the companies sold during the year is accomplished considering only those relating to the period spanning between the beginning of the year and the date of sale.

In the consolidation process, all material balances and transactions between the companies forming part of the group have been eliminated, in the proportion corresponding to them based on the applied consolidation method.

The financial and insurance entities of the Group, both subsidiaries and associates, regardless of the country in which they are located, are subject to supervision and regulation by various bodies. Current laws in the various jurisdictions, along with the need to meet certain minimum capital requirements and carry out oversight activities, are circumstances that could affect the capacity of such entities to transfer funds in the form of cash, dividends, loans or advances.

Note 2 includes information on the most important acquisitions and disposals taking place during the year, while Schedule I provides significant information on the companies within the group.

b) Business combinations

A business combination is a transaction, or any other event, whereby the Group obtains control over one or more businesses. Business combinations are accounted for using the acquisition method.

Under this method, the acquiring entity recognises the assets and liabilities acquired in its financial statements, including those which were not recognised for accounting purposes by the acquired entity. This method also requires the measurement of the consideration paid in the business combination and the assignment of that consideration, at the acquisition date, to the assets and liabilities, together with the acquired entity’s contingent liabilities, at fair value.

The Group recognises goodwill in the consolidated annual accounts if at the acquisition date there is a positive difference between:

- the sum of the consideration paid and the amount of all minority interests and the fair value of prior shareholdings in the business acquired, and
- the fair value of the financial assets and liabilities recognised.

If the difference is negative, it is recognised on the income statement.

In cases where the amount of the consideration depends on future events, any contingent consideration is recognised as part of the consideration paid and is measured at fair value on the acquisition date. The costs associated with the transaction do not form part of the cost of the business combination for these purposes.

If the cost of the business combination at fair value assigned to the acquirer's assets, liabilities or contingent liabilities cannot be definitively determined, the initial accounting of the business combination is considered provisional. In any event, the process should be completed within a maximum of one year from the acquisition date and takes effect on that date.

Minority interests in the acquired entity are valued on the basis of the proportional percentage of the acquirer's identified net assets. Any purchase or disposal of these minority interests is accounted for as an equity transaction when they do not result in a change of control. No gain or loss is recognised in the consolidated income statement and the initially recognised goodwill is not remeasured. Any difference between the consideration paid or received and the decrease or increase in minority interests, respectively, is recognised in reserves.

With regard to non-monetary contributions of businesses to associates or jointly controlled entities in which control is lost over said businesses, the Group's accounting policy is to record the full gain or loss on the consolidated income statement, recognising any remaining interest at fair value (if any).

c) Measurement of financial instruments and recognition of variations arising in their subsequent measurement

All financial instruments are initially recorded at fair value (see definition in Note 6) which, unless evidence to the contrary is available, coincides with the transaction price. In general, conventional sales and purchases of financial assets are recognised in the Group's balance sheet using the settlement date.

Changes in value of financial instruments originating from the accrual of interest and similar items are recorded under Interest on the income statement, except for trading derivatives. Dividends received from other companies are recognised in the income statement for the year in which the right to receive them is originated.

Changes in valuations arising after initial recognition due to reasons other than those mentioned in the preceding paragraph are accounted for on the basis of the classification of financial assets and liabilities.

Financial assets and liabilities 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 short term, or form part of a portfolio of financial instruments that are identified and managed together and in which there has been recent action to achieve short-term profits. Short positions in securities arising from sales of assets acquired under non-optional repurchase agreements or loans of securities, as well as derivative instruments that do not comply with the definition of a financial guarantee contract and have not been designated as hedging instruments for accounting purposes are treated as belonging to the held-for-trading portfolio.

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 the primary contract is not classified as held for trading or as other financial assets or liabilities at fair value through profit or loss.

Changes in fair value are recorded directly on the income statement.

Other financial assets and liabilities at fair value through profit or loss

This category includes financial instruments that, designated on initial recognition, are regarded as hybrid financial instruments and are measured 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 which are managed in combination with financial liabilities and derivatives for the purpose of significantly reducing overall exposure to interest rate risk.

Changes in fair value are recorded directly on the income statement.

Available-for-sale financial assets

This category includes debt securities and equity instruments which are not shareholdings in subsidiaries, associates or joint ventures and which have not been classified under any other portfolio.

Changes in fair value are temporarily recorded, net of taxes, under Valuation adjustments in consolidated equity, unless they are due to foreign exchange differences arising on monetary financial assets that are recognised in the income statement.

Amounts recorded as valuation adjustments continue to be included in consolidated equity until the asset from which they have originated is derecognised on the balance sheet, time at which they are written off against the income statement, or until an impairment in the value of the financial instrument is determined.

Loans and receivables

Loans and receivables included financial assets which, while not traded on an active market or needing to be recognised as at fair value, generate cash flows of a fixed or determinable amount in which the Group's disbursement will be recovered in full, except for reasons related to the borrower's solvency. This category comprises investments associated with the normal Group's lending activities and includes amounts loaned to customers and not yet repaid; deposits placed with other entities, regardless of the legal arrangements under which the funds were provided; unquoted debt securities; and any debts incurred by purchasers of goods or services forming part of the Group's business.

Upon initial recognition, they are recorded at fair value, incorporating all costs directly related to the transaction.

Following initial recognition they are stated at amortised cost, which consists of the acquisition cost adjusted for principal repayments and the portion allocated in the income statement using the effective interest rate method of the difference between the initial cost and the repayment value at maturity. In addition, the amortised cost is decreased by any reduction in value due to impairment recognised directly as a decrease in the value of the asset or through an allowance or compensatory item.

The effective interest rate is the discount rate that equals the value of a financial instrument exactly to the estimated cash flows over the instrument's expected life, on the basis of the contractual conditions, such as early repayment options, but without taking into account future credit risk losses. For fixed rate financial instruments, the effective interest rate agrees with the contractual interest rate set at the time of their acquisition, plus, where appropriate, the fees which, because of their nature, may be likened to an interest rate. 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 reviewed.

Interest accrued calculated using the effective interest rate method is recorded under Interest and similar income on the consolidated income statement.

Financial liabilities at amortised 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, irrespective of the term or the arrangement involved.

In particular, this category includes capital having the nature of a financial liability. These financial instruments are issued by the Group and, although they are treated as capital for legal purposes, do not qualify for classification as equity for accounting purposes. They consist mainly of issued shares that do not carry voting rights on which a dividend is paid based on a fixed or variable rate of interest.

Following initial recognition they are stated at amortised cost applying criteria analogous to loans and receivables. Interest accrued calculated using the effective interest rate method is recorded under Interest and similar charges on the consolidated income statement. However, if the Group has discretional powers concerning the payment of the interest associated with the financial instruments issued and reclassified as financial liabilities, the Group's accounting policy is based on recognising them by charging the reserves.

For financial instruments the fair value measurements are detailed in Note 6.

d) Impairment of financial assets

A financial asset is deemed to be impaired and therefore its carrying value is adjusted to reflect the effect of such impairment when there is objective evidence that an event, or the combined effect of various events, has occurred which gives rise to:

- For debt instruments, including loans and debt securities, a negative impact on future cash flows estimated when the transaction is formalised.
- For equity instruments, a situation which their carrying values will not be recovered.

In general, adjustments to the carrying value of financial instruments due to impairment are made by charge to the consolidated income statement for the year in which the impairment arises. Recoveries of any previously recorded losses are also recognised on the consolidated income statement for the year in which the impairment ceases to exist or is reduced. However, the recovery of previously recorded impairment losses relating to equity instruments classified as available-for-sale financial assets is recognised under the heading Valuation adjustments in consolidated equity.

Financial asset impairment is calculated based on the kind of instrument involved and other circumstances that could affect them after taking into account any guarantees received. The Group recognises both allowances when bad-debt provisions are recorded to cover estimated losses, and direct write-downs against the asset concerned when recovery is deemed to be remote.

Financial assets carried at amortised cost

In order to determine impairment losses, the Group monitors debtors on an individualised basis, in the case of significant debtors, and on a collective basis for groups of financial assets that have similar credit risk characteristics which evidence the debtors' capacity to make outstanding payments. When an instrument cannot be included in any group of assets with similar risk features, it is analysed solely on an individual basis to determine whether it is impaired and, if so, to estimate the impairment loss.

The Group has policies, methods and procedures to estimate losses that may be incurred as a result of credit risk with regard both to the insolvency attributable to counterparties and to country risk. These policies, methods and procedures are applied in the granting, analysis and formal documentation of debt instruments and off-balance sheet exposures, and in the identification of possible impairment and, if appropriate, in the calculation of the amounts required to cover estimated losses.

In terms of credit risk coverage, the bank must comply with the requirements established by the Bank of Spain, which are explained hereafter and which, together with the legislation in force at the end of this year, do not foresee the use of internal models without their authorisation (to date only internal models have been authorised to calculate regulatory capital).

In general, the Group measures impairment losses as follows:

- Specific allowances due to credit risk (for individually or collectively assessed financial assets)

- Assets classified as doubtful due to counterparty arrears: The allowances for debt instruments, whoever the obligor and whatever the guarantee, with amounts which are more than 90 days past-due are estimated taking into account the age of the past-due amounts, the guarantees provided and the economic situation of the counterparty and the guarantors. Contingent risks in which the debtor has impaired are also taken into consideration.

- Assets classified as doubtful due to reasons other than counterparty arrears: The allowances for those debt instruments which do not qualify as doubtful due to arrears but for which there are reasonable doubts as to their repayment under the contractual terms are estimated on the basis of the difference between the amount recorded for these assets and the present value of the cash flows expected to be received.

Evidence of impairment of an asset or group of assets includes observable data on matters such as (i) significant financial difficulties for the debtor (taking into consideration factors such as internal ratings, associated probability of default, negative shareholders' equity or EBITDA and declines in sales), (ii) repeated delays in payment of interest or principal, (iii) probable insolvency or liquidation, and (iv) other observable data or domestic economic conditions indicating a reduction in the future cash flows following initial recognition (unemployment, property prices, etc.).

- Assets classified as doubtful assets due to materialisation of country risk: Country risk is considered to be the risk that arises with counterparties resident in a given country due to circumstances other than normal commercial risk (sovereign risk, transfer risk or risks arising from international financial activities). The Group classifies transactions with third parties into different groups based on the countries' economic performance, political situation, regulatory and institutional framework, payment capacity and track record, assigning to each group the provision percentages that result from the analysis.

Doubtful assets due to the materialisation of country risk are deemed to be operations with final obligors resident in countries with lasting debt-service difficulties in which recovery is deemed doubtful, and off-balance-sheet exposures the recovery of which is regarded as remote due to circumstances attributable to the country concerned. The allowances recognised for this risk are not significant in relation to the total allowance provisions for bad debts.

Operations classed as doubtful are reclassified as ordinary risks when the reasons that gave rise to their classification as doubtful cease to exist due to the full or partial receipt of past-due amounts, unless other reasons remain which make it advisable to maintain them under this category.

- Collective allowances for losses incurred by not reported (IBNR) (collectively estimated):

For debt instruments and contingent risks that are not individually impaired, the Group estimates the loss incurred yet to be allocated to specific transactions on the basis of historical loss experience for assets with similar credit risk characteristics. To this end statistical procedures are used to obtain amounts similar to the difference between the figure recorded for these instruments and the present value of cash flows that are expected to be received, discounted at the average contractual interest rate.

Historical loss experience is adjusted on the basis of observable data, in order to reflect the effect of current conditions and to suppress the effects of conditions in the historical period which no longer exist. Estimates of changes in future cash flows reflect the evidence for change arising in observable data occurring from one period to the next (e.g. in unemployment rates and property prices).

At present, for the reasons explained previously, the bank applies the parameters of the statistical models that the Bank of Spain, on the basis of its experience and the information available in the Spanish banking industry, has determined to establish the range of necessary provisions in each risk category.

To do this, percentages are applied which vary depending on the classification of those debt instruments among the various subcategories.

Generally, interest recorded at contractual rates ceases to be recognised 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 having past-due amounts with more than 90 days. Interest pending payment in these operations (irrespective of whether or not they form part of a renegotiation process) are recognised in memorandum items as “suspense interest”. If the interest is subsequently recovered, the amount collected is recognised in the income statement.

Transactions which are regarded as highly difficult to recover after an individual analysis are derecognised from the balance sheet. This category of write-offs includes risks for customers involved in insolvency proceedings in which their liquidation has been applied for and transactions classified as doubtful that have been outstanding for more than four years, except for balances covered by sufficient enforceable guarantees. Operations which, though not coming under the above criteria, undergo a major and irreversible impairment are also included.

In the above situations the Group derecognises any amounts recorded together with the relevant allowance notwithstanding the actions that may be taken to try to collect payment until all rights to receive payment have been extinguished due to a statute of limitations, remission or some other reason.

Refinancing and restructuring operations

Credit risk management procedures applied by the Group guarantee detailed monitoring of borrowers, indicating that impairment allowances need to be recorded when there is evidence of a decline in a borrower’s solvency (see Note 4). The Group records any impairment allowances that may be necessary in transactions in which the borrower’s situation thus requires, before restructuring or refinancing operations are formally approved, which should be understood as:

- Refinancing operation: granted or used for economic or legal reasons relating to current or foreseeable financial difficulties of the debtor in settling one or more transactions arranged with the Group, or through which payments on said transactions are fully or partly brought up to date, in order to facilitate payment by debtors of the outstanding amounts (principal and interest) because they are, or are expected to be, unable to meet repayment conditions in due time and form.
- Restructured operation: the financial terms of a transaction are amended for economic or legal reasons related to the current or foreseeable difficulties of the party concerned, in order to facilitate payment of the debt (principal or interest) because said party is, or is expected to be, unable to meet repayment conditions in due time and form, even when such amendment was provided for in the contract. In any event, operations are considered to be restructured where conditions are amended to extend their duration, change the repayment schedule to reduce instalments in the short term or reduce the frequency of repayments, or establish or lengthen the grace period for principal and/or interest repayments, unless it can be proved that the conditions are changed for reasons other than the debtor’s financial difficulties and they are analogous to those that other entities would apply in the market for similar risks.

The formalisation of a change in contractual conditions does not entail a significant additional impairment of the borrower’s situation that requires the creation of additional impairment allowances.

If an operation is classified in a given category of risk, the refinancing operation does not entail an automatic improvement in risk classification of that operation. A classification in a lower risk category will only be considered if there is a quantitative and qualitative increase in the guarantees that back the operation and a significant improvement has been evidenced in the recovery of the operation over time, so there are no immediate improvements due simply to the refinancing.

Concerning refinanced or restructured loans classified as ordinary risks, the operations' type is analysed so that, if necessary, they can be reclassified to a higher risk category using the same categories as those described in the previous section (i.e. assets which are doubtful due to counterparty arrears, with amounts which are more than 90 days past-due, or due to reasons other than counterparty arrears, when there is reasonable uncertainty as to their recovery).

Credit impairment losses estimates, which are consistent with the risk accounting classification, are accounted for when they are identified. The methodology for estimating losses on these portfolios in general is similar to that of the remaining financial assets described above but takes into account that any operation which has needed to be restructured in order for payment obligations to be met must have a loss estimate which is higher than other reoperations which have never undergone default problems (unless sufficient additional guarantees can be provided to justify the opposite approach).

After the initial classification of the operation, the application of a lower risk category will be supported by significant evidence of improvement in the expectation of recovery for the operation, either because the borrower has been meeting its payment obligations over a long and sustained period of time or because a significant portion of the initial debt has been repaid. In particular, the Group takes into account that the debtor has paid principal and accrued interest since the date on which the restructuring/refinancing operation was formalised and at least two years have elapsed since that date, and the principal of the operation has been reduced by at least 20% and all unpaid principal and interest that was outstanding at the time of the restructuring or refinancing operation has been paid. However, the operation concerned will continue to be identified as a restructuring or refinancing operation.

Verification of provisions for credit risk

In addition to the aforementioned Bank of Spain requirements, the bank must also comply with the regulatory requirements of the IFRS, therefore the Group checks the impairment allowances calculated as described above with those estimated using internal models for the calculation of the coverage of credit risk losses in order to confirm that there are no material differences.

For these purposes, the Group has used the data provided by internal credit risk management models to construct a methodology for calculating the loss incurred on the basis of the probability of default (PD) parameters referring to the period concerned in the non-doubtful portfolio, which will determine the new entries in the doubtful status, the severity of the new entries (LGD – loss given default) and the severity of the new existing loan portfolio, with the following specifications:

- Probability of default: When determining the loss incurred, the Group estimates the probability of default on the basis of historical data in order to reflect the current situation (loss incurred) of both the status of borrowers' repayments in each segment and the local or national economic conditions which are correlated to defaults in that segment. To this end, the "Point-in-time" PD at each reporting date are estimated since they represent the present time in the economic cycle and use default frequencies observed in the most recent periods. In the case of refinancing and restructuring operations, the PD is higher than in other transactions and in ordinary situations. The PD Increase is greater or lower depending on the characteristics of the refinancing operation.

- Severity: This is estimated to closely reflect the present situation (loss incurred) as regard the capacity to recover the assets' future cash flows.

These risk parameters have been estimated by segmenting the portfolio on the basis of the characteristics of the assets making it up. These characteristics include the type of asset and borrower, guarantees associated with the asset and the impairment situation. The relevant historic loss data is assigned to each segment.

At the same time, risk parameters are estimated based on historical internal data adjusted on the basis of observable data in order to reflect the effect of current conditions which might not have affected the period from which the historical experience has been extracted and also to suppress the effects of conditions in the historical period which no longer exist. Any macroeconomic event or adverse change in the status of the borrower's payments are expected after the date of the analysis is excluded.

At 31 December 2015 the estimate of the losses incurred on the basis of these internal models, which calculate impairment losses on debt securities measured at amortised cost and contingent risks, do not reflect significant differences compared with the provisions determined in accordance with Bank of Spain requirements.

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 recognised in the consolidated income statement.

When there is objective evidence that a decrease in the fair value of an asset is due to impairment, the temporary losses recognised directly in equity under Valuation adjustments are recorded immediately in the income statement.

To conclude as to the existence of objective evidence of impairment, the Group analyses events that might potentially cause the losses, as explained below:

- Debt instruments: In addition to the events analysed for the items measured at amortised cost, the Group considers (i) the increase in the probability that the issuer enters into a financial reorganisation situation, (ii) the disappearance of any active market for the financial asset in question, and (iii) a downgrade in the credit rating.

  In case of impairments by sovereign debt instruments are assessed by analysing market price fluctuations caused mainly by changes in risk premiums and by an ongoing evaluation of the solvency of each country.

- Equity instruments: the Group assesses whether there has been any prolonged or significant decrease in the fair value of the investment below its cost. Specifically, the Group treats these investments as impaired in the event of decreases, separately determined, in excess of 18 months or a percentage fall in fair value of 40%, taking into account the number of instruments recorded for each individualised investment and the unitary listed price.

  In terms of equity instruments that are not quoted on stock markets, the Group calculates a discounted cash flow valuation, using directly observable market variables and/or data such as published Net Asset Values, or comparable data and sectorial multiplier effects of issuers similar to the effects of determining value adjustments. Equity instruments valued at their acquisition cost are exceptions and are not significant in terms of the Group's consolidated annual accounts. At 31 December 2015 there were no investments in unquoted equity instruments therefore their quoted market price has not been considered as a reference of their fair value.

If all or part of the losses are recovered after being recognised as impaired, they are recorded, in the case of debt securities, in the income statement for the period in which the recovery occurs; and in the case of equity instruments, the recovery is recognised in equity under Valuation adjustments.

Other equity instruments

In the case of investments in associates, the Group estimates impairment losses for each of them by comparing the amount recoverable with the carrying value of the investments. The impairment recognised results from an individualised analysis of each investee which are measured on a net asset value basis or based on their projected results, grouping them together according to areas of activity (real estate, renewables, industry, finance, etc.) and evaluating the macroeconomic and industry-specific factors that could affect their activities, thereby estimating their value in use.

In particular, insurance investee companies are valued applying the market consistent embedded value method, real estate investees based on net asset value, and financial investees based on multipliers over the carrying value and/or the profits of comparable listed companies.

Impairment losses are recognised in the income statement for the period in which they occur; subsequent reversals of previously recognised impairment losses are recognised in the income statement for the period in which recovery takes place.

e) Hedging operations

The Group uses financial derivatives (i) to supply them to customers when they so require, (ii) to manage risks associated with the Group's own exposures (hedging derivatives), or (iii) to realise gains as a result of price movements. The Group uses both derivatives traded on organised markets and those traded bilaterally with counterparties on the over-the-counter (OTC) market.

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 highly probable forecast transactions (cash flow hedge); or the exposure associated with net investments in foreign operations (hedge of net investments in foreign operations).

- The derivative must effectively eliminate a risk that is inherent in the hedged item or position over the expected term of the hedge, in terms of both prospective and retrospective efficiency. To this end, the Group analyses whether, at the time the hedge is arranged, it is expected in ordinary conditions to operate with a high degree of effectiveness and verifies over the life of the hedge using effectiveness tests that the results of the hedge vary in range of 80% to 125% with respect to the result of the item covered.
- 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 measured, provided that this agrees with the Group's risk management.

Hedges may be associated with individual items or balances (micro-hedges) or with portfolios of financial assets and liabilities (macro-hedges). In the latter case, all financial assets and liabilities being collectively hedged involve the same types of risk; this requirement is considered to be satisfied when the interest rate sensitivities of the individual hedged items are similar.

Subsequent changes to the designation of the hedge, in the measurement of the financial instruments designated as hedged items and in the financial instruments designated as hedging instruments are recorded as follows:

- In fair value hedges, differences arising in the fair value of the derivative and the hedged item attributable to the risk being hedged are recognised directly in the consolidated income statement; the balancing entries consist of the balance sheet headings in which the hedged item is recorded or the heading hedging derivatives, as appropriate.

  In fair value hedges of interest rate risk in a portfolio of financial instruments, gains or losses arising when the hedging instrument is measured are recognised directly in the consolidated income statement while losses and gains arising from changes in the fair value of the hedged item attributable to the risk hedged are recognised in the consolidated income statement under the heading Adjustments to assets (or financial liabilities) due to macro-hedging, as applicable. In this case, effectiveness is assessed by comparing the overall net amount of assets and liabilities in each time period with the hedged amount designated for each one of them, and the ineffective part is immediately recorded in the consolidated income statement.
- In cash flow hedging, measurement differences in the effective portion of hedging instruments are recorded in equity under Valuation adjustments – cash flow hedges. These differences are recognised in the consolidated income statement when the gains or losses of the hedged item are recognised, when the envisaged transactions are performed or on the date of maturity of the hedged item.
- In hedges of net investments in foreign operations, measurement differences in the effective portion of hedging instruments are recorded temporarily in equity under Valuation adjustments – hedges of net investments in foreign operations. These differences are recognised on the consolidated income statement when the investment in a foreign operation is disposed of or derecognised.
- Measurement differences in hedging instruments relating to the ineffective portion of cash flow hedging instruments and net investments in foreign operations are recognised directly in the consolidated income statement.

If a derivative which is treated as a hedging derivative does not meet the above requirements due to its termination, ineffectiveness, or for any other reason, it will be treated as a trading derivative for accounting purposes.

When a fair value hedge is discontinued any previous adjustments made to the hedged item are taken to the income statement using the effective interest rate method, recalculated as of the date on which the item ceased to be hedged. The previous adjustments must be fully amortised by the maturity of the item that was previously hedged.

Where a cash flow hedge is discontinued, the cumulative gains or losses on the hedging instrument recognised in equity under Valuation adjustments (while the hedge was in effect) continues to be recognised under that heading until the hedged transaction takes place, at which time the gain or loss will be recognised in the income statement, unless the hedged transaction is not expected to take place, in which case it is recognised in the income statement immediately.

f) 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, irrespective of their legal form, which can be, among others, bonds, bank guarantees, insurance contracts or credit derivatives.

The Group recognises financial guarantee agreements under Other financial liabilities at their fair value which, at inception and unless otherwise evidenced, is the present value of the expected fees and returns to be received. At the same time, the Group recognises as a credit under assets the fees and similar income received at the commencement of the operations and the accounts receivable for the present value of future cash flows yet to be received.

In the particular case of long-term guarantees given in cash to third parties within the framework of service contracts, when the Group guarantees a certain level or volume in terms of the rendering of these services, the Group initially recognises these guarantees at their fair value. The difference between their fair value and the disbursed amount is considered as an early payment or collection of this service, and this is recorded in the income statement during the period for which the service is rendered. Subsequently, the Group applies analogous criteria to debt instruments carried at amortised cost.

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 similar procedures for debt instruments carried at amortised cost.

Income from guarantee instruments are recorded under fees received on the income statements and are calculated applying the rate laid down in the related contract to the nominal amount of the guarantee. Interest from long-term guarantees given in cash to third parties is recognised under Interest and similar interest.

g) Transfer and derecognition of financial instruments

Financial assets are only derecognised from the balance sheet when the cash flows generated by the assets have ceased or when substantially all of their risks and rewards have been transferred to third parties. Similarly, financial liabilities are derecognised only when the obligations generated by the liabilities have expired or are acquired for settlement or resale.

Note 4 provides details of asset transfers in effect at the end of 2015 and 2014, indicating those that did not involve the derecognition of the asset, while Note 2 contains an analysis of the transfer of risks and rewards in the sale of the Group's debt recovery management business, the arrangement of a reinsurance contract and the reorganisation of its insurance business carried out in 2014.

h) Offset of financial instruments

Financial assets and liabilities are offset, i.e. reported in the consolidated balance sheet at their net amount, only when the Group has a legally enforceable right to offset the amounts recognised in such instruments and intends to settle them at their net amounts or to realise the asset and settle the liability simultaneously.

i) Non-current assets held for sale and liabilities associated with non-current assets held for sale and discontinued operations

The Non-current assets held for sale heading on 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 are very likely to be sold in their current condition within one year of the date of the consolidated annual accounts.

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.

Specifically, real estate or other non-current assets received by the Group in full or partial settlement of borrowers' payment obligations are treated as non-current assets held for sale, unless the Group has decided to make use of the assets on a continuous basis or include them in its rental operations. Investments in joint ventures or associates that meet these criteria also qualify as non-current assets held for sale. For all these assets, the Group has specific units focused on real estate management and sale.

The heading Liabilities associated with non-current assets held for sale includes amounts payable that are associated with disposal groups or assets, or with discontinued operations.

Non-current assets held for sale are measured, on the acquisition date of thereafter, at the lower of their carrying value and the net fair value of the selling costs estimated in relation to them. The carrying value at the date of acquisition of non-current assets held for sale derived from foreclosure or recovery is defined as the balance pending collection on the loans or credit facilities that give rise to these purchases (net of any associated impairment allowances). Tangible and intangible assets that would otherwise be subject to depreciation and amortisation are not depreciated or amortised while they remain in the category of non-current assets held for sale.

These asset appraisals have been conducted by independent experts registered into the Bank of Spain's special register of valuation firms according to criteria established in Order ECO/805/2003 on the valuation of real estate and associated rights fro specified financial purposes. At minimum, these assets are valued (i) when recognised and initially through the purchase, award or payment in kind of the property, (ii) when the asset changes status (the construction is finished or the asset is leased), or (iii) when the available appraisal is over three years old.

The main valuation companies and agencies used to obtain market value appraisals are listed in Note 6. In order to calculate the fair value less costs to sell, the Group takes into account both these appraisals and the length of time that each asset remains on the balance sheet. In addition, depending on the age of the appraisals, they are updated by the Group using statistical methods based on reports published by independent experts and the Group's own experience and market knowledge.

Profits and losses arising from the sale of assets and liabilities classified as non-current held for sale, and impairment losses and their reversal, if applicable, are recognised under profit/(loss) on non-current assets held for sale on the consolidated income statement. The remaining income and expenses relating to these assets and liabilities are disclosed based on their nature.

Discontinued operations are components of the entity that have been disposed of or classified as held for sale and which; (i) represent a line of business or geographical area which is significant and separate from the rest or is part of a single coordinated plan to dispose of said business or geographical area, or (ii) are subsidiaries acquired solely in order to be resold. Income and expenses of any kind generated by discontinued operations during the year, including those granted before they were classified as discontinued operations, are presented net of the tax effect as a single amount under gains and losses on discontinued operations in the consolidated income statement, both when the business has been derecognised and when it continues to be recorded under assets at the year end. This heading also includes results from sale or disposal.

j) Tangible assets

Tangible assets include (i) property, plant and equipment held by the Group for current or future use which is expected to be used for over one year, (ii) property, plant and equipment transferred to customers under operating leases, and (iii) land, buildings and other construction held in order to be leased out or to obtain a capital gain on their sale. These categories also include tangible assets received as payment of debts classified on the basis of their end utilisation.

As a general rule these assets are valued at cost less accumulated depreciation and less any impairment losses identified from a comparison of the carrying value of each item with its recoverable amount.

Depreciation is calculated using the straight-line method, applying the estimated years of useful life of the various elements to the acquisition cost of the assets less their residual value. The land on which the buildings and other structures stand is considered to have an indefinite life and is therefore not depreciated.

The annual depreciation charge on property, plant and equipment is reflected against the income statement and calculated over the remaining estimated useful lives, on average, of the different asset groups:

	Useful life (years)
Land and buildings	37.5 to 75
Fixtures and fittings	4.2 to 25
Furniture and office equipment	3.3 to 18
Vehicles	3.1 to 6.25
Cash dispensers, computers and computer equipment	4

The estimated useful life of tangible assets is reviewed at least at the end of each year in order to detect any major changes in them which, if they arise, are adjusted through the relevant adjustment in the income statement in future years to the depreciation charge based on the new estimated useful life.

At each reporting date, the Group analyses whether there are internal or external indications that a tangible asset might be impaired. If there is evidence of impairment, the Group analyses if such impairment has actually taken place by comparing the asset's carrying value with its recoverable value (higher or fair value less selling costs and its value in use). When the asset's carrying value exceeds the recoverable value, its carrying value is reduced to its recoverable value and future depreciation charges are adjusted in proportion to the adjusted carrying value and new remaining useful life, if this needs to be re-estimated. Where there are indications that the value of an asset has been recovered, the Group records the reversal of the impairment loss recognised 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 had not been recognised in previous periods.

In particular, certain tangible assets are assigned to cash generating units in the banking business. Impairment tests are conducted on these units to verify whether sufficient cash flows are generated to support the assets' value. To this end, the Group (i) calculates recurring net cash flow at each branch based on the accumulated contribution margin less an allocated recurring risk cost, and (ii) this recurring net cash flow is regarded as a perpetual flow and a valuation is effected using the discounted cash flow method applying a cost of capital of 10% and a zero growth rate in perpetuity.

For real estate investments, the Group uses third party appraisals performed in compliance with ECO/805/2003. When tangible assets have been received due to debt settlements, whatever their use, the Group applies criteria which are analogous to those described above with respect to non-current assets held for sale and liabilities associated with non-current assets held for sale.

Maintenance and repair costs for tangible assets are recorded in the income statement for the year in which they are incurred.

k) 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.

When the Group is the lessor of an asset, the sum of the present values of payments receivable from the lessee is recorded as financing provided to a third party and is therefore included in the consolidated balance sheet under loans and receivables. This financing includes the exercise price of the purchase option available to the lessee upon the termination of the contract in cases where the exercise price is sufficiently lower than the fair value of the asset at the date of maturity of the option, such that it is reasonably likely to be exercised.

When the Group acts as lessee, the cost of the leased assets is recorded in the balance sheet according to the nature of the leased asset, and at the same time a liability is reflected for the same amount which will be the lower of the fair value of the leased asset and the sum of the present values of the amounts payable to the lessor, plus, if appropriate, the exercise price of the purchase option. These assets are depreciated using procedures similar to those applicable to tangible assets for the Group's own use.

Finance income and expense arising from leasing agreements are credited or charged to the consolidated income statement such that the return remains constant throughout the term of the lease.

Operating leases

In operating leases, ownership of the leased asset and substantially all of the risks and rewards of ownership of the asset remain with the lessor.

When the Group is the lessor of the asset, the acquisition cost of the leased item is recorded in tangible assets. These assets are depreciated by the same procedure as for own-use property of similar type and the revenues from the leases are recognised in the consolidated income statement on a straight-line basis.

When the Group is the lessee, the expenses arising from the lease, including any incentives offered by the lessor, are recorded in the consolidated income statement on a straight-line basis. When contracts provide for the possibility of revising the instalments, the revision takes place in general annually on the basis of fluctuations in the consumer price index in Spain or the country in which the asset is located, without any mark-up being added to the figure obtained thereby.

Sale and lease-back

In the case of sale at fair value and subsequent lease-back under an operating lease, any profit or loss is recorded at the time of the sale. In the event of a subsequent financial lease, the income generated is apportioned over the term of the lease.

When determining whether a sale with lease-back operation results in an operating lease the Group analyses, among other points, whether at the inception of the lease there are purchase options which, due to their terms, are reasonably likely to be exercised, and which party will receive the losses or gains derived from fluctuations in the fair value of the residual amount of the relevant asset.

l) Intangible assets

Intangible assets are identifiable, non-physical, non-monetary assets that arise as a result of an acquisition from third parties or which are developed internally by the Group. An intangible asset will be recognised 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 recognised at acquisition or production cost and are subsequently measured at cost less, if appropriate, accumulated depreciation and any impairment loss.

Goodwill

A positive difference between the cost of a business combination and the acquired portion of the net fair value of the assets, liabilities and contingent liabilities of the acquired entity is recognised on the balance sheet as goodwill. This difference represents an advance payment made by the Group of the future economic benefits derived from the entities acquired that are not individually and separately identifiable and recognisable. Goodwill is not amortised and is recognised only when acquired for valuable consideration in a business combination.

Goodwill is assigned to one or more cash generating units (CGU) which are expected to benefit from the synergies derived from the business combinations. These CGU are the smallest identifiable groups of assets which, as a result of their continuous functioning, generate cash flow for the Group irrespective of other assets or groups of assets.

The CGUs to which the goodwill has been assigned are tested annually for impairment, or whenever there is evidence that impairment might have arisen. In this respect, the Group recalculates the recoverable amount mainly using the distributed profit discount method in which the following parameters are taken into account:

- Key business assumptions. These assumptions are used as a basis for cash flow projections as part of the valuation. For businesses engaging in financial operations, projections are made for variables such as: changes in lending volumes, default rates, customer deposits and interest rates under a forecast economic scenario, and capital requirements.
- Estimates of macroeconomic variables and other financial parameters.
- The period covered by the projections. This is usually five years, after which a recurring level is attained in terms of both income and profitability. These projections take account of the economic outlook at the time of the valuation.
- The discount rate. The present value of future dividends, from which a value in use is derived, calculated using a discount rate that portrays the capital cost of the entity (Ke) from the standpoint of a market participant. To determine the capital cost the CAPM method is used in accordance with the formula; “$Ke = Rf + \beta\ (Rm) + \alpha$”, where: Ke = Required return or cost of capital; Rf = Risk-free rate; β = Company’s systemic risk coefficient; Rm = Expected return of the market and α = Non-systemic risk premium.
- The rate of growth used to extrapolate cash flow projections beyond the end of the period covered by the most recent projections. Based on long-term estimates for the main macroeconomic figures and key business variables, and bearing in mind the current financial market outlook at all times, an estimate of a nil rate of growth in perpetuity can be arrived at.

If the carrying value of CGU is higher than its recoverable amount, the Group recognises an impairment loss which is allocated firstly by reducing the goodwill attributed to that CGU and secondly, if any losses remain to be allocated, by reducing the carrying value of the remaining assigned assets on a proportional basis. Impairment losses recognised for goodwill cannot subsequently be reversed.

Other intangible assets

This heading basically includes intangible assets identified in business combinations such as brands and contractual rights arising from relations with customers derived from acquired businesses, as well as computer software.

These intangible assets have finite useful lives and are amortised on the basis of their useful lives according to criteria similar to those used for tangible assets. The useful lives of brands and contractual rights arising from customer relations in acquired businesses vary between five and fifteen years, while for computer software the average useful life is seven years.

The criteria for recognising impairment losses in intangible assets and any recoveries of impairment losses recorded in earlier periods are similar to those applied to tangible assets. In this respect, the Group determines whether there is evidence of impairment comparing actual trends with assumptions applied in the parameters used when they were first recognised. These include possible loss of customers, average customers' balances, average ordinary margin and the efficiency ratio assigned.

m) Inventories

Inventories are non-financial assets that are 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 of in the rendering of services.

In general, inventories are valued at the lower 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 realisable value.

Net realisable value means the estimated sale price net of the estimated production and marketing costs to carry out the sale. This figure is revised and recalculated on the basis of actual losses incurred on the sale of the assets.

Any value adjustments to inventories, whether caused by impairment due to damage, obsolescence or a fall in sale prices, to reflect their net realisable value, or arising from other losses, are recognised as expense in the year in which the impairment or other loss occurred. Any subsequent recoveries in value are recognised in the consolidated income statement in the year in which they occur.

Impairments in the value of inventories comprising land and buildings are calculated on the basis of appraisals by independent professional valuation companies on the Bank of Spain's Special Register. Such appraisals are carried out according to the rules for the valuation of real estate and associated rights for specified financial purposes, set out in the Order ECO/805/2003.

When inventories have been received due to debt settlements, the Group applies valuation criteria which are analogous to those described above with respect to non-current assets held for sale and liabilities associated with non-current assets held for sale.

The carrying value of inventories is derecognised from the balance sheet and recorded as an expense in the period in which the revenues from the sale of the inventories are recognised.

n) Own equity instruments

An own equity instrument is defined as an equity instrument that:

- Does not involve any contractual obligation to the issuer which entails: delivering cash or another financial asset to a third party, or exchanging 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: when it is a non-derivative instrument, the issuer is or may not be obliged to deliver a variable number of its own equity instruments, when it is a derivative instrument, it 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, including their issuance or redemption, are recognised directly against equity.

Changes in the value of instruments classified as own equity instruments are not recognised in the financial statements. Any consideration paid or received for such instruments is added to or deducted directly from equity and the associated transaction costs are deducted from equity.

Equity instruments issued in full or partial settlement of a financial liability are recognised at fair value unless this cannot be reliably determined. In this case, the difference between the carrying value of a financial liability (or any part thereof) that has been settled and the fair value of the equity instruments issued is recognised in the income statement for the period.

o) Remuneration based on equity instruments

The delivery to employees of the Group's own equity instruments in payment for their services, where the instruments are determined at the start and are delivered on completion of a specified period of service, is recognised as an expense for services over the period during which the services are being provided, with a balancing entry under the heading Other equity instruments in equity. On the grant date the services received are measured at fair value, unless this cannot be reliably estimated in which case they are measured by reference to the fair value of the committed equity instruments, bearing in mind the time-periods and other conditions envisaged in the commitments.

The amounts recognised in equity are not subsequently reversed, even when employees do not exercise their right to receive the equity instruments.

For transactions involving remuneration based on shares which are paid in cash, the Group records an expense for services as the employees provide the services, with a balancing entry under Other provisions for the fair value of the liability incurred. The Group recognises said liability at fair value until it is settled. Value fluctuations are recognised in profit/loss for the period.

p) Insurance contracts

Insurance premiums under insurance contracts issued by the consolidated insurance companies are taken to the income statement when the relevant receipts are issued. The estimated cost of claims to be paid is charged into the consolidated income statement based on the amounts that will be necessary to settle the claim. At year end the amounts collected and not accrued and the costs incurred but not paid at that date are apportioned to the appropriate periods.

Direct insurance technical reserves received by the consolidated companies to cover obligations undertaken arising from the insurance contracts that are in force at the year end are recorded in Liabilities under insurance contracts.

The most significant technical reserves are as follows:

- Unearned premium reserves: Records the fraction of premiums accruing during the year that must be allocated to the period between the year end date and the termination of the relevant insurance coverage.
- Unexpired risk reserves: This complements the unearned premium reserve with respect to the amount in which this reserve is not sufficient to reflect the valuation of risks and expenses to be covered which pertain to the coverage period still to run at the year-end date.
- Claims reserves: This reflects estimated values of outstanding obligations derived from claims arising before the year end, for both claims pending settlement and payment and claims yet to be recognised, after deducting payments in advance made and taking into consideration the internal and external settlement expenses.
- Mathematical reserves: Includes the year-end value of the insurance company's obligations net of the obligations pertaining to the policy holder under life insurance policies.
- Reserves for life insurance in which the investment risk is borne by the policy holders: The amount of the reserve is based on the valuation of the assets linked to the policies.
- Provisions for returned premiums and profit-sharing: Includes benefits accruing in favour of policy holders as a whole and premiums to be returned to them, provided these amounts have not been allocated on an individual basis.

The heading Reinsurance assets on the consolidated balance sheet recognises the amounts that the consolidated companies are entitled to receive under reinsurance contracts between them and third parties and, specifically, the share of the reinsurance in the technical reserves.

To reduce any accounting asymmetries, the Group records changes in the fair value of the financial assets that back up insurance contracts and are classified as available for sale under Liabilities under insurance contracts on the consolidated balance sheet under the heading Shadow accounting adjustments for accounting asymmetries.

Group insurance companies utilise the following assumptions for pricing and calculating insurance contract reserves:

- The biometric tables allowed by the Regulations on the arrangement and supervision of private insurance are utilised for guarantees in the life insurance (death) business.
- Mortality tables published by reinsurers or rates supplies by the Company's reinsurers are used for guarantees in the casualty insurance business and in areas complementary to the life insurance business. These rates are

recharged after adding the relevant mark-ups to avoid potential variances due to claims during the term of the product.

- Technical interest on the products with a high savings component is calculated taking into account whether or not there are investments assigned to the product. In insurance products with assigned investments, technical interest is set based on the yield from the investments assigned after deducting the relevant mark-up to comply at all times with current regulations governing the matching of flows and the corresponding profit margin for the insurance companies. In insurance products without assigned investments, a minimum technical interest rate is applied, which is revised on a half-yearly or annually basis. Additionally, there are products in which customers are provided with a share in profits in addition to the minimum technical interest rate based on the yield obtained by the insurance companies on the investment of the technical reserves which are recorded by increasing the technical provisions as it is attributed to the customers concerned.

The following table sets out the main technical bases for the insurance companies' products:

Product	Mortality table	Technical interest rate
Individual risk life insurance	GKM/F 80 / GKM/F 95 – GKM-5 95 - PASEM 2010 - PASEM 2010 unisex	0.5% - 2%
Individual savings insurance	PERM/F 2000 P – PERM/F 2000 C - PER 2000 P - GRM/F95 - PER/F 2000 P unisex	0% - 6%

At each reporting date the Group evaluates the adequacy of the liabilities recognised under insurance contracts by comparing the value recognised on the consolidated balance sheet against the current estimates of future cash flows resulting from the contracts in force. If these estimates are higher than the recognised value, the Group records the difference on the income statement for the period.

q) Provisions and contingent assets and liabilities

Provisions are current obligations of the Group which have arisen from past events and whose nature at the balance sheet date is clearly specified, but which are of uncertain timing and amount; when such obligations mature or become due for settlement, the Group expects to settle them through an outflow of resources embodying economic benefits.

In general, the Group's consolidated annual accounts include all significant provisions with respect to which it is estimated that the likelihood of having met the obligation is higher than the opposite. These provisions include, among others, commitments undertaken with employees by some entities within the Group (see part r), as well as provisions for legal and other disputes.

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 lie outside the Group's control. 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. Contingent liabilities should not be recognised in the consolidated annual accounts but should be disclosed in the consolidated notes of the accounts.

As established in IAS 37.92, if the bank considers that to give a detailed breakdown of information on certain provisions and contingent liabilities would seriously affect the group's position in disputes with third parties related to situations which contemplate the provisions and contingent liabilities (such as those linked to certain disputes or arbitration issues), the bank chooses not to give details of this information.

Contingent assets are potential assets arising out of past events the existence of which is conditional and must be confirmed when events that are out of the Group's control occur or do not occur. These contingent assets are not recognised on the balance sheet or consolidated income statement, but are disclosed in the consolidated notes to the accounts provided that an increase in resources that embody profits for this reason is likely.

r) Provisions for pensions

Pension commitments

The Group's pension commitments to its employees are as follows:

Defined contribution plans

These are predetermined contributions made to a separate entity under the agreements reached with each group of employees in particular, without any legal or effective obligation to make additional contributions where the separate entity is unable to pay benefits to the employees for the services rendered in the current year and in previous years.

These contributions are recorded each year in the consolidated income statement.

Defined benefit plans

Defined benefit plans provide for all current commitments under Articles 35, 36 and 37 of the 22nd Collective Agreement for the Banking Industry.

These commitments are financed through the following vehicles: the pension scheme, insurance contracts, internal funds and the voluntary benefit entity "E.P.S.V.".

1. The pension scheme:

The Banco Sabadell's employee pension scheme covers benefits payable under the aforementioned Collective Agreement with the employees belonging to regulated collectives, with the following exceptions:

1. Additional commitments on early retirement as provided for by Article 36 of the Collective Agreement.
2. Disability occurring in certain circumstances.
3. Benefits for widowhood and orphanhood payable on the death of retired employees recognised as having entered the Bank's service after 8 March 1980.

The Banco Sabadell employee pension scheme is regarded for all intents and purposes as an asset of the plan for the obligations insured in non-Group entities (National-Nederlanden Vida, VidaCaixa and Generali Seguros). Those pension scheme obligations which are insured in Group companies are not regarded as scheme assets.

2. Insurance contracts:

The insurance policies provide general cover for specified commitments under Articles 36 and 37 of the 22nd Collective Agreement for the Banking Industry, including:

- Commitments that are expressly excluded from the Banco Sabadell employee pension scheme (1, 2 and 3 above).
- Serving employees covered by a collective agreement with the former Banco Atlántico.
- Pension commitments in respect of some serving employees, not provided for under the collective agreement.
- Commitments towards employees on leave of absence who are not entitled to benefits under the Banco Sabadell employee pension scheme.
- Commitments towards early retirees. These may be partly financed out of pension rights under the Banco Sabadell employee pension scheme.

These insurance policies have been arranged with insurers outside the Group, principally for commitments to former Banco Atlántico employees (FIATC and VidaCaixa), and also with BanSabadell Vida, S.A. de Seguros y Reaseguros.

3. Internal Funds

The internal funds cover obligations to early retirees up to their legal retirement age for employees previously working for Banco Sabadell, Banco Guipuzcoano and Banco CAM.

4. The voluntary benefit entity "E.P.S.V.".

The acquisition of Banco Guipuzcoano resulted in the takeover of Gertakizun, E.P.S.V., which covers defined benefit commitments in respect of the bank's serving and former employees and are insured by policies (National-Nederlanden Vida, Plus Ultra Seguros and CNP Vida). This entity was set up by Banco Guipuzcoano in 1991 as a legally separate entity governed by Law 25/83 of 27 October of the Basque Parliament, Decree 87/84 of 20 February and Decree 92/2007 of 29 May. Pension commitments to serving and former employees are fully covered by entities independent of the Group.

Accounting record

The balance sheet heading Provisions for pensions and similar obligations includes the actuarial present value of pension commitments, calculated individually using the projected unit credit method on the basis of financial and actuarial assumptions which are set out below. The same method is used to analyse the sensitivity described in Note 25.

From the obligations so calculated, the scheme assets at their fair value have been deducted. These assets, including insurance policies, are those from which pension obligations are to be settled since they meet the following requirements:

- They are not owned by the Bank but by a legally separate, non-related third party.
- 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.
- 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 assets are to be returned to the Bank to reimburse it for employee benefits previously paid.
- They are not non-transferable financial instruments issued by the Bank.

The assets that back pension commitments shown in the individual balance sheet of BanSabadell Vida, S.A. de Seguros y Reaseguros, a Group insurance subsidiary, are not scheme assets as the company is a related party of the Bank.

Pension commitments are recognised as follows:

- On the consolidated income statement: net interest on the net defined benefit liability (asset) arising from pension commitments and the cost of the services, including this cost (i) cost of current year services, (ii) cost of past services arising from past changes made to existing commitments or from the introduction of new benefits and (iii) any gain or loss arising from a plan settlement.
- Under valuation adjustments in equity: the re-evaluation of the net defined benefit liability (asset) which includes (i) actuarial gains and losses generated in the year arising from differences between the prior actuarial assumptions and the real situation and from changes in the actuarial assumptions made, (ii) the performance of the plan assets, and (iii) any change in the effects of the asset limit, excluding, for the last two items, the amounts included in net interest on the net defined benefit liability (asset).

  The amounts recorded in equity are not reclassified to the income statement in subsequent years but are reclassified to reserves.

Assumptions

The most relevant actuarial assumptions used in the valuation of pension commitments are as follows:

	2015	2014
Tables	PERM/F 2000 new business	PERM/F 2000 new business
Technical interest rate, pension scheme	1.75% annual	1.75% annual
Technical interest rate, internal fund	1.75% annual	1.75% annual
Technical interest rate, related-party policies	1.75% annual	1.75% annual
Technical interest rate, unrelated-party policies	1.75% annual	1.75% annual
Inflation	2.00% annual	2.00% annual
Salary growth	3.00% annual	3.00% annual
Retirements due to disability	SS90-Absolute	SS90-Absolute
Staff turnover	None assumed	None assumed
Early retirement	Allowed for	Allowed for
Ordinary retirement	65 or 67 years	65 or 67 years

In 2015 and 2014, the technical interest rate on all commitments has been determined by reference to the yield on AA-rated corporate bonds (iBoxx € Corporates AA 10+), with an average duration of 10.74 years in 2015 and 12.44 years in 2014.

The age of early retirement is assumed to be the earliest retirement date after which pension entitlements cannot be revoked by the employer for all employees.

The yield on long-term assets related to scheme assets and insurance policies linked to pensions has been determined by applying the same technical interest rate (1.75% in 2015).

s) Transactions in foreign currency and currency translation differences

The Group's functional and presentation currency is the euro. All balances and transactions denominated in currencies other than the euro are therefore treated as denominated in a foreign currency.

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 at the reporting date.
- Non-monetary items measured at historical cost are translated at the exchange rate 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 at 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 recognised under valuation adjustments in equity, the exchange rate component is recorded separately from the revaluation of the non-monetary item.

Balances in the financial statements of consolidated companies whose functional currency is not the euro are translated as follows:

- Assets and liabilities are translated applying the year-end exchange rate.
- Income and expenses by applying the average exchange rate weighted by the volume of transactions of the converted entity.
- Equity, at historical exchange rates.

Differences arising on the translation of the financial statements of consolidated companies whose functional currency is not the euro are recorded in Valuation adjustments under consolidated equity.

The exchange rates applied in the translation of foreign currency balances to euro are those published by the European Central Bank at 31 December each year.

t) Recognition of income and expense

Interest income and expense and items that may be likened to them are generally accounted for over the period in which they accrue using the effective interest rate method. The dividends received from other entities are recognised as income at the time the right to receive them originates.

Generally, fee and commission income and expense and similar items are recorded in the income statement in accordance with the following criteria:

- Those linked to financial assets and liabilities carried at fair value through profit or loss are reflected at the time of collection.
- Those related to transactions or services performed over a period of time are reflected over the period of such transactions or services.
- Those relating to a transaction or service that is performed in a single act are recorded when the originating act takes place.

Financial fees and commissions forming an integral part of the effective cost or yield of a financial transaction have been deferred net of associated direct costs and recognised in the income statement over the expected average life of the transaction.

Non-financial income and expense is accounted for on an accrual basis. Deferred payments and collections are accounted for at the amount obtained by discounting expected cash flows at market rates.

For levies and tax obligations whose amount and date of payment are correct, the commitment is recognised when the activity that activates its payment takes place in line with the legislative terms and conditions.

Therefore, the payment obligation is recognised whenever there is an obligation to pay these levies, such as contributions to deposit guarantee funds of different countries in which the group operates. In those cases where the payment obligation is accrued over time, this is progressively recognised throughout the accrual period.

Deposit guarantee fund

Banco Sabadell forms part of the Deposit Guarantee Fund. Following the publication of Royal Decree 1012/2015, the contribution for 2015 has been set at 1.6 for every 1000 of the amount of guaranteed deposits at 31 December 2015, and at 2 for every 1000 of 5% of the guaranteed amount of securities and other financial instruments on the same date. In accordance with IFRIC 21, the transaction is recognised whenever there is a payment obligation, recorded at 31 December each year (see Note 36).

TSB Bank Plc makes contributions to the Financial Services Compensation Scheme which are not recorded until 1 April each year. As the recording date precedes the business combination date (see Note 2), the contribution by TSB Bank Plc in 2015 is not included in the consolidated profit and loss statement.

Sabadell United Bank makes contributions to the deposit guarantee fund as established by the Federal Deposits Insurance Corporation. The payment obligation, and therefore its accrual, is quarterly (see Note 36).

National Resolution Fund

Law 11/2015 of 18 June, together with its regulatory implementation with Royal Decree 1012/2015, transposes Directive 2014/59/EU to the Spanish legal system, therefore a new framework for the resolution of credit institutions and investment firms is established, which is also one of the standards that contribute to the constitution of the Single Supervisory Mechanism, created through Regulation (EU) 806/2014, which establishes standards and procedures for credit institutions and investment firms within the framework of a Single Supervisory Mechanism and a Single Resolution Fund.

Nationally, Law 11/2015 regulates the creation of a National Resolution Fund. The calculation of each entity's contribution, regulated by Regulation (EU) 2015/63, is based on the proportion that each entity represents with respect to the aggregate total liabilities, after shareholders' funds have been deducted and the guaranteed amounts of the deposits are deducted. The latter are then adjusted to the entity's risk profile (see contributed amounts, Note 36). In accordance with the fourth additional provision of the Law, before 31 January 2016, the National Resolution Fund shall transfer the contributions to the Single Resolution Fund.

u) Corporate income tax

Corporate income tax applicable to the Spanish companies in the Banco Sabadell Group and similar taxes applicable to foreign subsidiaries are treated as expenses and are recorded in the consolidated income statement under corporate income tax unless the tax has arisen on a transaction accounted for directly in equity, in which case it is also recognised directly in equity.

The total corporate income tax expense is equivalent to the sum of current tax calculated by applying the relevant rate to taxable income for the year (after legally admissible deductions and credits) and the variation in deferred tax assets and liabilities recognised in the consolidated income statement.

Taxable income for the year may be at variance with the profit for the year as shown on the income consolidated 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.

Deferred tax assets and liabilities relate to taxes expected to be payable or recoverable arising from differences between the carrying value of the assets and liabilities figuring in the financial statements and the related tax bases ("tax value"), as well as tax losses carried forward and unused tax credits that might be offset or applied in the future. They are calculated by applying to the relevant temporary differences or tax credits the tax rate at which they are expected to be recovered or settled (Note 44), A deferred tax asset such as a tax prepayment or a credit in respect of a tax deduction or allowance, tax loss or other benefit is always recognised provided that the Group is likely to obtain sufficient future taxable profits against which the tax asset can be realised, and that these are not derived from the initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect either the tax result or the accounting result.

“Tax assets” and “Tax liabilities” figuring on the consolidated balance sheet include all tax assets/liabilities, differentiating between current (to be recovered in the coming 12 months, such as the payment of income tax to the Spanish Tax Authorities (*Hacienda Pública*)) and deferred (to be recovered/paid in future years).

Deferred tax liabilities arising from temporary differences associated with investments in subsidiaries and associates are recognised in the accounts unless the Group is capable of determining when the temporary difference will reverse and, in addition, such a reversal is unlikely.

At each year-end, recorded deferred tax assets and liabilities are reviewed to ascertain whether they are current and to ensure that there is sufficient evidence of the likelihood of generating future tax profits that will allow them to be used, applying relevant adjustments as necessary.

To conduct the above-mentioned analysis, the following variables are taken into consideration:

- Forecasts of results of the Spanish tax group and of the other entities, based on the financial budgets approved by the group administrators for a four-year period, subsequently applying constant growth rates similar to the mean long-term growth rates of the sector in which the various companies of the group operate.
- Estimation of the reversal of timing differences, based on their nature, and
- The term or deadline established by current laws in each country for the reversal of the various tax assets.

Income or expenses recognised directly in equity that do not affect profits for tax purposes are recorded as temporary differences.

Banco Sabadell Group companies included in consolidation for corporate income tax in Spain purposes are listed in Schedule I.

v) Consolidated cash flow statement

Consolidated cash flow statements have been prepared using the indirect method, so that, based on the group’s results, the non-monetary transactions and all types of deferred payment items and accruals which are or will be the cause of operating income and expense in the past or the future have been included, in addition to the income and expense associated with cash flows from activities classified as investment or funding activities. Therefore, in addition to cash, cash components or their equivalents are classified as short-term investments in highly liquid assets which have a low risk of changes in value, specifically cash balances and deposits in central banks, which are balances that will be able to be converted into a recognised treasury amount.

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 with a low risk of changes in value.
- Operating activities: typical day-to-day activities of the Group and other activities that cannot be classified as investment or financing activities.
- Investment activities: the acquisition, sale or other disposal of long-term assets and other investments not included in cash and cash equivalents.
- Financing activities: activities that result in changes in the size and composition of equity and of liabilities that do not form part of operating activities.

No situations requiring the application of judgements to classify cash flows have arisen in 2015.

There have been no significant transactions that have not generated cash flows not reflected in the cash flow statement.

Comparability

The information presented in these annual accounts for 2014 is provided solely and exclusively for purposes of comparison with the information for the year ended 31 December 2015 and therefore does not constitute the Group's consolidated accounts for 2014.

On 30 June 2015, the Group acquired TSB Banking Group PLC (see Note 2). As a result of this addition to the consolidated scope and the profit/loss statement, figures corresponding to its balance are not comparable with figures from 2014.

Note 2 –Banco Sabadell Group

The companies comprising the Group as at 31 December 2015 and 2014 are listed in Schedule I along with their registered offices, principal activities, the Bank's proportional holding in each, key financial data and the consolidation method used (full consolidation or equity method) in each case.

Schedule II gives a detailed list of the consolidated structured entities (securitisation funds).

The following section provides a description of the business combinations, acquisitions and sales or liquidations which are most representative of shareholdings in other entities (subsidiaries and/or investments in associates) performed by the group during 2015 and 2014. Schedule I also includes a detailed list of the companies consolidated for the first time and those no longer consolidated for each year.

Changes in consolidation scope in 2015

Subsidiaries consolidated for the first time:

Creation of Banco Sabadell, S.A., Institución de Banca Multiple.

On 29 January 2015, Banco Sabadell, S.A. Institución de Banca Múltiple was set up in Mexico. In August that same year it obtained permits from the local supervisors to start operations as a commercial bank. On 4 January 2016, after completing the certification procedure of the *Comisión Nacional Bancaria y de Valores* (CNBV) (National Banking and Securities Commission) and in line with the requirements of the Bank of Mexico, it officially started operating.

The new Banco Sabadell in Mexico will carry out operations relating to corporate banking and companies and, in the coming months, it will launch its personal banking service.

The total investment maintained by the Group in this Bank at 31 December 2015 reached €57,375 thousand.

Capital increase at Sabadell Capital S.A. de C.V. SOFOM, E.N.R

On 22 December 2015, Banco de Sabadell, S.A. carried out a capital increase at this company for the total amount of € 218,651 thousand.

Business combination with TSB Banking Group PLC

Acquisition process

The European Commission (EC) declared that the financial assistance loaned by the British Ministry of Finance to Lloyds Banking Group plc (Lloyds) in 2008 and 2009 constituted unauthorised State aid in accordance with European regulations. As a result, the EC decided that Lloyds would have to part with a business unit that provided commercial banking services in the United Kingdom which would have to meet certain conditions in order to promote competition within the sector.

This divestment obligation would have to take place before a specified date (31 December 2015, which could be extended to the end of 2016 depending on the extent to which Lloyds had decreased its shareholding in TSB).

With a view to benefitting from a banking licence already held by Lloyds Group, in September 2013, Lloyds Group decided to transfer the entirety of its divested equity to one of its vehicle companies, TSB Bank plc (whose parent company is TSB Banking Group plc, "TSB") under a new brand and operating as a new credit institution for commercial banking.

After analysing various divestment alternatives in TSB, Lloyds decided to launch a public offering in June 2014, and TSB's ordinary shares were quoted and admitted to trading in the London Stock Exchange in June 2014. Lloyds then held a 50% stake in TSB.

It was in the context of this need for divestment that, on 19 March 2015, the Board of Directors of Banco Sabadell approved the presentation of a takeover bid to acquire 100% of shares in TSB Banking Group plc ("TSB") at a price of 340 pence per share, paid in cash, to all TSB's shareholders. Adhering to the terms of its public offering, Banco Sabadell acquired approximately 9.99% of TSB's share capital on 24 March 2015, which were owned by Lloyds Banking Group plc (Lloyds). The latter made an irrevocable commitment to accept the previous offer for the remaining TSB shares which it held, until it held a 50.01% stake in TSB.

The terms and conditions of the public offering, including those of the acceptance of the bid, were set out in the offer published and distributed to TSB shareholders on 17 April 2015.

The takeover bid was supported by TSB's Board of Directors and was recommended to the shareholders at the time. It was subject to the acceptance of a minimum of 75% of TSB share capital and voting rights, a percentage which included the shares already acquired from Lloyds and its irrevocable commitment. Similarly, the acquisition of TSB was also subject to obtaining various authorisations and consent from the Prudential Regulation Authority (PRA) of the Bank of England as well as from other supervisors, including the competition authorities.

On 30 June 2015 the final suspensive condition for the acquisition of TSB was met, and this is the date on which the Group considers that it took control of TSB's assets and acquired its liabilities (acquisition date), as this was the date on which the public offering was declared unconditional in all respects.

Given that the number of bid acceptances represented over 90% of TSB shares, the Group exercised its right of forceful acquisition of TSB shares whose holders had declined the bid, pursuant to the English Companies Act, under the same conditions accepted by the other shareholders. As a result, the Group consolidated 100% of its investment in TSB on 30 June 2015 and recorded the corresponding liability with the shareholders at the amount pending settlement.

On the 10th and 15th July 2015, consideration payable to TSB shareholders was paid in full to those shareholders who accepted the public offering, whose shares represent approximately 87.1% of TSB's share capital. The settlement period for the remaining shareholders, including those affected by the forceful acquisition, ended in September 2015.

TSB is a bank aimed at retail customers and small businesses, with a scope of distribution of approximately 7% through its branches in the United Kingdom. Its Common Equity Tier 1 Capital Ratio stands at 19.5% and it has a comfortable financing position, with a franchise loan to deposit ratio throughout its franchise of 76.6% at the acquisition date.

The acquisition of TSB will allow the group to access the banking market in the United Kingdom, which is attractive due to its well defined and stable regulatory framework, consistent profitability levels and good prospects for future growth. The group expects that, under its control, TSB will be able to continue to reinforce its growth and efficiency strategies, benefiting from the resources, and from experience in SMEs financing the Spanish banking market acquired through the group.

A summary of TSB's consolidated balance sheet at the date of acquisition is shown below:

Thousand euro

Assets		Liabilities and equity	
		Liabilities	
Cash and balances with central banks	**5,421,408**	**Held for trading**	**47,852**
Held for trading	**52,801**	Trading derivatives	47,852
Trading derivatives	52,801	**Financial liabilities at amortised cost**	**36,092,913**
Financial assets available for sale	**1,418,035**	Deposits from credit institutions	111
Debt securities	1,418,035	Deposits from customers	35,517,525
Loans and receivables	**31,377,312**	Marketable debt securities	14,077
Loans and advances to credit institutions	936,800	Subordinated liabilities	561,200
Loans and advances to customers	30,440,512	**Adjustments to financial assets due to macro-hedging**	**46,111**
Adjustments to financial assets due to macro-hedging	**6,182**	**Hedging derivatives**	**266,174**
Hedging derivatives	**62,441**	**Provisions**	**47,090**
Tangible assets	**211,762**	Other provisions	47,090
Property, plant and equipment	211,762	**Other liabilities**	**613,451**
For own use	211,762		
Tax assets	**148,914**	**Equity**	
Deferred	148,914	**Shareholders' funds**	**2,323,852**
Rest of assets	**738,225**	Capital	7,028
Other	738,225	Issued capital	7,028
		Issue premium	1,356,621
		Reserves	947,023
		Accumulated reserves (losses)	947,023
		Less treasury securities	*(14,523)*
		Yearly income attributed to the parent company	27,703
		Valuation adjustments	**(362)**
		Financial liabilities available for sale	1,042
		Cash flow hedging	(1,403)
Total assets	**39,437,080**	**Total equity and liabilities**	**39,437,080**
		Memorandum item:	
		Contingent commitments	**6,186,296**

Applied exchange rate as at 30/06/2015 (0.7114 £/€)

Accounting of the business combination

The current consolidated accounts record the valuation and accounting of this business combination based on the Management's estimates of fair values of assets and liabilities; the cost of the transaction is allocated to specific assets, liabilities and contingency liabilities ("Purchase Price Allocation" or PPA). These estimates have been reviewed by an independent third party.

At the takeover date, TSB's shareholders' equity stood at €2,324 million (€2,336 million excluding treasury stock).

The total price paid by Banco Sabadell for the acquisition of 100% of TSB's share capital is €2,362 million.

The following assets, liabilities and contingent liabilities of the acquired entity have been valued as part of the preliminary PPA exercise:

1. Based on the analyses carried out by the group, an expected lifetime loss on the loans to customer's portfolio has been estimated as a result of adjusting its estimated fair value. The amount allocated to additional provisions stands at €151 million. A point in time Probability of Default (PD) has been applied for the first three years, and a cycle-adjusted PD is applied from the fourth year on. The cycle-adjusted PD mainly affects the mortgage portfolio, due to its longer-term nature, and allows medium- and long-term behaviour to be reflected rather than conditioning the calculation to current economic conditions. For residential mortgages, a point in time Loss Given Default (LGD) has been applied for the first 3 years, increased from the fourth year to reflect a longer-term parameter, less conditioned by current real estate market conditions in the UK; to this effect, the point in time LGD has been weighted with the LGD downturn. For the remaining segments, the LGD corresponds to the point in time value, as these are shorter-term operations, and in segments where the LGD is not as cycle-sensitive.

2. Intangible assets including the value of contractual rights arising from relations with customers acquired from TSB for core deposits have been estimated at €354 million. The value attributable to this asset has been determined

using the cost-saving method, estimating the current value of savings on financing costs with core deposits compared with alternative financing methods. This asset will be amortised within 8 years.

3. The value of the exclusive right of use of the TSB brand has been estimated at €73 million. The value attributable to this asset has been determined through the replacement cost method, consisting of establishing the cost of rebuilding or acquiring an exact replica of the asset in question. This asset is amortised over a period of 12 years.

4. Lastly, in the Deferred tax assets and liabilities heading, the tax effect (with a 20% rate) has been adjusted in line with the adjustments described in points 1 and 3, totalling €31 million and €15 million respectively.

A 10.9% discount rate has been used in the valuation of intangible assets, calculated based on the Capital Asset Pricing Model (CAPM) methodology. This rate is comprised of a risk-free rate of 2.6% (using the bond in the United Kingdom with a 20-year maturity at the takeover date as a reference), a market share of 6.0% and a beta of 1.21 plus an additional premium of 1.0% as the assets are not very liquid.

After the assets and liabilities acquired from TSB have been adjusted, the resulting negative consolidation difference amounts to €266 million, which is recorded in the consolidated profit and loss statement net of expenses associated with the acquisition, amounting to €232 million (see Note 41). As explained above, the reason for which this transaction resulted in profit is due to the origin of the acquired entity TSB and the divestment carried out by Lloyds Banking Group plc (Lloyds).

If the acquisition date had been 1 January 2015, ordinary income and profit after tax that would have been contributed to the Group by TSB would amount to approximately €1,202 and €168 million, respectively.

The variation in the group's cash and cash equivalents resulting from the takeover of TSB amounts to €5, 421 million, recorded in the section Other collections relating to investment activities of the Consolidated Cash Flows Statement.

The amounts of TSB ordinary income and profit after tax since the takeover date included in the consolidated profit and loss statement for 2015 amount to €617 million and €122 million respectively.

Other significant corporate operations and contracts in 2015

Purchase of ex-UKAR credit assets

On 7 December 2015, TSB acquired a portfolio of credit assets, mostly mortgage assets, valued at GBP 3,006 million which had previously been managed by the UK Assets Resolution (UKAR). The price paid, GBP 3,041 million, is considered to reflect the fair value of the assets as the transaction was carried out at a public auction and the price of all factors influencing said fair value such as, among others, credit and conduct risk, were accounted for.

Acquisition of shareholding in GNB Sudameris

On 1 October, Banco Sabadell purchased 4.99% of Colombian bank GNB Sudameris, at a cost of USD 50 million. The majority shareholder of the GNB Sudameris bank is Gilex Holding, B.V., a subsidiary of Starmites Corporation, S.A.R.L., a company owned by the Gilinski family. The acquisition was complemented with a strategic commercial cooperation agreement, with a view to taking advantage of the mutual commercial opportunities in markets with high growth potential, as are Colombia, Peru and Paraguay.

Changes in consolidation scope in 2014

Subsidiaries consolidated for the first time

Formation of Sabadell Capital, Sociedad Anónima de Capital Variable (SOFOM)

On 22 April 2014, in Mexico City, Sabadell Capital, Sociedad Anónima de Capital Variable, Sociedad Financiera de Objeto Múltiple (SOFOM), Entidad No Regulada (hereinafter "Sabadell Capital") was incorporated. Its shares are 100% owned by the Banco Sabadell Group. Its main activity centres on corporate banking and structured financing in Mexican peso and US dollars of energy projects, infrastructures and other sectors such as tourism, foreign trade and public administration. The formation of the new SOFOM also entailed the first step in an internationalisation project for the creation of a multiple banking institution in Mexico in the medium term.

Sabadell Capital is located in Mexico DF. It also has an office in Monterrey (Nuevo León). These are the cities in which the potential market on which Sabadell Capital seeks to focus is concentrated.

Acquisition of Banco Gallego Vida y Pensiones

On 12 November 2013 Banco Sabadell entered into an agreement with Caja de Seguros Reunidos, Compañía de Seguros y Reaseguros, S.A. ("Caser") for the acquisition of Caser's 75% holding in Banco Gallego Vida y Pensiones, S.A. de Seguros y Reaseguros ("Banco Gallego Vida y Pensiones"), of which Banco Sabadell is an indirect shareholder through the remaining shares. The acquisition of this holding was finalised on 20 February 2014 and therefore Banco Sabadell achieved a 100% holding in the capital of Banco Gallego Vida y Pensiones following a net disbursement of €28,200,000.

This transaction formed part of the process of reorganising Banco Sabadell's insurance subsidiaries and associates.

Agreement for the acquisition of JGB Bank, N.A.

On 4 December 2013 Banco Sabadell, through its branch in Miami Sabadell United Bank, N.A. ("Sabadell United Bank"), concluded an agreement with GNB Holdings Trust for the acquisition of the banking institution JGB Bank, N.A. ("JGB Bank"). The transaction was structured through the acquisition of GNB Holdings Trust of JGB Financial Holding Company, which owned JGB Bank.
GNB Holdings Trust's main shareholder is Jaime Gilinski Bacal, who is also a major shareholder in Banco Sabadell.

On 14 July 2014, having obtained the required authorisations, Sabadell United Bank, N.A. (Sabadell United) carried out the acquisition of an immediate merger (by absorption) with JGB Bank, N.A. for USD 49.6 million (approximately €36.4 million), with effect from 11 July 2014. The transaction generated goodwill of USD 9.8 million.

Subsidiaries no longer consolidated

Merger, by absorption of Banco de Sabadell, S.A., with Banco Gallego, S.A.U. and Sabadell Solbank, S.A.U.

On 21 November 2013, the Bank's Board of Directors adopted a resolution approving the merger, by absorption, by Banco Sabadell of Banco Gallego, S.A. Sociedad Unipersonal ("Banco Gallego") and the merger, by absorption, by Banco Sabadell of Sabadell Solbank, S.A. Sociedad Unipersonal ("Sabadell Solbank"), subject to the obtainment of the relevant authorisations in both cases.

These mergers were carried out under Articles 49.1 and 51 of Law 3/2009 of 3 April, on structural changes in trading companies, since they consisted in the absorption of wholly-owned subsidiaries.

The Boards of Directors of Banco Sabadell, Banco Gallego and Sabadell Solbank signed the relevant merger plan at the meetings held on the above mentioned date.

On 14 March 2014, the deeds corresponding to the merger by absorption of Banco Gallego, S.A.U. by Banco Sabadell and the merger by absorption of Sabadell Solbank, S.A.U. by Banco Sabadell, were registered in the Barcelona Mercantile Registry, recognised for accounting purposes from 1 January 2014.

Other disposals

On 12 December 2014, Aurica XXI, S.C.R. de régimen simplificado S.A.U., a company 100% owned by Banco Sabadell, S.A., sold 25% of its shareholding in Eurofragrance, S.L. generating a profit of €9,473,000.

Other corporate operations and relevant contracts in force in 2014

Reinsurance of Mediterráneo Vida Individual life-risk insurance portfolio

In March 2014 Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros entered into a reinsurance contract that covers its individual life-risk insurance portfolio as at 31 December 2013 with the reinsurance company SCOR Global Life Reinsurance Ireland, Plc (Scor).

Under this contract, the Group transferred the main insurance technical risks associated with the individual life-risk business (i.e. variances in mortality, permanent absolute disability and portfolio loss rates) to Scor, without there being any conditions under which the Group retained significant risks relating to the insurance activity associated with the policies concerned.

The Group also verified compliance with the remaining requirements laid down in IAS 18 “Ordinary Income” for the purposes of determining whether, at the date on which the contract was signed, the risks and rewards related to the portfolio had been transferred and therefore it could be treated, from an economic viewpoint, as being equivalent to the sale or transfer of an insurance portfolio. It should be noted in particular that Scor was responsible for the amounts payable to insured parties for any reported claims and no guarantee of any kind was furnished by the Group with respect to a minimum volume of business in the future. Although the Group continued to manage the portfolio and was remunerated for this in accordance with market standards, its management was conducted in line with Scor’s policies and instructions and therefore the Group lacked autonomy in this respect.

The contract provided for certain early termination events for both parties but these were basically safeguards relating to the breach of contract due to non-payment, credit quality or service levels, the occurrence of which was regarded as unlikely by the Group. In connection with early termination, the contract provided for compensation based on market conditions which included penalties based on the reasons for termination, as well as the granting to Scor by the Group of collateral which diminishes over time.

In light of the above, the Group concluded that the relevant risks and rewards had been transferred and therefore recognised as a non-recurring income item. Accordingly, the total cash premium received by the Group upon the conclusion of the contract, amounting to €82,153,000, was recorded in full on the consolidated income statement for 2014 under the heading Gains/(losses) from disposals of assets not classified as non-current available for sale. In addition, since the contract came into effect the Group recorded the agreed fee for the management of the reinsured portfolio on an accruals basis

The contract also provided for an incentive whereby the Group could share in the favourable behaviour of the portfolio after 2025. No amounts have been recognised in this respect in these consolidated annual accounts as the collection of any revenue is regarded as a contingent asset.

Sale of the debt recovery management business

In December 2014, after obtaining the relevant authorisations, Banco Sabadell and Lindorff España S.L.U. (Lindorff) concluded a contract for the sale of the Group’s debt collection management business and an initial agreement for the provision of services related to the management and recovery of overdue debts for an initial period of ten years.

The sale contract included the transfer from Banco Sabadell to Lindorff of the assets and liabilities used in the business, including furnishings and computer equipment used to provide the services, contracts with suppliers covered by the business and employees working in this area with their know-how, experience and skills. All these activities and net assets, which in themselves allowed the recovery management of the Group’s overdue debts, made up the business unit transferred to Lindorff, who on the basis of its experience and technical capacity began to run the business independently with the aim of gaining a return on its investment.

In other terms, Banco Sabadell concluded a service contract with Lindorff relating to the recovery of certain overdue debts owed to Banco Sabadell and its subsidiaries under which Banco Sabadell undertook to assign, with certain exceptions, the overdue receivables held by it or its subsidiaries which would be managed by Lindorff in return for a variable fee. The contract provided that the volume of receivables assigned to Lindorff would comply with certain minimum levels over a transitional period. Subsequently, the volume assigned will depend on the volume of overdue debtors and the evolution of the business. Said contract envisaged the measurement of Lindorff’s degree of compliance based on various performance indicators applicable to the agreed services, establishing a scale of penalties for inadequate or insufficient performance, as well as advance termination events under certain circumstances (e.g. serious breach of contractual obligations or utilisation of practices that involve reputational risk).

From an analysis of the nature of the rights that were retained by the Group over its former debt collection business, it was concluded that they involved (i) safeguards, the purpose of which is to protect the underlying assets, protecting the Group against inefficient management but without retaining management powers, or (ii) rights that do not violate the transfer of risks and rewards as the likelihood of them being exercised is regarded as remote. The rights did not restrict Lindorff in its management of the debt recovery business and therefore Lindorff had power over the relevant activities and was exposed to fluctuations in results as it assumed the operational risks typical of the business acquired, market risks due to the volume of overdue loans and the execution time for the enforcement of guarantees on the assigned debt as well as risks derived from its own performance if it failed to achieve the levels agreed with Banco Sabadell.

The conclusion of this operation as a whole allowed the Group to maximise the profitability of recovery management through the expected increase in success fees and the speeding-up of the rate of recovery, while separating management of this business from its core banking business.

For accounting purposes, it was considered that the Group sold its recovery management business in full to a third party without retaining any interest in it since control over the assets and the main related risks and rewards were transferred to Lindorff. Accordingly, the resulting profit should be recognised in the consolidated income statement in accordance with IFRS 3 “Business Combinations” and IAS 18 “Ordinary Income”. The price for the transfer received by the Group under the contract was €162 million, generating a gross gain for that amount under the heading Gains/(losses) from disposals of assets not classified as non-current available for sale.

Award of asset management contract by SAREB

In November 2014, Sociedad de Gestión de Activos procedentes de la Reestruración Bancaria (SAREB) awarded to the Group the management of a portfolio of 42,900 assets through its subsidiary Solvia Servicios Inmobiliarios, S.L. (Solvia) for an initial term of seven years, commencing as from 1 July 2015.

The services included the migration of data to the Solvia platform, asset administration and management and legal advice on properties derived from Bankia and loans and properties which SAREB acquired from Banco Gallego and Banco Ceiss.

Of the total assets to be managed, over 33,000 were properties, the remainder comprising loans and credit facilities with some kind of real estate guarantee. All these assets continued to be owned by SAREB which would annually set the budget allocated for their management, on the basis of which Solvia would be required to render its services.

To ensure a specific level of volume of performance in the provision of services to SAREB, and under the rules of the tender called for this purpose, when the contract was awarded Solvia set up a performance guarantee which will be returned by SAREB to Solvia as the economic rights agreed by the parties accrue and are paid.

This contract provided for the measurement of the degree of compliance by Solvia based on a number of performance indicators applicable to the agreed services. A scale of penalties is provided for which would be applied to the economic rights under the contract on the basis of the degree of compliance, in addition to advance termination events under certain circumstances (for instance, in the event of non-compliance by Solvia for a period of 12 months with the highest materiality level and degree of variance from the targets laid down in the contract). The contract also envisaged the possibility of advance termination by SAREB at any time after providing at least three (3) months’ notice and paying compensation to Solvia which would be calculated in accordance with the terms of the contract.

From the analysis of the nature of the early termination events which could partially affect the recovery of the guarantee provided, it was concluded that they are basically safeguards for SAREB which the Group regarded as unlikely within the framework of the agreed and expected provision of services.

The conclusion of this operation enabled the Group to gain maximum returns from the current asset management business by obtaining regular ordinary income from the services rendered to SAREB, and increase its competitive advantage by taking advantage of synergies with the current business.

Exclusivity agreement with Zurich for life insurance, pension plan and general insurance products.

On 20 May 2014, Banco Sabadell entered into an agreement with the insurance company Zurich ((Zurich Insurance Company, Ltd. and Zurich Vida, Compañía de Seguros y Reaseguros, S.A.) to convert the companies of the joint venture Banco Sabadell-Zurich, BanSabadell Vida, Sociedad Anónima de Seguros y Reaseguros (“BanSabadell Vida”), BanSabadell Pensiones, Entidad Gestora de Fondos de Pensiones, S.A. (“BanSabadell Pensiones”) and BanSabadell Seguros Generales, Sociedad Anónima de Seguros y Reaseguros (“BanSabadell Seguros Generales”) into exclusive suppliers of life insurance, pension plans and general insurance for the entire Banco Sabadell branch network in Spain.

Thanks to this agreement, Banco Sabadell culminated the reorganisation of its insurance business, after completing the incorporation of the business and the insurance companies acquired in the bank consolidation process taking place in recent years through the acquisition of Banco CAM, the business of BMN in Catalonia and Aragón (Caixa Penedès), Lloyd’s Bank España and Banco Gallego.

This reorganisation led to the rescission of agreements between Banco CAM and Banco Gallego with an insurance company. The compensation paid for the above rescission reflected the value of the assignment of exclusivity rights to the sale of certain insurance products.

The agreement with Zurich essentially covered the following transactions:

(i) the assignment of the exclusivity rights of Mediterráneo Vida, S. A., Compañía de Seguros y Reaseguros (“Mediterráneo Vida”) to life insurance products (except for group savings products for large companies) in favour of BanSabadell Vida.

(ii) the assignment of the exclusivity rights of Mediterráneo Vida for the distribution of pension plans (except for employment pension plans) and the assignment of the individual pension plan portfolio in favour of BanSabadell Pensiones.

(iii) the sale of 100% of the share capital of Mediterráneo Seguros Diversos, S. A. (“Mediterráneo Seguros Diversos”), an entity derived from the merger with Banco CAM, to BanSabadell Seguros Generales by Gestión Financiera del Mediterráneo, S. A. (100% owned subsidiary of Banco Sabadell) and Banco Sabadell, following the acquisition of 50% of Mediterráneo Seguros Diversos a Caja de Seguros Reunidos, S.A., through the exercise of a purchase option it held to said shareholding. Through this operation, BanSabadell Seguros Generales acquired exclusive rights to the distribution of general insurance products owned by Mediterráneo Seguros Diversos.

The assignment of the exclusive pension plan distribution rights and the assignment of the individual pension plan portfolio were treated for accounting purposes as the transfer of a business as all the main risks and rewards had been transferred to the Group as regards both the current portfolio and future production. The resulting profit has been recognised on the consolidated income statement.

The assignment of exclusivity rights to the future production of life products was treated for accounting purposes as the sale of an asset which meets the requirements of IAS 18 for the recognition of the income in the income statement, deducting the percentage held by the Group in the purchasing company.

The assignment of both the life insurance exclusivity rights and the pension plan distribution rights took place in June 2014, while the sale of 100% of the capital of Mediterráneo Seguros Diversos was completed in October 2014.

The operation initially totalled €214 million, of which Zurich, as the 50% shareholder in the joint venture companies, has paid €107 million. This amount also covers the compensation paid by the Group for the rescission of the above-mentioned contracts. The net positive impact of the entire organisation on the consolidated income statement amounted to €13 million.

The agreement also provided for the payment of a variable amount linked to the fulfilment of a business plan. The Group did not record any income in the consolidated income statement as said payment has been treated as a contingent asset.

Other relevant information

Asset protection scheme

As a result of the acquisition of Banco CAM on 1 June 2012, the Asset Protection Scheme (henceforth, APS) contained in the financial aid measures protocol for the restructuring of Banco CAM came into effect, with retroactive effects from 31 July 2011. Under this scheme, for a pre-determined asset portfolio, whose gross value amounted to €24,644 million at 31 July 2011, the Deposits Guarantee Fund (henceforth, DGF) assumes 80% of the losses derived from this portfolio over a period of ten years, upon absorbing the provisions established on such assets, which at the aforementioned date amounted to €3,882 million.

The table below is a breakdown of the portfolio of APS-protected assets at its effective date (31 July 2011):

€ million

	On individual balance sheet		On Group balance sheet	
	Balance	Provision	Balance	Provision
Loans and advances to customers	21,711	2,912	19,117	2,263
Of which at-risk	*21,091*	-	*18,460*	-
Of which contingent guarantees and liabilities	*620*	-	*657*	-
Real estate assets (*)	2,380	558	4,663	1,096
Shareholdings	193	52	504	163
Write-off assets	360	360	360	360
Total	**24,644**	**3,882**	**24,644**	**3,882**

(*) Real estate assets include non-current assets held for sale, real estate investments and inventories.

The activity of the balance of the APS-protected loans and receivables portfolio as of its effective date until 31 December 2015 has been as follows:

€ million

Balance at 31 July 2011	**18,460**
Acquisition of real state assets	(5,537)
Payments received and subrogations	(3,357)
Increase in write-offs	(899)
Available credit	30
Balance at 31 December 2015	**8,696**

The activity of the balance of APS-protected real estate assets as of its effective date until 31 December 2015 has been as follows:

€ million

Balance at 31 July 2011	**4,663**
Acquisitions of real state assets	4,375
Sales of real state assets	(3,231)
Balance at 31 December 2015	**5,807**

To record the accounting effects resulting from the granting of credit protection through the APS, the group has applied the following criteria for 2015:

For all accounting losses derived from provisions of insolvencies, releases, impairment provisions of real estate assets or results from the disposal of these assets, the bank creates an account pending collection classified under the heading Loans and receivables charged to the profit and loss statement, in order to reflect the collection right of the guarantee granted by the DGF, and to neutralise the impact of registered losses related to APS-protected assets on the profit and loss statement. The cumulative amount at 31 December 2015 amounts to close to €5,500 million.

In terms of loans and advances to customers qualified as doubtful accounts, and the real estate assets resulting from the breach of payment by the respective creditors subject to the protocol, the bank has segregated the part corresponding to 20% of the risk withheld and 80% for which the credit risk has been transferred to the DGF. In other words, for each asset covered, the group considers which part of its flows will be obtained from borrowers or third parties, and which part from the DGF, as a result of the credit guarantee provided, taking account of the value of mortgage loan guarantees, where applicable.

In terms of reflecting this information in the consolidated annual accounts, and in terms of the risks of APS-protected exposures, the doubtful assets include 20% of the exposure maintained as this risk has not been transferred to the DGF. As to the remaining 80% of the risk, provided that the loan or advance is recorded on the balance sheet, it is presented as normal risk as the credit risk has been transferred.

In order to avoid duplicity on the balance sheet (before provisions), which would entail maintaining the outstanding balance with the DGF and the 80% exposure, the provisions included in this 80% are presented net of loans and advances.

In the 2014 consolidated accounts, the effect of this duplicity on the balance sheet and its impact on the breakdowns of gross loans and advances, coverage ratios and loan loss ratios were explained in the notes, indicating which part was covered by the APS and showing the different breakdowns within the scope “ex APS”. With the criteria adopted this year, the breakdowns directly show the effect on the consolidated group exAPS, and therefore the 2014 breakdowns have been adapted to this new format for comparative purposes. For some of the segmentation details related to the risk classified as normal (the segregation of 80% explained previously), details of APS-protected assets are shown to contribute to the transparency of the entity’s risk exposure information.

Note 3 – Proposed distribution of profits and earnings per share

Set out below is the distribution of 2015 profits which the Board of Directs will propose to the shareholders at the Annual General Meeting for their approval, together with the proposed distribution of Banco de Sabadell S.A.’s 2014 profits approved by the shareholders on 28 May 2015:

Thousand euro

	2015	2014
To dividends	(a)	(b)
To statutory reserve	35,370	29,077
To Canary Island investment reserve	192	169
To voluntary reserves	366,887	820,792
Profit for the year of Banco de Sabadell, S.A.	**402,449**	**850,038**

Proposed distributions of profits of subsidiaries are subject to approval by shareholders at their respective Annual General Meetings.

(a) The Board of Directors will submit a proposal at the Annual General Meeting for the following shareholders’ remuneration charged to reserves:

- Approval of a capital increase released charged to reserves for the flexible remuneration of shareholders for an estimated amount of €0.05 per share, offering shareholders the possibility of choosing to receive this amount in cash and/or in new shares.

In order to implement the capital increase, each shareholder will receive a free allocation right for each of the bank’s shares in their possession. The referred free allocation rights can be traded on Stock Exchanges in which the bank’s shares are quoted.

In terms of the alternative chosen by each shareholder in the capital increase, each of the bank’s shareholders may receive either new shares released by the bank (which would be the default option in the event that no other preference is stated by the shareholder to the entity holding the shares within the established time period), or in cash as a consequence of the sale of the free allocation rights of the bank in terms of the purchase commitment that would be undertaken by the bank, at an estimated fixed price of €0.05 (gross) for each right.

Shareholders can also choose to sell their free allocation rights on the market, in which case the sale price would be based on the quoted price at the time of the sale, which could be higher or lower than the fixed purchase price offered by the bank.

- Supplementary remuneration to shareholders of €0.02 per share, consisting in the delivery of shares from the bank’s treasury portfolio for the equivalent value, which will be accounted for as an issue premium reserve.

(b) On 28 May 2015, at the General Annual Meeting, the shareholders agreed to distribute 100% of the net profits from 2014 to legal and voluntary reserves. In terms of shareholders’ remuneration, a capital increase charged to reserves was approved with a view to granting flexible remuneration to shareholders for an estimated amount of €0.04 per share, which the shareholder could choose to receive in cash and/or in new shares. Supplementary remuneration for shareholders was also approved at a value of €0.01 per share in the form of a distribution of shares of an equivalent value out of the Bank's holding of treasury shares and charged to the share premium account.

In order to implement the capital increase, each shareholder received 59 rights of free allocation for each of the Bank's shares which they held.

As a result, on 25 June 2015 the capital increase of €9,568,000 was implemented (appearing under the heading Capital and reserves in the equity changes statement) charged against reserves through the issue of 76,543,124 new shares at a nominal value of €0.125 per share, as 88.36% of the holders of free allocation rights chose to receive new shares. The remaining 10.62% free allocation rights holders accepted an irrevocable commitment to purchase the rights undertaken by the Bank. The Bank thus acquired 542,878,835 of these rights for a total gross cost of €21,172,000, which is recorded under the Other reductions heading in the changes in equity statement. The bank renounced the remaining 1.02% of the free allocation rights under its ownership prior to said allocation.

Additionally, the complementary return recorded against the issue premium reserve in the aggregate amount of €50,678,000, is shown in the heading on transfers between items of the net interest income statement.

The Board will submit a proposal to the Annual General Meeting for the reclassification of part of the voluntary reserves from 2014 as a restricted reserve over a period of 5 years to serve as a capitalisation reserve in order to apply a reduction on the tax base for Corporate Tax in accordance with the provisions of Law 27/2014 of 27 November (see Note 44).

Under this proposal, retribution to shareholders this year compared with the previous year would be as follows:

€

	2015	2014
Flexible remuneration	0.05	0.04
Complementary remuneration in shares	0.02	0.01
Total remuneration	**0.07**	**0.05**

Earnings per share

Basic earnings per share are obtained by dividing the net profit or loss attributable to the Group by the weighted average number of ordinary shares outstanding during the year, excluding any treasury shares purchased by the Group. Diluted earnings per share are calculated by adjusting the attributable profit or loss, and the weighted average number of shares outstanding, for the estimated effect of all conversions to ordinary shares.

Earnings per share calculations are shown in the following table:

	2015	2014
Net profit attributable to Group (€'000)	708,441	371,677
Profit/(loss) on discontinued operations (€'000)	-	-
Weighted average number of ordinary shares outstanding (*)	4,889,348,750	3,973,221,458
Weighted average number of ordinary shares outstanding due to adjustment factor (**)	5,027,194,131	4,368,606,526
Conversion undertaken of convertible debt and other equity instruments	33,006,410	304,513,772
Adjusted weighted average number of outstanding ordinary shares	5,060,200,541	4,673,120,298
Earnings per share (€)	0.14	0.09
Basic earnings per share adjusted for effect of mandatorily convertible bonds (€)	0.14	0.08
Diluted earnings per share (€)	0.14	0.08

(*) Average number of shares outstanding (in millions), excluding average number of own shares of treasury portfolio throughout the period.

(**) Adjustment factor taking into account the effect of capital increases with preferential subscription rights and of scrip dividends applied in years prior to their issue.

In 2015, the Bank implemented various capital increases (see Note 26). According to IAS 33, where capital increases take place, the earnings per share, basic earnings per share and diluted earnings per share of previous years must be recalculated by applying an adjustment factor as the denominator (weighted average number of shares outstanding). This factor is calculated by dividing the fair value per share immediately before the exercise of preferential subsription rights by the estimated fair value per share after the exercise of these rights. The proportionate change for the previous period has also been adjusted to take into account the capital increase derived from the scrip dividend, by recalculating the basic and diluted earnings per share of 2014.

At 31 December 2015 and 2014, there were no other financial instruments or commitments with employees based on shares significantly affecting the calculation of diluted earnings per share in the years shown, which is why the values for basic earnings and dilute earnings coincide.

Note 4 – Financial risk management

During 2015 the Banco Sabadell group has continued to strengthen its risk management framework, incorporating improvements which align it with the best practices in the financial sector.

The Banco Sabadell Group implements a Strategic Risk Framework aimed at ensuring control over and proactive management of all the Group's risks. This Framework includes a *Risk Appetite Statement* (RAS) which defines the amount and diversity of risks that the Group seeks and tolerates to achieve its business objectives, keeping a balance between profitability and risk.

The Risk Appetite Statement is made up of quantitative metrics which enable an objective monitoring of risk management, and qualitative aspects that complement them.

Risk management and control has been embodied in a broad framework of principles, policies, procedures and advanced valuation methods, forming an efficient decision-taking structure within a risk function governance framework which is in line with Spanish and European regulations.

The principles, policies, procedures and methodologies framework is reflected in the document titled "Banco Sabadell Group Risk Policies", which is revised at least once a year. The Board of Directors is responsible for its approval. The document was last updated in January 2016.

For each relevant Group risk, the main parties involved and their functions, policies, methods and procedures, as well as the relevant monitoring and control mechanisms, are explained in detail. Details are also given of Risk Function Organisation, indicating the roles and responsibilities of managers and committees with regard to risks and risk control systems, adapted to the business units' activities, including loan and credit granting functions.

The main financial risks faced by Banco Sabadell Group companies in the course of their operations involving the use of financial instruments are credit risk, liquidity risk and market risk. Of these, credit risk is the most significant in the Group's portfolio.

The main non-financial risks faced by the Group are operational risk, tax risk and compliance risk.

When managing risks, the group considers the macroeconomic and regulatory environments. The most significant aspects in 2015 are described hereafter:

Macro-economic Environment:

- In 2015, the world economy showed modest growth. The year has been marked by new episodes of political and geopolitical instability and by more erratic behaviour of the financial markets.

- In the political arena, the situation in Greece during the first half of the year took centre stage, facing increasing concerns over the possibility of it ultimately leaving the Eurozone.

- In the geopolitical arena, the conflict in Ukraine has taken second stage to the refugee crisis in Europe and the increasing tension with regard to Syria.

- On the global financial markets, the abrupt summer movements as a response to doubts regarding growth in China and the expectation of an increase in the benchmark interest rates in the United States are worthy of mention.

- The economy of the Euro zone has shown a slightly more positive evolution than in 2014, backed by the depreciation of the euro, the lower price of crude oil and the lower cost of finance funding (page 53).

- The Spanish economy has shown a very favourable evolution and has continued to positively stand out within the euro zone. GDP has seen its largest growth since 2007.

- Emerging markets have been weighted down by more restrictive funding conditions, reduced prices of commodities and the structural deceleration in China. On the negative side, the behaviour of the economy in Brazil is worth mentioning.

- Inflation has continued to be quite low and far from the monetary policy objectives in the main developed economies. Inflation has seen downward pressure from lower crude oil prices.

- The ECB has introduced a broad asset purchase program and has once again reduced the marginal deposit type to -0.30%. In the United States, the Fed ,at its December meeting, raised the refi rate for the first time in nine years, to a level of 0.25%-0.50%.

- The European banking sector has continued to strengthen itself, improving its loss absorption capacity, and its solvency and profitability. In spite of this, it continues to face important challenges in relation to the weak economic recovery and the persistence of low interest rates.

- In European construction, the process of Banking Union has seen progress, with the proposal to create a European Deposits Guarantee Mechanism. The creation of the Capital Markets Union has also advanced with the publication of an Action Plan until 2017.

- On the long-term public debt markets of the United States and Germany, yields have continued to be very low. Such assets have been supported by low inflation, the accommodating nature of monetary policies and doubts on global economic growth.

- In the European periphery, public debt has continued to be supported by the monetary policy of the ECB. The yield of the public debts of such countries have reached new historical minimums.

- On the foreign currency markets, the euro has again depreciated against the dollar and the Sterling pound. The larger part of the movement took place during the first quarter, which coincided with the announcement of the public debt purchase program by the ECB.

- The emerging financial markets have maintained their high volatility and were severely affected over the summer, with steep foreign exchange depreciations and a sudden drop in the Chinese stock markets.

Regulatory environment

In 2015, advances have been made in the regulatory and supervisory environment, among the most noteworthy of which are:

- Advances in the Banking Union: The euro crisis has demonstrated that to guarantee long-term sustainability of the Monetary Union it is necessary for there to be a truly integrated banking system:

- Action Plan for the Capital markets Union: The creation of the Capital Markets Union (CMU) has also continued to develop, with the European Commission's publication of the Action Plan (September 30th), which establishes the specific measures to be implemented until 2017.

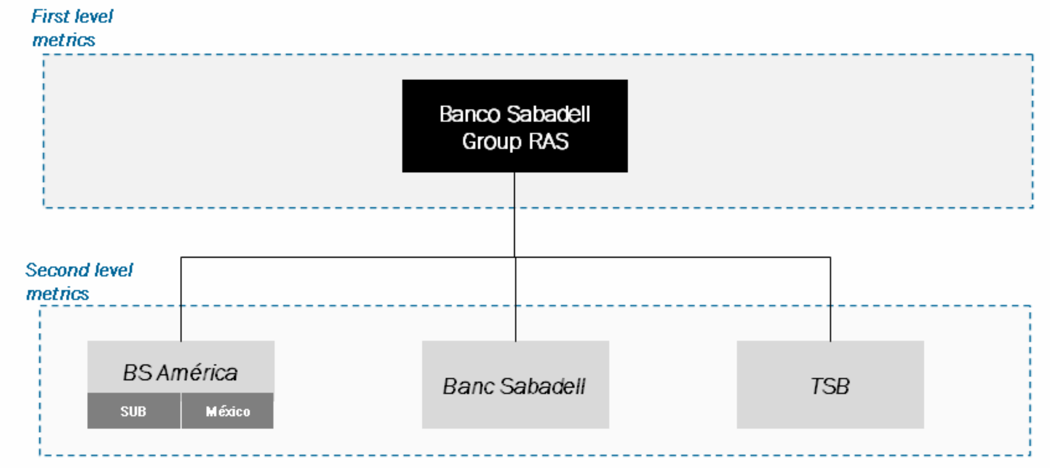
- Macroprudential policy has acquired relevance: a relevant line of work in the euro zone in 2015, as it is considered key to correcting imbalances that may amass at national level within the Monetary Union and contain systemic risks. In fact, in 2015, several member states have implemented macroprudential measures, mainly focused on requiring additional capital 'buffers' for the banks of systemic importance at national level, and counter-cyclical capital 'buffers' or measures to contain risks in certain sectors, such as the real estate market.

- New stage of implementation, gauging and standardising the regulatory framework: In 2015, regulatory work has continued to increase the solvency of the financial system. After years of intensive work in the preparation of new regulations, a new stage has started involving the implementation of measures, the evaluation of their effectiveness and a possible redefinition of parameters. The purpose is not only to ensure the resistance of the banking sector in case of adverse events, but also for it to be able to fully develop its role in society and finance economic growth.

Main milestones of the year

Strengthening of the Strategic Risks Framework, giving it an international focus

The Strategic Risks Framework of the Banco Sabadell group has been adapted to the new structure of the group as a result of its internationalisation, to ensure consistency and an effective deployment of the group's RAS to all geographical areas.



A first level that forms part of the group's RAS is thereby established, setting targets and limits at a global level, and a second level is defined, implementing the first level's targets and limits through the various geographical areas.

It should be noted or stressed that the group's RAS has been reinforced through the incorporation of new metrics and qualitative aspects leading to it having a global view of all the risks faced by the group (see more details ahead).

Improvement of the group's risk profile during the year

The acquisition in 2015 of British bank TSB has implied a significant improvement for the risk profile of the Banco Sabadell group. The operation implies an increase of 27% of the credit portfolio of the group. This increase is basically concentrated on the portfolio of retail mortgages.

The risk profile improves in two relevant aspects:

(i) On the one hand, the loan loss ratio of the new mortgage portfolio is of 0.83% and it has a Loan-to-Value of 42.6% (significantly lower than those existing in the portfolio of the group prior to the acquisition)
(ii) On the other hand, the acquisition of TSB is a fundamental step in international diversification, leading to close to 30% of our exposure being at the international level.

In addition to the acquisition of TSB, other factors have influenced the risk profile of the group in 2015:

- Intensive reduction of problematic assets, of over €3.1 million, beyond the objectives defined in the Triple Strategic Plan.
- Improvement of the portfolio composition, with the reduction of over €3.3 million in the development sector and increasing exposure in sectors of higher credit quality.
- Reduction of concentration risk at both the individual and sectorial level.
- Establishment of specific management frameworks by portfolio, constant improvement of credit risk management, incorporating lessons learned during the economic crisis.

General principles of risk management

1. Corporate risk culture

Banco Sabadell's risk culture is one of its defining features, and it is strongly embedded throughout the organisation as a result of its progressive implementation and development over several decades. Some of the most notable characteristics of this strong risk culture are:

- High level of commitment by the Board of Directors in risk management and control. Since before 1994, the Bank has had a Risk Control Committee whose primary function is to supervise the management of all significant risks and their alignment with the profile defined by the Group.

- A Basic Management Team forms a key part in the acceptance and monitoring of risks. It has existed for more than 20 years and is formed by both the account manager and the risk analyst. Their management is carried out by contributing both parties' points of view. All decisions taken must always be discussed and resolved by means of an agreement by both parties. This means that the team is highly involved in the decision-making process and it also means that decisions are based on sound and solid arguments.

- High degree of specialisation: specific management teams are created in each segment (Real Estate, Corporate, Businesses, SMEs, Retail, Banks and Countries, etc.) which allow for a specialised management in each area.

- Advanced internal models for credit ratings as a basic part of the decision-making process have been in place for over 15 years (since 1999 for individuals and since 2000 for businesses). The group, following best practices, uses these models in order to improve the overall efficiency of the process. These models not only allow ordinal ordering of borrowers, but are also the basis for quantitative measurement of the risk, and they therefore allow multiple uses of these measurements in key management processes: fine adjustment in the delegation of powers, efficient risk follow-up, global risk management, risk-adjusted profits and analysis of good standing of the group are some examples.

- The delegation of powers for sanctioning operations of corporate risk at the various levels is based on the expected level of loss. As a general policy in terms of the delegation of authorities, the group has chosen a system where the various levels are defined using the metric of Expected Loss, which takes into consideration the exposure to credit risk of the operation in sanctioning the client and the risk group, their expected default rate and their estimated severity.

- Credit risk is rigorously monitored through an advanced system of early warnings for businesses and individuals. The monitoring at the customer or risk group levels can be divided into three types: operational, systematic and comprehensive monitoring. One of the basic sources used for this monitoring is the implementation of an early warnings system for both Businesses and Individuals (launched in 2008 and 2011) which allows a credit risk to be identified in advance. These warnings are based on both internal information, such as the number of days in an irregular situation, overdrawings of commercial discounts, guarantees or international loans, and on external information, such as customers registered as defaulting in the rest of the financial system and information from available credit bureaux.

- An advanced model to manage irregular risks allows for the early identification and specialised management of risks. A comprehensive model of irregular risk management has been implemented, which enables the treatment of the risk to be directed in those situations close to default (early identification, refinancing, collection, etc.). This comprehensive system uses specific tools (simulators to identify the best solution in each case) and specialised managers in each segment who work exclusively to manage the risk.

- Pricing adjusted to the risk. The commercial policy as regards to price management is dynamic, and is adapted to the economic and financial situation of the market (liquidity premiums, difficult access to loans, volatile interest rates, etc.). It takes into account the cost of financing and the risk involved (expected loss and cost of capital). Risk models are key to determining prices and target returns.

- This risk management model has been fully integrated into the bank's technological platform, in such a way that the policies are immediately transferred to be managed daily: policies, procedures, methodologies and models that constitute the risk management model of Banco Sabadell have been fully integrated into the bank's technological platform. This allows policies to be immediately transferred for daily management. This has been particularly relevant in terms of the various recent acquisitions concluded by the bank.

- Use of stress testing as a management tool: Banco Sabadell has been working for years with an internal tool to carry out stress tests and has collaborated with internal teams who have ample experience in using it.

- Since 2014, the Banco Sabadell group has a Strategic Risk Framework in place, consisting amongst others, of the Risk Appetite Statement, which ensures the control and proactive management of risks under a reinforced corporate governance framework, approved by the Board of Directors.

2. Risk Appetite Framework

The Risk Appetite Framework includes, among others, a Risk Appetite Statement, defined as the quantity and diversity of risks that the Group seeks and tolerates in order to achieve its business goals while maintaining a balance between risk and return.

The Risk Appetite Statement (RAS) comprises quantitative metrics that allow the Group to monitor the risk management objectives and related qualitative aspects, which complement other metrics and determine the Group's risk management and control policy.

Quantitative elements

RAS quantitative metrics are divided into ten basic sections:

- Capital and capital solvency: level and quality of capital
- Liquidity: liquidity buffers and funding structure
- Profitability: match between return and risk
- Asset quality: for the various key risks and in stressed scenarios
- Losses: for the various key risks and in stressed scenarios
- Credit and concentration: individual and sectorial
- Market Risk
- Structural Interest Rate Risk and Exchange Rate Risk
- Counterparty Risk
- Operational Risk

Qualitative aspects

In addition to quantitative metrics, the following qualitative elements should be used to guide the group's risk management and control:

- The Institution's general position with regard to risk-taking seeks a medium-low risk profile through a prudent, balanced risk policy that ensures steadily rising profitability and is aligned with the Group's strategic objectives so as to maximise value creation while guaranteeing an appropriate level of capital.
- The Banco Sabadell Group's risk management and control approach consists of a broad framework of advanced measurement principles, policies and procedures and methodologies integrated into an efficient decision-making structure. The risk variable is factored into decisions in all areas and quantified using a common metric in terms of allocated capital.
- Risk management is underpinned by solid, ongoing procedures for checking that risks conform to pre-set limits, with clearly defined responsibilities for identifying and tracking indicators and early warnings, and an advanced risk measurement methodology.
- Capital and liquidity levels must enable the Bank to cover the risks it has assumed, even in adverse economic situations.
- There should be no risk concentration levels that may significantly compromise shareholders' funds.
- The assumption of market trading risk seeks to cover the flow of transactions arising from customer business and to seize market opportunities while maintaining a position that is commensurate with the Bank's market share, risk appetite, capacity and profile.
- The risk function is independent and has strong senior management involvement, ensuring a strong risk

culture focused on protecting capital and ensuring an adequate return on same.

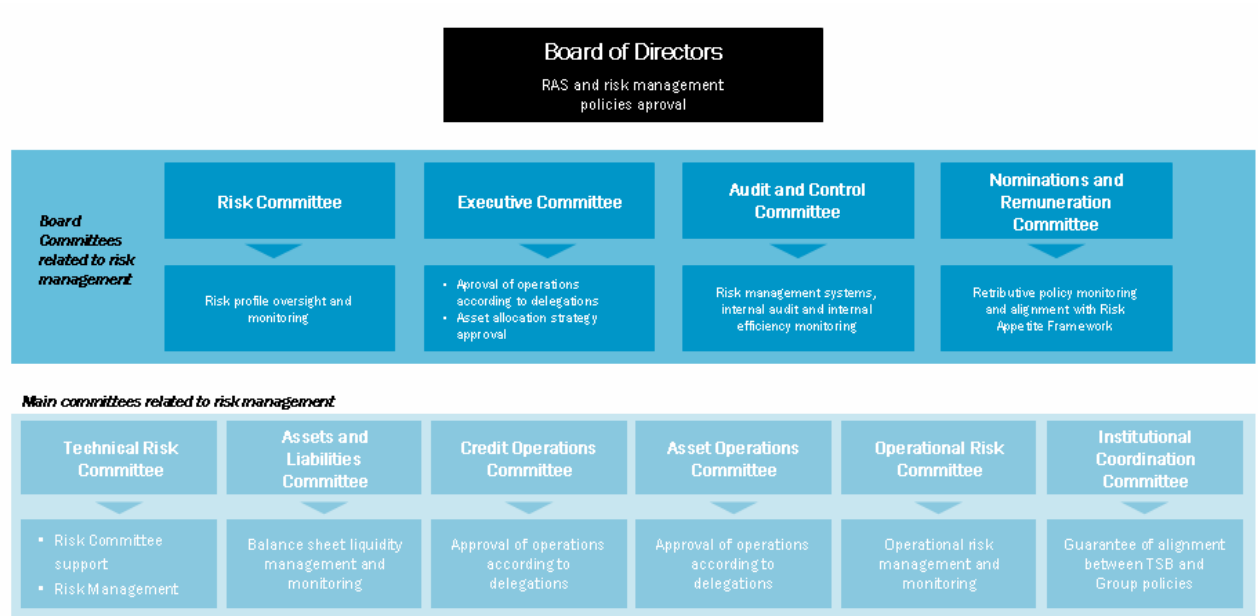
- The Board of Directors is committed to the risk management and control processes: approval of policies, limits, management model and procedures, and the measurement, tracking and control methodology.
- The group has a risk culture that pervades the entire organisation and has units specialised in managing specific types of risk. The Risk Department transmits this culture by setting policies and implementing internal models and ensuring that they conform to the risk management processes.
- Risk Management policies and procedures should be oriented to adapting the risk profile to the Risk Appetite Framework while maintaining and pursuing a balance between expected returns and risk.
- The objective of Banco Sabadell in terms of tax risk is to ensure compliance with fiscal obligations and, at the same time, guarantee an appropriate return for shareholders.
- The achievement of the business objectives must be compatible, at all times, with its compliance with the legal framework and the application of the best practices.
- The institution will have sufficient human and technological resources to track, control and manage all the risks that may materialise in the course of its business.
- The Group's compensation systems should align individual interests with compliance with the Risk Appetite Framework.

3. Overall Organisation of the Risk Function

The group develops a risk culture that is integrated throughout the entire group, equipped with units specialising in the treatment of the various risks, ensuring the independence of the risks function, and an intensive involvement from Senior Management.

The Board of Directors is the body responsible for setting general guidelines as to the organisational distribution of risk management and control functions and for determining the main lines of strategy in this respect. It is the body responsible for approving the Risk Appetite Framework (developed in cooperation with the Managing Director, the Director of Risk and the Chief Financial Officer) and ensuring that it is aligned with the Bank's short- and long-term objectives, as well as with the business plan, capital planning, risk capacity and compensation programmes.

The Board of Directors has four committees which play a role in the management and control of risk. The Bank also has several other Committees which participate in this function.



The group further establishes its Control Framework based on the model of Three Lines of Defence, structured around the following assignment of functions:

- **First Line of Defence,** consisting mainly of the Business Units and Corporate Centres, among the most noteworthy of which are the Risk Management Department, the Financial Department and the Treasury and Capital Markets Department Units. The first Line of Defence is in charge of the management of the risks inherent in its activity, basically in their admission, monitoring and assessment and the relevant processes.

- They are responsible for the implementation of corrective actions to remedy deficiencies in their processes and controls. The essential functions attributed to this Line under the control framework are:

  - The process manager is responsible for maintaining effective internal controls and performing risk assessment and control procedures on a day to day basis;

  - The process manager identifies, assesses, controls and mitigates their risks, following established internal policies and procedures and ensuring that the activities are consistent with its purposes and objectives;

  - The process manager naturally serves as a first line of defence, inasmuch as the controls are designed in the systems and processes at their discretion;

  - Establishing adequate management and supervision processes to ensure regulatory compliance and focusing on control errors, inappropriate processes and unexpected events.

- **Second Line of Defence,** consisting mainly of:

  - The Risk Control Function is independent from the First Line of Defence and is responsible for assessing, monitoring and controlling the group's significant risks and for presenting the corresponding information.

  - The Internal Validation Function is responsible for reviewing and ensuring that such models work as expected and that the results obtained from them are appropriate to their various uses, both internal and regulatory.

  - The Regulatory Compliance Department, Corporate Social Responsibility and Corporate Governance have the purpose of minimising the possibility of a regulatory breach and ensuring that any breaches that may occur are diligently identified, reported and resolved and that the appropriate preventive measures are implemented, if none exist.

  - The IT Control Department is responsible for identifying risk situations associated with the use of technology, in all units, that may result in operational or reputational risks for the Group, for promoting necessary training and support among the Group's units to enable them to resolve risk situations associated with their scope of responsibility and actions, and for independently transferring any significant risks that have not been covered by the implemented controls to the Group's Operational Risk Department.

  It ensures that the First Line of Defence is well designed, meets the assigned functions and makes suggestions for its continuous improvement. The main functions attributed to this Line under the control framework are:

  - Proposing the Risk Management Framework;

  - Guiding and ensuring the application of the risk policies, defining responsibilities and objectives for their effective implementation;

  - Verifying compliance of the regulations applicable to the Group in the development of its business;

  - Providing the technological infrastructure for risk management, measurement and control;

  - Analysing and contrasting existing and future incidents by reviewing the information;

- Collaborating with the management team in the development of risk management processes and controls.

- **Third Line of Defence:**

  - Internal Audit develops an independent and objective verification and consulting activity, guided by a philosophy of adding value by helping to fulfil its objectives; and

  - Assists the Group in meeting its objectives by providing a systematic, disciplined approach to evaluate the sufficiency and effectiveness of the governance processes and the risk management and internal control activities of the organisation.

Managing and monitoring the main risks

1 Credit risk

Description

Credit risk arises from the possibility of losses being caused by the non-fulfilment of payment conditions by customers, and a reduction in value due to the deterioration in their credit quality.

Management framework for credit risk

Admission and monitoring

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 collateral or other security to the Bank.

The Board of Directors delegates powers and discretions to the Executive 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 business loan or other transaction that is requested.

To optimise the business opportunities provided by each customer and to guarantee an appropriate degree of security, responsibility for 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 making use of his specialised knowledge.

The implementation of advanced methodologies for managing risk exposures – in line with the New Basel Capital Accord (NBCA) and industry 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 management 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.

The analysis of indicators and early warnings, in addition to the credit rating reviews, allows the level of the risk to be continuously measured in an integrated manner. The establishment of efficient control procedures for outstanding risks also allows benefits to be obtained from managing risks that have been overcome as it enables a proactive policy to be implemented based on an advanced identification of cases that could enter default status.

The early warnings system allows an integrated measurement to be made of the level of the risk taken and allows it to be transferred to recovery management specialists, who will determine the different types of procedures that should be applied. Therefore, based on superior risks up to a certain limit and on the predicted default rates, groups or categories are identified for their individual treatment. These warnings are additionally managed by the business manager and the risk analyst.

Irregular risk management

Refinancing and restructuring processes are generally more relevant during the weaker stages of the economic cycle. The bank's objective, when faced by debtors and borrowers that have, or are expected to have, financial difficulties when meeting their payment obligations in the agreed contractual terms, is to facilitate the repayment of the debt by reducing the likelihood of non-payment to the minimum possible level. A number of specific policies to achieve this are in place across the group, including procedures for the approval, monitoring and control of debt refinancing and restructuring processes. These include the following:

- Having a sufficiently detailed compliance record for the borrower and a clear intention to repay the loan, assessing the time-frame of the financial difficulties being undergone by the customer.

- Refinancing and restructuring conditions based on a realistic payment scheme which is in line with the borrower's current and predicted payment capacity, preventing issues being put off until a later date.

- If new guarantees are provided, these must be regarded as a secondary and exceptional source for recovering the debt, avoiding any prejudicial effects on existing sources. All ordinary interest must always be paid up to the refinancing date.

- Limit any lengthy grace periods.

The Group continually monitors compliance with current terms and conditions and with the above policies.

Banco Sabadell Group has an advanced non-performing exposure management model to handle the impaired asset portfolio. The objective of non-performing exposure management is to find the best solution for customers faced by the first symptoms of impairment, helping customers with difficulties to avoid defaulting on their repayments, ensuring intensive management and preventing down-time between the different phases.

Real estate loans risk management

The Group has a series of specific risk mitigation policies that form part of the general risk policy and, specifically, the risk policy for construction and real estate development sectors.

The main measures that are implemented are the continuous risk monitoring and the reassessment of the creditworthiness of the borrower taking consideration of their new economic situation. If the results of this reassessment are satisfactory, the original terms and conditions are applied, and new commitments are added where these allow for a better adaption to the new circumstances.

The policy applied varies in line with the type of asset that is being financed. For completed constructions, actions are taken that support their sale through the group's distribution channels, and a competitive price is fixed allowing transactions to be activated and enabling the final buyers to access financing options, provided that they meet the risk requirements. For works in progress, the basic objective is to complete the construction, as long as the short and medium-term market expectations allow the resulting properties to be absorbed.

In terms of financing for land and plots, the possibility of selling the future homes is also considered before financing their construction.

In the event that the analysis and monitoring performed does not show reasonable feasibility, the mechanism of non-recourse loans and/or asset purchases is applied.

When none of these solutions is possible, judicial proceedings and the subsequent award of assets shall be sought.

All assets that, through non-recourse loans, purchase, or judicial proceedings, are awarded to the group to ensure repayment or to implement other credit improvements are mainly awarded tangible assets that have been received by borrowers and other obligors of the bank, to ensure the availability of financial assets that represent collection rights, and they are actively managed with the main objective of divestment. The nature and carrying amount of these assets are given in note 14. Non-current assets held for sale.

Based on the degree of maturity of the real estate assets, three strategic lines of action have been established:

1. Marketing:
Various marketing mechanisms are available for the sale of finished products (housing, commercial establishments, industrial buildings, parking lots, etc.) through various distribution channels and commercial agents, based on type, status, location and state of conservation. The real estate website www.solvia.es is a fundamental factor in such strategy.

2. Mobilisation
In a scenario of major difficulties in the sale of development plots and works in progress, their mobilisation strategy has been adopted to make the finished plots more liquid and various mechanisms for the mobilisation of assets have been created:

- Program for collaboration with real estate developers: contribution of plots in areas with demand for housing, for developers to construct and sell their developments.
- Investors program: development of third-party real estate projects with the participation of investors.
- Protected housing program: development of official protection housing for the rent and subsequent sale of the rented developments.

3. Urban management
For non-development plots, it is important to consolidate the urban rights based on the urban management, which is an important mechanism for value enhancement and is key for any subsequent development and sale.

Risk management models

Credit rating

Credit risk exposures to corporate customers, real estate developers, specialised financing projects, financial institutions and countries are assessed according to a system of credit ratings based on predictive factors and internal estimates of the probability of default.

The rating model is reviewed each year on the basis of an analysis of actual default data. Each internal rating score is assigned to an anticipated default rate which allows consistent comparisons to be made across segments and with the ratings produced by independent rating agencies, according to a master scale.

%

Distribution of Banco Sabadell company portfolio by rating

9	8	7	6	5	4	3	2	1	0	**TOTAL**
2.37%	10.62%	15.63%	24.29%	26.32%	14.35%	4.50%	1.27%	0.38%	0.27%	100%

Scoring

In general, 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. For those geographical regions for which there is a scoring, it is divided into two types:

Behavioural scoring: The system in which all customers are automatically classified according to their transaction histories and data for each product acquired. It is used primarily for such purposes as granting loans, setting (authorised) overdraft limits, targeting sales campaigns, and for tracking and segmenting in claim and/or recovery procedures.

Reactive scoring: This is used to evaluate applications for personal loans, mortgage loans and credit cards. When full details of the application have been entered, the system generates a result based on the estimated borrowing capacity and financial position of the applicant and quality of any security or collateral.

If no scoring system exists, it is replaced with invidualised analyses supplemented with policies.

%

Distribution of Banco Sabadell individuals portfolio by rating										
9	8	7	6	5	4	3	2	1	0	**TOTAL**
1.45%	6.47%	8.66%	24.63%	29.14%	20.37%	8.37%	0.67%	0.12%	0.12%	100%

Alert tools

For both Companies and Individuals, in general the Banco Sabadell Group has a system of alerts either individual systems or advanced alert models which, based on available information sources (rating or scoring, customer file, balance sheets, the Bank of Spain's CIRBE risk information system, industry information, transaction data, etc.), models the customer's short-term risk (anticipating delinquency) and achieves a high level of predictability in detecting potential non-performing exposures. The score, which is produced automatically, is included in the monitoring process as one of the basic inputs in tracking the risk posed by individuals and companies.

This alert system allows for

- Improvements in efficiency by focusing attention on customers with lower credit scores (different groups are assigned different thresholds).
- Early action in view of a customer's worsening situation (change of score, new serious alerts, etc.).
- Periodic oversight of customers who remain in the same situation and have been analysed by the Basic Management Team.

Exposure to credit risk

Financial assets exposed to credit risk by portfolio, type of counterparty and instruments, and areas in which the risk has generated are, at the end of each year, those shown below by their carrying value, representative of the highest level of exposure to the credit risk incurred, inasmuch as they reflect the highest level of debt of the borrower at the date to which they refer.

Thousand euro

	2015			2014		
Credit risk exposure	**Business in Spain**	**Business abroad**	**Total**	**Business in Spain**	**Business abroad**	**Total**
Cash and central banks	**1,835,920**	**4,303,538**	**6,139,458**	**787,941**	**401,846**	**1,189,787**
Loans and advances to credit institutions	**4,876,965**	**1,146,436**	**6,023,401**	**3,449,227**	**539,437**	**3,988,664**
Of which: doubtful assets	*268*	*298*	*566*	*361*	*298*	*659*
Loans and advances to customers	**106,022,808**	**45,962,850**	**151,985,658**	**113,623,667**	**6,780,452**	**120,404,119**
Public administrations	5,505,764	78,394	5,584,158	5,854,985	168,648	6,023,633
Of which: doubtful assets	*11,458*	-	*11,458*	*13,545*	*3,055*	*16,600*
Other private sectors	100,517,044	45,884,456	146,401,500	107,768,682	6,611,804	114,380,486
Of which: doubtful assets	*12,173,342*	*285,613*	*12,458,955*	*15,637,073*	*60,540*	*15,697,613*
Debt securities	**22,430,654**	**2,995,027**	**25,425,681**	**22,587,891**	**835,722**	**23,423,613**
Public administrations	19,111,364	1,980,098	21,091,462	18,094,845	152,565	18,247,410
Credit institutions	1,058,801	145,489	1,204,290	1,462,359	129,690	1,592,049
Other private sectors	2,249,067	869,440	3,118,507	3,019,472	553,467	3,572,939
Doubtful assets	11,422	-	11,422	11,215	-	11,215
Trading derivatives	**1,409,197**	**99,249**	**1,508,446**	**1,554,706**	**27,464**	**1,582,170**
Hedging derivatives	**642,718**	**58,095**	**700,813**	**910,173**	**-**	**910,173**
Contingent exposures	**8,086,858**	**269,309**	**8,356,167**	**8,907,954**	**224,606**	**9,132,560**
Contingent commitments	**11,690,016**	**9,440,598**	**21,130,614**	**13,941,499**	**828,139**	**14,769,638**
Total	**156,995,136**	**64,275,102**	**221,270,238**	**165,763,058**	**9,637,666**	**175,400,724**

The Group also maintains contingent risks and commitments with borrowers, materialised by the establishment of guaranties provided or commitments inherent in the credit agreements up to an availability level or limit ensuring financing for the customer when required. Such facilities also imply the acceptance of a credit risk and are subject to the same management and monitoring systems described above.

The credit risk exposure value described above has not been subject to the deduction of the amount of the financial collateral, or other credit improvements received to ensure compliance, of common use in the type of financial instruments handled by the entity.

Credit risk mitigation

Credit risk exposure is managed and rigorously monitored based on regular analyses of the solvency of borrowers and their potential to meet their payment obligations undertaken with the group, adapting the exposure limits established for each counterparty to the level deemed acceptable. It is also common to modulate the level of exposure by the obligor providing collateral and guaranties in favour of the bank.

Normally, these take the form of financial collateral, mainly mortgages on properties used as housing, whether finished or under construction. The entity also accepts, although to a lesser degree, other types of financial collateral, such as mortgages on business establishments, industrial buildings, etc., and financial assets. Another credit risk mitigation technique that is commonly used by the entity is to accept guarantees, in this case subject to the guarantor presenting a contrasted certificate of good standing.

All these mitigation techniques are established ensuring their legal certainty, i.e., under legal agreements binding all parties and allowing their legal enforceability in all relevant jurisdictions to ensure, at all times, the possibility of redeeming the guarantee. The entire process is subject to an internal control of the legal adequacy of the agreements, sometimes requesting legal opinions from international specialists when the agreements are established under foreign law.

Financial collaterals are formalised before a notary via a public document so that they are effective before third parties. These public documents, in the case of mortgage loans, are also registered at the relevant registries, to acquire effectiveness with respect to third parties. In the case of pledges, the pledged goods are regularly deposited in the entity. Unilateral cancellation by the debtor is not permitted, and the guarantee shall remain valid until repayment in full of the debt.

The personal guaranties or bonds are established in favour of the entity and, except in certain exceptional scenarios, are also formalised before a notary public via a public document, to vest the agreement with the highest possible legal security of formalisation and to allow legal claims to be submitted through executive proceedings in case of non-payment. They constitute a credit right with respect to the guarantor that is irrevocable and payable on first demand.

In addition to the mitigation of the risk derived from the guarantees formalised between the debtors and the entity as a result of the acquisition of Banco CAM, the group has an additional guarantee for a certain asset portfolio, provided by the APS, with retroactive effects from 31 July 2011, and for a period of ten years (see further details in note 2).

The bank has not received significant guaranties which it is authorised to sell or pledge, irrespective of any non-payment by the owner of the referred guarantee, except for those intrinsic in the treasury activity, which are mostly the temporary Acquisition of assets with maturities of no more than three months, therefore their fair value does not differ substantially from their carrying value (Note 6). The fair value of the assets sold with a buyback agreement derived from the temporary acquisition is included under the heading Trading portfolio of liabilities, within the short positions of securities.

Conversely, transferred assets from the same operation amount to €768,994,000 and are included under Temporary transfers in Notes 19 and 20, depending on their nature.

The breakdown of the balance of loans and advances to customers by activity and type of guarantee at 31 December 2015 and 2014, respectively, is as follows:

Thousand euro

	2015							
				Secured loans *Loan to value*				
	TOTAL	Of which: Secured on real estate	Of which: Other guarantees	40% or less	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
Public administrations	**5,735,855**	**84,116**	**35,454**	**27,545**	**24,336**	**56,378**	**-**	**11,311**
Other financial institutions	**1,930,145**	**96,692**	**73,552**	**34,811**	**52,148**	**26,123**	**56,238**	**923**
Non-financial companies and individual entrepreneurs	**59,081,277**	**21,544,274**	**1,470,640**	**7,331,451**	**7,375,951**	**5,039,786**	**1,700,141**	**1,567,585**
Real estate construction and development	6,482,205	5,489,223	158,548	1,389,145	1,472,436	1,601,418	618,009	566,763
Civil engineering construction	928,439	129,484	7,899	42,030	49,973	25,769	9,312	10,299
Other purposes	51,670,633	15,925,567	1,304,193	5,900,276	5,853,542	3,412,598	1,072,820	990,523
Large companies	24,638,675	2,360,762	495,054	995,638	791,985	614,005	242,127	212,060
SMEs and individual entrepreneurs	27,031,958	13,564,805	809,140	4,904,638	5,061,558	2,798,593	830,693	778,463
Non-profit institutions serving households (NPISH)	**80,413,566**	**74,150,874**	**380,177**	**16,401,039**	**24,428,393**	**24,336,020**	**7,804,259**	**1,561,340**
Home loans	69,018,520	68,704,994	157,732	14,503,321	22,762,361	23,073,052	7,269,305	1,254,687
Consumer loans	7,526,530	4,073,179	57,061	1,369,493	1,250,297	928,638	384,342	197,471
Other purposes	3,868,515	1,372,701	165,384	528,225	415,735	334,330	150,613	109,182
Less: Adjustments due to asset impairment not allocated to specific operations	**345,106**	-	-	-	-	-	-	-
TOTAL	**146,815,737**	**95,875,956**	**1,959,822**	**23,794,846**	**31,880,828**	**29,458,306**	**9,560,639**	**3,141,159**
MEDORANDUM ITEM								
Refinancing, refinanced and restructured loans	12,494,952	10,364,463	121,128	2,325,378	2,645,365	2,421,065	1,253,233	1,840,550

Thousand euro

	2014							
				Secured loans *Loan to value*				
	TOTAL	Of which: Secured on real estate	Of which: Other guarantees	40% or less	Over 40% and less than or equal to 60%	Over 60% and less than or equal to 80%	Over 80% and less than or equal to 100%	Over 100%
Public administrations	**5,919,210**	**85,633**	**12,514**	**22,485**	**22,836**	**42,869**	**-**	**9,957**
Other financial institutions	**3,449,137**	**57,168**	**374**	**18,358**	**30,248**	**8,371**	**565**	**-**
Non-financial companies and individual entrepreneurs	**54,504,914**	**22,878,907**	**1,221,067**	**7,611,251**	**7,651,794**	**5,297,692**	**1,885,573**	**1,653,664**
Real estate construction and development	7,133,408	6,642,948	119,896	1,552,233	1,725,898	2,030,887	824,857	628,968
Civil engineering construction	843,462	141,565	7,163	46,191	53,964	28,050	9,697	10,826
Other purposes	46,528,044	16,094,394	1,094,008	6,012,827	5,871,932	3,238,755	1,051,019	1,013,870
Large companies	21,845,832	3,079,447	269,993	1,067,970	1,000,035	727,848	201,527	352,059
SMEs and individual entrepreneurs	24,682,211	13,014,947	824,015	4,944,856	4,871,897	2,510,906	849,492	661,811
Non-profit institutions serving households (NPISH)	**47,187,966**	**41,751,206**	**252,989**	**9,101,378**	**12,951,480**	**14,281,665**	**4,420,248**	**1,249,424**
Home loans	37,536,109	35,809,076	19,142	7,027,922	11,133,749	12,904,920	3,841,864	919,763
Consumer loans	5,747,359	4,388,489	68,058	1,476,756	1,348,650	1,001,988	415,270	213,883
Other purposes	3,904,498	1,553,641	165,789	596,700	469,081	374,757	163,114	115,778
Less: Adjustments due to asset impairment not allocated to specific operations	**225,504**	-	-	-	-	-	-	-
TOTAL	**110,835,723**	**64,772,914**	**1,486,944**	**16,753,472**	**20,656,358**	**19,630,597**	**6,306,386**	**2,913,045**
MEDORANDUM ITEM								
Refinancing, refinanced and restructured loans	13,385,129	9,683,341	3,701,788	3,508,998	3,162,897	3,259,410	1,411,834	2,041,990

In terms of risks with LTV >80%, which mainly correspond to operations from acquired institutions or business operations in which, as a supplement to the valuation of the operation, a mortgage guarantee is available for its coverage. Similarly, there are other additional reasons for approval, which mainly respond to solvent borrowers with proven payment capacity, as well as customers with a good profile who contribute additional guarantees (personal and/or pledged) to the mortgage guarantees already considered in the LTV ratio.

In the case of market operations, in line with general trends, the Banco Sabadell group also provides rights and contractual compensation (netting) agreements with most financial counterparties with which derivative instruments and some collateral agreements (CSA) are contracted, in order to mitigate the exposure to credit risk and avoid excessive concentrations.
The following table shows the aggregate amount reflected on the balance sheet for the financial instruments subject to a master netting and collateral agreement:

Thousand euro

	31/12/15					
				Amounts disclosed not netted in the statement of financial position		
	Gross amounts of recognised financial liabilities	Gross amounts of recognised financial assets netted in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral given	Net amount
Derivatives	1,401,047	-	1,401,047	(1,180,616)	(210,870)	9,561
Assets acquired under repurchase agreements	3,793,740	-	3,793,740	(3,786,560)	(7,180)	-
Total	**5,194,787**	**-**	**5,194,787**	**(4,967,176)**	**(218,050)**	**9,561**

Thousand euro

	31/12/15					
				Amounts disclosed not netted in the statement of financial position		
	Gross amounts of recognised financial assets	Gross amounts of recognised financial liabilities netted in the statement of financial position	Net amount of financial liabilities presented in the statement of financial position	Financial instruments	Cash collateral received	Net amount
Derivatives	1,894,664	-	1,894,664	(1,180,616)	(814,429)	(100,381)
Assets ceded under repurchase agreements	8,986,432	-	8,986,432	(8,576,373)	(410,059)	-
Total	**10,881,096**	**-**	**10,881,096**	**(9,756,989)**	**(1,224,488)**	**(100,381)**

The guarantees deposited at Banco Sabadell as collateral at the closing of 2015 amounted to €218 million (€426 million at the closing of 2014).

The main concentration of risk in relation to all these types of financial guarantees or credit improvements corresponds to the use of the mortgage bonds as a credit risk mitigation technique in exposures of loans for use in the financing or construction of housing or other types of real estate. In relative terms, the exposure secured with mortgages represents 66.6% of the overall gross investment.

Credit quality of financial assets

As stated earlier, in general terms, the group uses internal models to rate most borrowers (or transactions) through which credit risk is incurred. Such models have been designed considering the best practices proposed by the NACB. Nonetheless, not all portfolios where a credit risk is incurred use internal models, partly due to the fact that a minimum level of experience in cases of non-payments is required for their reasonable design. Therefore, in order to best describe the quality of the portfolio from an overall perspective, the following chart uses the rating system of the Bank of Spain to analyse the group's credit risk exposure and to estimate the hedging requirements due to impaired values of debt instrument portfolios.

%

Credit quality of financial assets	2015	2014
No appreciable risk	29	27
Low risk	25	29
Medium-low risk	11	12
Medium risk	29	28
Medium-high risk	5	3
High risk	1	1
Total	**100**	**100**

The (original) percentage exposure, calculated using internal models, in terms of solvency for the bank is 52.15%.

The breakdown of the exposure, rated based on the internal rating levels, is as follows:

%

Distribution of exposure by	Risk assigned *rating /scoring*	
Rating	2015	2014
AAA/AA	5	2
A	12	10
BBB	56	53
BB	19	24
B	7	9
Rest	1	1
Total	**100**	**100**

Does not include private individuals' operations derived from Banco Cam, BMN-Penedès, Banco Gallego and Sabadell Solbank (formerly Lloydbank) for which information is not available

In terms of data related to the management of irregular risks, in Note 11, details of the values of doubtful assets and valuation adjustments due to impairment can be deducted from Loans and advances to customers.

Set out below are the loan loss and coverage ratios of the Banco Sabadell Group:

%

	2015	2014
Loan-loss ratio (*)	7.79	12.74
Coverage ratio of doubtful assets (*)	53.64	49.40

(*) Loan-loss ratio ex TSB amounts to 9.86%, and the coverage ratio of doubtful assets ex TSB amounts to 53.1%

The NPL ratio broken down by financing segment is shown below:

%

	Q414	Proforma Q215 (*)	Q215	Proforma Q415 (*)	Q415
Real-estate development and construction	52.17	47.21	47.07	38.81	38.71
Non-real-estate construction	8.08	8.74	8.74	14.36	14.35
Companies	6.46	6.14	6.14	4.62	4.62
SMEs and independent contractors	12.60	11.96	11.88	10.83	10.76
Private individuals with 1st mortgage guarantee	9.25	8.76	5.52	7.83	4.71
Banco Sabadell Group loan-loss ratio	12.74	10.98	9.01	9.86	7.79

(*) Corresponds to loan-loss ratio ex TSB

Refinancing and restructuring operations

The outstanding balances for refinancing and restructuring operations at 31 December 2015 and 2014 are as follows:

Thousand euro

	31/12/15				
	Public administrations	Other corporate borrowers and individual entrepreneurs	*Of which: Finance for construction and real estate development*	Other individual borrowers	Total
STANDARD RISKS					
Fully secured by real-estate mortgage					
Number of operations	33	6,768	*970*	29,973	**36,774**
Gross amount	78,798	2,485,292	*414,132*	2,956,176	**5,520,266**
Other guarantees					
Number of operations	3	1,274	*181*	4,916	**6,193**
Gross amount	4,339	821,790	*208,805*	512,656	**1,338,785**
Unsecured					
Number of operations	-	10,516	*278*	35,110	**45,626**
Gross amount	-	1,506,225	*26,911*	156,907	**1,663,132**
Of which SUBSTANDARD RISKS					
Fully secured by real-estate mortgage					
Number of operations	3	2,793	*496*	11,422	**14,218**
Gross amount	258	1,362,222	*267,875*	1,526,937	**2,889,417**
Other guarantees					
Number of operations	-	434	*106*	1,386	**1,820**
Gross amount	-	448,463	*127,816*	174,124	**622,587**
Unsecured					
Number of operations	-	1,922	*62*	7,021	**8,943**
Gross amount	-	791,881	*11,449*	27,104	**818,985**
IBNR coverage (*)	39	417,415	*73,563*	250,597	**668,051**
DOUBTFUL RISKS					
Fully secured by real-estate mortgage					
Number of operations	9	10,607	*6,474*	16,749	**27,365**
Gross amount	6,487	2,331,824	*1,293,725*	1,406,544	**3,744,855**
Other guarantees					
Number of operations	-	2,239	*1,398*	2,640	**4,879**
Gross amount	-	1,439,512	*783,425*	239,571	**1,679,083**
Unsecured					
Number of operations	-	3,740	*450*	21,646	**25,386**
Gross amount	-	790,311	*150,328*	79,875	**870,186**
Specific coverage	-	2,129,510	*1,158,779*	362,164	**2,491,674**
TOTAL					
Number of operations	45	35,144	9,751	111,034	**146,223**
Gross amount	89,624	9,374,954	2,877,326	5,351,729	**14,816,307**
Coverage	39	2,546,925	1,232,342	612,761	**3,159,725**

(*) Collective value adjustments for losses incurred but not reported (see Note 1d).

Thousand euro

	31/12/14				
	Public administrations	Other corporate borrowers and individual entrepreneurs	*Of which: Finance for construction and real estate development*	Other individual borrowers	Total
STANDARD RISKS					
Fully secured by real-estate mortgage					
Number of operations	45	7,479	*1,400*	28,352	**35,876**
Gross amount	155,995	2,824,604	*755,702*	2,732,571	**5,713,170**
Other guarantees					
Number of operations	2	1,178	*105*	2,683	**3,863**
Gross amount	4,408	792,509	*141,034*	221,959	**1,018,876**
Unsecured					
Number of operations	-	9,683	*281*	28,792	**38,475**
Gross amount	-	1,487,335	*30,894*	163,491	**1,650,826**
Of which SUBSTANDARD RISK					
Fully secured by real-estate mortgage					
Number of operations	8	2,279	*769*	3,689	**5,976**
Gross amount	17,628	1,601,440	*579,182*	536,939	**2,156,007**
Other guarantees					
Number of operations	-	260	*46*	445	**705**
Gross amount	-	565,701	*114,270*	54,559	**620,260**
Unsecured					
Number of operations	-	1,286	*39*	374	**1,660**
Gross amount	-	749,965	*10,415*	3,901	**753,866**
IBNR coverage (*)	2,644	548,176	*157,235*	89,600	**640,420**
DOUBTFUL RISKS					
Fully secured by real-estate mortgage					
Number of operations	1	11,741	*7,564*	17,521	**29,263**
Gross amount	463	3,724,974	*2,545,979*	1,464,080	**5,189,517**
Other guarantees					
Number of operations	-	1,982	*1,187*	2,988	**4,970**
Gross amount	-	1,140,267	*477,877*	231,479	**1,371,746**
Unsecured					
Number of operations	-	4,347	*852*	4,352	**8,699**
Gross amount	-	978,013	*359,967*	39,274	**1,017,287**
Specific coverage	-	2,499,989	*1,535,922*	420,134	**2,920,123**
TOTAL					
Number of operations	48	36,410	11,389	84,688	**121,146**
Gross amount	160,866	10,947,702	4,311,453	4,852,854	**15,961,422**
Coverage	2,644	3,048,165	1,693,157	509,734	**3,560,543**

(*) Collective value adjustments for losses incurred but not reported (see Note 1d).

Movements of the refinancing and restructuring balance and associated provisions in 2015 were as follows:

Thousand euro

	Standard			Doubtful		Total	
	Risk	of which Substandard	IBNR coverage (*)	Risk	Coverage	Risk	Coverage
Balance at 31/12/2014	**8,382,872**	***3,530,133***	**640,420**	**7,578,550**	**2,920,123**	**15,961,422**	**3,560,543**
Acquisition of TSB (*)	457,484	-	1,400	138,516	28,271	**596,000**	**29,671**
Reclassifications and change in coverage	(75,119)	*585,088*	56,974	75,119	255,415	**-**	**312,389**
Additions	2,301,537	*1,242,612*	206,405	887,278	231,479	**3,188,815**	**437,884**
Disposals	(2,271,494)	*(933,042)*	(209,680)	(2,145,897)	(1,008,303)	**(4,417,391)**	**(1,217,983)**
Change in balance	(273,097)	*(93,802)*	(27,468)	(239,442)	64,689	**(512,539)**	**37,221**
Balance at 31/12/2015	**8,522,183**	***4,330,989***	**668,051**	**6,294,124**	**2,491,674**	**14,816,307**	**3,159,725**

(*) See Note 2.
(**) Collective value adjustments for losses incurred but not reported (see Note 1d).

The following table shows the amounts of operations which, after refinancing or restructuring, have been classified as doubtful in 2015 and 2014:

Thousand euro

	2015	2014
Public administrations	**5,964**	**463**
Other corporate borrowers and individual entrepreneurs	**571,709**	**1,693,549**
Of which: Finance for construction and real estate development	149,605	550,926
Other individual borrowers	**268,057**	**501,535**
Total	**845,730**	**2,195,547**

The total balance reclassified as doubtful after refinancing or restructuring in 2015 (€845,730,000) does not correspond exactly with the reclassifications and additions in refinancing in doubtful status according to the refinancing movements of 2015 (€962,397,000) as a result of the variation in the balances of the operations reclassified as doubtful during the year, and the reclassifications of doubtful risks as normal, due to an improvement in the expectations of recovery of the operation.

Average probabilities of default on loans subject to refinancing or restructuring by activity at 31 December 2015 and 2014 is as follows:

%

	2015	2014
Public administrations (*)		
Other corporate borrowers and individual entrepreneurs	10	10
Of which: Finance for construction and real estate development	*12*	*13*
Other individual borrowers	11	9
Total	**10**	**10**

(*) Authorisation has not been granted to use internal models to calculate capital requirements for this item.

<u>*Concentration risk*</u>

Concentration risk refers to exposures than can potentially generate enough losses large enough to threaten the financial solvency of the institution or the viability of its ordinary business activity. This type of risk is divided into two basic subtypes:

- Individual concentration risk: imperfect diversification of idiosyncratic risk in the portfolio, due either to its small size or to very large exposures to specific customers.
- Sectorial concentration risk: imperfect diversification of systematic risk components in the portfolio. Such concentrations may occur in particular sectors or geographical regions, for example.

In order to ensure an efficient management of concentration risk, Banco Sabadell has a series of specific tools and policies:

- Quantitative metrics in the Risk Appetite Statement and their subsequent monitoring as top-level metrics.
- Individual limits for risks and customers considered to be significant, which are established by the Executive Committee.
- A structure of delegation which requires that relevant customer transactions be approved by the Credit Operations Committee, or even by the Executive Committee.

Exposure to customers or significant risks

At 31 December 2015 there were no borrowers with a ceded risk that individually exceeded 10% of the Group's equity.

Country risk: Geographic exposure to credit risk

The country risk is that applicable to the debts of a country, globally considered as a result of reasons inherent in the sovereignty and the economic situation of a country, i.e., for circumstances other than the regular credit risk. It manifests itself in the eventual inability of a debtor to face their foreign currency payment obligations as regards external creditors, among other reasons, for failing to allow the country access to foreign currency, the inability to transfer it, the ineffectiveness of legal actions against borrowers for reasons of sovereignty, or for reasons of war, expropriation or nationalisation.

Country Risk not only affects debts contracted with a State or entities guaranteed by it, but the entire group of private debtors forming part of that State and that for reasons outside of their own control or decision, have experienced a general inability to honour their debts.

There are no significant restrictions (such as statutory, contractual and regulatory restrictions) on the ability to access or use assets and settle liabilities of the group provided that the entity complies with regulatory requirements established in each country, and no other type of restrictions considered in IFRS 12.

An overall exposure limit is set for each country and this applies across the whole Banco Sabadell Group. These limits are approved by the Executive Committee and the corresponding decision-making organs, depending on the level of delegation, and are constantly monitored to ensure that any deterioration in the political, economic or social situation in a country can be detected in good time.

A range of different tools and indicators are used to manage country risk: credit ratings, CDS, macroeconomic indicators, etc.

The distribution of risk concentration by activity and at a global level at 31 December 2015 and 2014 was as follows:

Thousand euro

	31/12/15				
	TOTAL	Spain	Rest of European Union	America	Rest of the world
Credit institutions	**9,562,096**	**4,394,880**	**4,128,434**	**655,931**	**382,851**
Public authorities	**26,976,177**	**14,979,841**	**8,671,837**	**3,289,083**	**35,415**
Central government	22,187,080	10,208,886	8,653,695	3,289,083	35,415
Rest	4,789,097	4,770,955	18,142	-	-
Other financial institutions	**5,195,327**	**3,720,608**	**304,733**	**1,083,588**	**86,398**
Non-financial companies and individual entrepreneurs	**68,017,648**	**57,281,429**	**3,538,584**	**6,818,518**	**379,117**
Real estate construction and development	7,014,805	6,646,225	99,755	268,454	371
Civil engineering construction	1,916,850	1,876,893	16,776	19,722	3,459
Other purposes	59,085,994	48,758,312	3,422,053	6,530,342	375,287
Large companies	29,826,851	22,333,342	2,447,837	4,748,993	296,679
SMEs and individual entrepreneurs	29,259,143	26,424,969	974,216	1,781,350	78,608
Non-profit institutions serving households (NPIS	**80,595,941**	**40,366,740**	**37,990,201**	**1,546,907**	**692,093**
Housing	69,016,929	31,926,682	34,916,458	1,513,349	660,441
Consumer loans	7,526,497	5,607,390	1,882,205	18,323	18,579
Other purposes	4,052,514	2,832,667	1,191,539	15,235	13,073
Less: Adjustments due to asset impairment not allocated to specific operations	**345,106**	-	-	-	-
TOTAL	**190,002,082**	**120,743,498**	**54,633,790**	**13,394,027**	**1,575,873**

Thousand Euro

	31/12/14				
	TOTAL	**Spain**	**Rest of European Union**	**America**	**Rest of the world**
Credit institutions	**7,517,218**	**2,522,993**	**3,250,450**	**1,395,244**	**348,531**
Public administrations	**23,490,831**	**15,448,688**	**5,737,216**	**2,293,362**	**11,565**
Central government	18,160,322	10,118,179	5,737,216	2,293,362	11,565
Rest	5,330,509	5,330,509	-	-	-
Other financial institutions	**7,215,190**	**6,634,317**	**102,336**	**476,902**	**1,635**
Non-financial companies and individual entrepreneurs	**64,659,763**	**57,848,937**	**2,286,520**	**4,337,066**	**187,240**
Real estate construction and development	8,538,076	7,649,686	23,938	864,150	302
Civil engineering construction	1,798,884	1,741,427	16,503	34,387	6,567
Other purposes	54,322,803	48,457,824	2,246,079	3,438,529	180,371
Large companies	25,485,364	20,854,679	1,778,868	2,718,842	132,975
SMEs and individual entrepreneurs	28,837,439	27,603,145	467,211	719,687	47,396
Non-profit institutions serving households (NPIS	**49,232,445**	**45,174,532**	**2,196,210**	**1,204,973**	**656,730**
Housing	38,763,486	34,897,064	2,074,162	1,162,555	629,705
Consumer loans	5,753,708	5,661,541	57,480	19,226	15,461
Other purposes	4,715,251	4,615,927	64,568	23,192	11,564
Less: Adjustments due to asset impairment not allocated to specific operations	**225,504**	-	-	-	-
TOTAL	**151,889,944**	**127,629,467**	**13,572,732**	**9,707,548**	**1,205,701**

The distribution of risk concentration by activity and at the Spanish regional level at 31 December 2015 and 2014 was as follows:

Thousand euro

	31/12/15									
	AUTONOMOUS REGIONS									
	Total	**Andalusia**	**Aragón**	**Asturias**	**Balearic Isles**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castilla y León**	**Catalonia**
Credit institutions	**4,394,880**	**66,554**	**12,766**	**33,476**	**25,840**	**10,135**	**2,617**	**7,002**	**16,072**	**3,108,603**
Public administrations	**14,979,842**	**295,734**	**9,411**	**144,030**	**101,402**	**77,956**	**27,674**	**47,420**	**182,844**	**962,002**
Central government	10,208,887	-	-	-	-	-	-	-	-	-
Rest	4,770,955	295,734	9,411	144,030	101,402	77,956	27,674	47,420	182,844	962,002
Other financial institutions	**3,720,608**	**33,695**	**6,891**	**15,483**	**15,209**	**5,708**	**1,691**	**4,277**	**16,613**	**410,437**
Non-financial companies and individual entrepreneurs	**57,281,429**	**2,187,545**	**767,820**	**1,687,938**	**1,343,311**	**572,115**	**191,485**	**303,341**	**991,055**	**18,680,551**
Real estate construction and development	6,646,225	631,075	127,920	173,724	160,246	107,166	16,222	35,197	87,612	1,517,128
Civil engineering construction	1,876,893	41,451	13,170	66,230	10,428	4,748	5,559	9,806	38,783	229,203
Other purposes	48,758,312	1,515,019	626,730	1,447,984	1,172,636	460,200	169,704	258,338	864,660	16,934,220
Large companies	22,333,342	380,037	189,319	486,782	457,561	120,692	32,145	18,444	194,726	9,432,943
SMEs and individual entrepreneurs	26,424,969	1,134,982	437,411	961,202	715,076	339,509	137,559	239,894	669,934	7,501,277
Non-profit institutions serving households (NPISH)	**40,366,740**	**2,584,092**	**488,119**	**1,269,102**	**1,587,907**	**566,976**	**91,960**	**482,604**	**652,803**	**14,109,616**
Housing	31,926,682	2,086,179	378,962	965,836	1,283,895	435,331	70,564	395,120	520,832	11,170,364
Consumer loans	5,607,390	357,901	76,262	197,081	196,978	101,932	17,146	64,106	88,618	2,141,084
Other purposes	2,832,667	140,011	32,894	106,186	107,034	29,713	4,250	23,378	43,353	798,168
Less: Adjustments due to asset impairment not allocated to specific operations		-	-	-	-	-	-	-	-	-
TOTAL	**120,743,498**	**5,167,620**	**1,285,007**	**3,150,029**	**3,073,670**	**1,232,889**	**315,426**	**844,643**	**1,859,388**	**37,271,209**

Thousand euro

	31/12/15								
	AUTONOMOUS REGIONS								
	Extremadura	**Galicia**	**Madrid**	**Murcia**	**Navarre**	**Valencia**	**Basque Country**	**La Rioja**	**Ceuta & Melilla**
Credit institutions	**1,656**	**22,521**	**162,351**	**60,996**	**9,760**	**708,912**	**35,711**	**109,476**	**430**
Public administrations	**52,777**	**408,216**	**908,307**	**57,780**	**62,232**	**912,111**	**503,970**	**17,087**	**-**
Central government	-	-	-	-	-	-	-	-	-
Rest	52,777	408,216	908,307	57,780	62,232	912,111	503,970	17,087	-
Other financial institutions	**996**	**16,697**	**463,294**	**23,393**	**3,691**	**2,651,788**	**48,265**	**2,099**	**380**
Non-financial companies and individual entrepreneurs	**40,974**	**1,441,997**	**11,434,554**	**1,152,625**	**496,696**	**13,065,676**	**2,705,310**	**206,935**	**11,503**
Real estate construction and development	5,882	91,812	914,094	549,118	31,288	1,925,077	246,507	25,869	288
Civil engineering construction	1,174	124,349	1,123,183	8,244	12,531	61,532	124,796	1,706	-
Other purposes	33,918	1,225,836	9,397,277	595,263	452,877	11,079,067	2,334,007	179,360	11,215
Large companies	5,316	288,870	6,172,402	55,755	183,315	3,205,105	1,054,217	55,594	120
SMEs and individual entrepreneurs	28,602	936,966	3,224,875	539,508	269,562	7,873,961	1,279,790	123,766	11,095
Non-profit institutions serving households (NPISH)	**109,036**	**696,608**	**4,744,180**	**2,909,028**	**142,065**	**8,923,178**	**901,633**	**72,189**	**35,645**
Housing	85,016	518,296	3,926,839	2,151,181	111,158	6,999,237	740,527	56,297	31,049
Consumer loans	17,877	136,918	494,410	443,617	21,576	1,131,940	105,201	10,963	3,780
Other purposes	6,143	41,394	322,931	314,230	9,331	792,001	55,905	4,929	816
Less: Adjustments due to asset impairment not allocated to specific operations	-	-	-	-	-	-	-	-	-
TOTAL	**205,439**	**2,586,038**	**17,712,687**	**4,203,823**	**714,443**	**26,261,665**	**4,194,889**	**407,787**	**47,958**

Thousand euro

	31/12/14									
	AUTONOMOUS REGIONS									
	Total	**Andalusia**	**Aragón**	**Asturias**	**Balearic Isles**	**Canary Islands**	**Cantabria**	**Castilla-La Mancha**	**Castilla y León**	**Catalonia**
Credit institutions	**2,522,993**	**10,321**	**369**	**3,327**	**1,438**	**529**	**80**	**1,479**	**267**	**1,595,657**
Public administrations	**15,448,688**	**319,706**	**56,558**	**188,503**	**110,745**	**86,392**	**31,621**	**51,087**	**188,220**	**878,058**
Central government	10,118,179	-	-	-	-	-	-	-	-	-
Rest	5,330,509	319,706	56,558	188,503	110,745	86,392	31,621	51,087	188,220	878,058
Other financial institutions	**6,634,317**	**4,188**	**374**	**1,279**	**504**	**78**	**27**	**155**	**7,766**	**2,108,767**
Non-financial companies and individual entrepreneurs	**57,848,937**	**2,672,876**	**922,563**	**1,937,885**	**1,499,131**	**657,814**	**235,094**	**372,995**	**1,025,289**	**16,519,093**
Real estate construction and development	7,649,686	694,438	163,582	233,813	186,234	115,322	21,610	41,270	88,537	1,667,861
Civil engineering construction	1,741,427	37,472	7,399	72,102	9,600	4,232	5,795	9,264	30,598	255,721
Other purposes	48,457,824	1,940,966	751,582	1,631,970	1,303,297	538,260	207,689	322,461	906,154	14,595,511
Large companies	20,854,679	483,035	213,597	474,986	431,831	138,478	55,541	38,062	193,451	4,296,579
SMEs and individual entrepreneurs	27,603,145	1,457,931	537,985	1,156,984	871,466	399,782	152,148	284,399	712,703	10,298,932
Non-profit institutions serving households (NPISH)	**45,174,532**	**2,580,673**	**468,022**	**1,209,429**	**1,625,323**	**564,403**	**90,283**	**465,008**	**611,347**	**18,845,796**
Housing	34,897,064	2,101,997	366,002	952,520	1,316,141	443,444	69,709	387,071	500,860	13,930,412
Consumer loans	5,661,541	339,923	77,447	196,953	196,253	89,817	17,969	56,326	82,564	2,171,596
Other purposes	4,615,927	138,753	24,573	59,956	112,929	31,142	2,605	21,611	27,923	2,743,788
Less: Adjustments due to asset impairment not allocated to specific operations	-	-	-	-	-	-	-	-	-	-
TOTAL	**127,629,467**	**5,587,764**	**1,447,886**	**3,340,423**	**3,237,141**	**1,309,216**	**357,105**	**890,724**	**1,832,889**	**39,947,371**

Thousand euro

	31/12/14								
	AUTONOMOUS REGIONS								
	Extremadura	Galicia	Madrid	Murcia	Navarre	Valencia	Basque Country	La Rioja	Ceuta & Melilla
Credit institutions	**47**	**562**	**40,971**	**15,625**	**4,488**	**704,470**	**3,781**	**139,560**	**22**
Public administrations	**86,302**	**473,631**	**1,072,128**	**68,232**	**145,847**	**1,151,876**	**338,205**	**83,398**	**-**
Central government	-	-	-	-	-	-	-	-	-
Rest	86,302	473,631	1,072,128	68,232	145,847	1,151,876	338,205	83,398	-
Other financial institutions	**33**	**678**	**166,697**	**7,716**	**119**	**4,306,647**	**29,123**	**10**	**156**
Non-financial companies and individual entrepreneurs	**61,280**	**1,494,539**	**13,271,937**	**1,663,551**	**575,673**	**11,703,667**	**2,983,081**	**240,329**	**12,140**
Real estate construction and development	7,040	106,428	1,187,463	633,314	32,126	2,119,521	309,326	41,183	618
Civil engineering construction	1,171	110,372	983,991	13,911	13,839	55,012	129,408	1,540	-
Other purposes	53,069	1,277,739	11,100,483	1,016,326	529,708	9,529,134	2,544,347	197,606	11,522
Large companies	7,378	422,850	6,399,578	138,548	210,616	6,308,413	987,976	51,852	1,908
SMEs and individual entrepreneurs	45,691	854,889	4,700,905	877,778	319,092	3,220,721	1,556,371	145,754	9,614
Non-profit institutions serving households (NPISH)	**101,140**	**659,826**	**4,722,029**	**3,000,736**	**132,493**	**9,198,536**	**828,531**	**70,791**	**166**
Housing	82,385	498,205	3,911,051	2,239,504	102,860	7,274,288	665,229	55,386	-
Consumer loans	12,486	134,460	501,038	461,429	21,887	1,178,808	110,177	12,242	166
Other purposes	6,269	27,161	309,940	299,803	7,746	745,440	53,125	3,163	-
Less: Adjustments due to asset impairment not allocated to specific operations	-	-	-	-	-	-	-	-	-
TOTAL	**248,802**	**2,629,236**	**19,273,762**	**4,755,860**	**858,620**	**27,065,196**	**4,182,721**	**534,088**	**12,484**

Exposure to sovereign risk

The exposure to sovereign risk, broken down by types of equity instrument, with the criteria established by the European Banking Authority (henceforth, EBA) at 31 December 2015 and 2014 is as follows:

Thousand euro

	2015									
	Sovereign debt securities				Loans and advances to customers (**)	Derivatives		Total	Other exposures (***)	%
Exposure to sovereign risk by country (*)	Trading portfolio	Securities short positions	Available-for-sale portfolio	Loan book		Direct exposure	Indirect exposure			
Spain	419,990	(151,904)	6,171,544	962,177	6,136,255	-	(1,624)	13,536,438	355,677	53.8%
Italy	227,598	-	5,832,532	-	-	-	(8,872)	6,051,258	194,111	24.2%
North America	-	-	2,352,299	-	46,746	-	-	2,399,045	-	9.3%
United Kingdom	-	-	1,690,073	-	-	-	-	1,690,073	-	6.5%
Portugal	-	-	675,933	-	-	-	212	676,145	-	2.6%
Mexico	-	-	582,514	-	-	-	-	582,514	-	2.3%
Rest of the world	-	-	304,301	-	46,760	-	-	351,061	-	1.4%
Total	**647,588**	**(151,904)**	**17,609,196**	**962,177**	**6,229,761**	**-**	**(10,284)**	**25,286,534**	**549,788**	**100.0%**

(*) Shows positions at sovereign risk compliant with EBA crtiera. Mainly, sovereign risk of insurance undertakings within the Group (€1,340 million at 31 December 2015) is not included.

(**) Includes available loans for credit operations and other contingent risks (€657 million at 31 December 2015).

(***) Corresponds to purchase and sale commitments in cash of financial assets.

Thousand euro

	2014									
	Sovereign debt securities				Loans and advances to customers (**)	Derivatives		Total	Other exposures (***)	%
Exposure to sovereign risk by country (*)	Trading portfolio	Securities short positions	Available-for-sale portfolio	Loan book		Direct exposure	Indirect exposure			
Spain	294,238	(153,191)	6,734,635	1,604,349	6,461,355	-	110,518	15,051,904	(16,411)	64.3%
Italy	176,958	(22,979)	4,686,898	-	4	-	230,406	5,071,287	(10,040)	21.6%
North America	-	-	1,618,813	-	138,422	-	131	1,757,366	-	7.5%
Portugal	-	-	741,442	-	-	-	5,386	746,828	-	3.2%
Mexico	-	-	588,506	-	-	-	-	588,506	-	2.5%
Rest of the world	-	-	168,254	-	39,475	-	-	207,729	-	0.9%
Total	**471,196**	**(176,170)**	**14,538,548**	**1,604,349**	**6,639,256**	**-**	**346,441**	**23,423,620**	**(26,451)**	**100.0%**

(*) Shows positions at sovereign risk compliant with EBA criteria. Mainly, sovereign risk of insurance undertakings within the Group (€1,180 million at 31 December 2014).

(**) Includes available loans for credit operations and contingent risks (€632 million at 31 December 2014).

(***) Corresponds to purchase and sale commitments in cash of financial assets.

Exposure to construction and real estate development sector

Details of finance for construction and real estate development, along with associated allowances, are given in the following table:

€million

	31/12/2015				
	Gross amount	*Of which: APS-protected (2)*	Excess value of security	*Of which: APS-protected (2)*	Value adjustments (3)
Finance for construction and real-estate development recorded by Group credit institutions (operations in Spain) (1)	**9,517**	***2,930***	**2,902**	***1,119***	**2,039**
Of which: doubtful	*3,844*	*-*	*1,158*	*-*	*1,948*
of which: substandard	*519*	*88*	*138*	*16*	*92*

(1) Loans are classified according to their purpose and not the debtor's CNAE. This implies, for example, that if the debtor relates to: (a) a real estate company but the financing is dedicated to a purpose other than construction or real estate development, it is not included in this table and (b) a company whose core business is not construction but the loan is used to finance properties for real estate development, it is included in this table.

(2) Exposure due to which, applying the Asset Protection Scheme (see Note 2), credit risk has been transfers. It therefore corresponds to 80%of the total value of exposure.

(3) Value adjustments made due to the bank's exposure to credit risk. It therefore does not include value adjustments for the exposure with transferred risk.

€million

	31/12/2014				
	Gross amount	*Of which: APS-protected (2)*	Excess value of security	*Of which: APS-protected (2)*	Value adjustments (3)
Finance for construction and real-estate development recorded by Group credit institutions (operations in Spain) (1)	**12,843**	***3,791***	**3,370**	***1,486***	**2,809**
Of which: doubtful	*5,723*	*-*	*1,289*	*-*	*2,598*
of which: substandard	*985*	*139*	*208*	*25*	*210*

(*) Loans are classified according to their purpose and not the debtor's CNAE. This implies, for example, that if the debtor relates to: (a) a real estate company but the financing is dedicated to a purpose other than construction or real estate development, it is not included in this table and (b) a company whose core business is not construction but the loan is used to finance properties for real estate development, it is included in this table.

(2) Exposure due to which, applying the Asset Protection Scheme (see Note 2), credit risk has been transfers. It therefore corresponds to 80%of the total value of exposure.

(3) Value adjustments made due to the bank's exposure to credit risk. It therefore does not include value adjustments for the exposure with transferred risk.

€million

	Gross amount	
Memorandum item	**31/12/15**	**31/12/14**
Written off assets	186	180

€million

Memorandum item:	**Carrying amount 31/12/15**	**Carrying amount 31/12/2014 (*)**
Total customer loans, excluding Public Administrations (operations in Spain)	100,517	107,769
Total assets (total businesses)	208,628	163,346
Adjustments due to asset impairment not allocated to specific operations	354	226

(*) See Note 1, Comparability

Details of financing provided for construction and real estate development in transactions recorded by credit institutions are as follows (businesses in Spain):

€ million

	Loans: gross 31/12/2015	*Of which: APS-protected*	Loans: gross amount 31/12/2014	*Of which: APS-protected*
Unsecured	**699**	***60***	**1,448**	***280***
Mortgage security	**8,818**	***2,870***	**11,395**	***3,511***
Finished buildings	5,754	*1,713*	6,887	*2,082*
Housing	3,999	*1,270*	4,035	*1,256*
Rest	1,755	*443*	2,852	*826*
Buildings under construction	482	*221*	801	*319*
Housing	455	*212*	611	*271*
Rest	27	*9*	190	*48*
Land	2,582	*936*	3,707	*1,110*
Building land	2,147	*766*	3,254	*932*
Other land	435	*170*	453	*178*
Total	**9,517**	***2,930***	**12,843**	***3,791***

Home purchase loans to households for transactions recorded by credit institutions (businesses in Spain) are disclosed below:

€million

	31/12/15		
	Gross amount	*Of which: APS-protected*	*Of which: doubtful*
Home loans	**34,995**	**771**	**2,286**
Unsecured	135	*1*	3
With mortgage	34,860	*770*	2,283

€million

	31/12/14		
	Gross amount	*Of which: APS-protected*	*Of which: doubtful*
Home loans	**36,733**	**881**	**2,912**
Unsecured	139	*10*	18
With mortgage	36,594	*871*	2,894

A breakdown of home loans secured by mortgages, showing the Group's total exposure as a proportion of the most recent available valuation of mortgaged property for operations recorded by credit institutions is set out below (businesses in Spain):

€million

	31/12/15		
	Gross amount	*Of which: APS-protected*	*Of which: doubtful*
LTV ranges	**34,860**	***770***	***2,283***
LTV <= 40%	8,118	*176*	*357*
40% < LTV <= 60%	11,360	*270*	*495*
60% < LTV <= 80%	11,067	*235*	*842*
80% < LTV <= 100%	2,942	*60*	*381*
LTV > 100%	1,373	*29*	*208*

€million

	31/12/14		
	Gross amount	*Of which: APS-protected*	*Of which: doubtful*
LTV ranges	**36,594**	***871***	***2,894***
LTV <= 40%	8,108	*195*	*476*
40% < LTV <= 60%	11,723	*290*	*605*
60% < LTV <= 80%	12,403	*278*	*1,078*
80% < LTV <= 100%	3,300	*78*	*512*
LTV > 100%	1,060	*30*	*223*

Lastly, assets allocated to institutions of the consolidated group for transactions recorded by credit institutions in Spain were as follows:

€ million

	31/12/15	
	Net carrying value	Value adjustments
Real estate assets deriving from financing of construction and real estate development	**5,611**	**2,966**
Finished buildings	2,771	749
Housing	1,651	358
Rest	1,120	391
Buildings under construction	457	167
Housing	385	139
Rest	72	28
Land	2,383	2,050
Building land	1,101	719
Other land	1,282	1,331
Real estate assets deriving from home loan mortgages	**1,669**	**460**
Real estate assets acquired in payment of debts	**-**	**-**
Equity instruments, interests and financing companies holding such assets (*)	**-**	**-**
Total real-estate portfolio	**7,280**	**3,426**

(*) Financing to non-consolidating investees is included in the first table in this Note.

Given that for part of the assets, the risk of loss of value is transferred by the Asset Protection Scheme, the following table shows a reconciliation with the value of real estate and problem assets, incorporating amounts from outside of Spain.

€million

	31/12/15		
	Gross Value	Net carrying value	Value adjustments
Total business in Spain	**10,706**	**7,280**	**3,426**
Total business outside Spain and others	53	49	4
Credit risk transferred due to application of APS	(2,547)	(2,139)	(407)
Coverage of original financing	1,022	-	1,022
Total	**9,234**	**5,190**	**4,044**

For real estate exposures, considering value adjustments, hedging included in source financing and the guarantee provided by the Asset Protection Scheme, its effective coverage is 54% (52% in financing and 56% and real estate assets).

€ million

	31/12/14	
	Net carrying value	Value adjustments
Real estate assets deriving from financing of construction and real estate development	**5,690**	**2,794**
Finished buildings	**2,784**	**714**
Housing	1,586	348
Rest	1,198	366
Buildings under construction	**429**	**155**
Housing	306	103
Rest	123	52
Land	**2,477**	**1,925**
Building land	1,092	745
Other land	1,385	1,180
Real estate assets deriving from home loan mortgages	**1,485**	**415**
Real estate assets acquired in payment of debts	**-**	**-**
Equity instruments, interests and financing companies holding such assets (*)	**210**	**405**
Total real-estate portfolio	**7,385**	**3,614**

(*) Financing to non-consolidating investees is included in the first table in this Note.

The balance of the real estate portfolio derived from repos of the group for operations registered in Spain and abroad, considering the guarantee provided by the DGF, amounts to €9,234 million at 31 December 2015 (€8,850 million euros at 31 December 2014).

Considering the accumulated provisions of problem assets, the effective coverage of financing for construction and real estate development stands at 50% in December 2015 (45% in December 2014).

Counterparty risk

The counterparty risk management philosophy is aligned with the business strategy, which pursues value creation through the efficient use of capital allocated to the business units. Strict criteria have been established for managing counterparty risk deriving from the financial markets, to guarantee the integrity of Banco Sabadell Group's capital.

Banco Sabadell Group has a system for evaluating and managing those risks, which allows it to monitor and control compliance with approved limits on a daily basis.

Additionally, to mitigate exposure to counterparty risk, Banco Sabadell has Credit Support Annexes (CSA) and Global Master Repurchase Agreements (GMRA) with most counterparties, which notably reduces the risks incurred through the provision of collateral, as explained previously.

Assets pledged in financing activities

At the end of 2015, there are certain financial assets pledged in financing operations, i.e. offered as collateral or guarantee for certain liabilities. Such assets correspond mainly to loans linked to the issue of mortgage covered bonds, territorial bonds or long-term securitisation bonds (see Note 21 and Schedules III and IV). The remaining pledged assets are debt securities that are submitted in operations of assets ceded under repurchase agreements, pledged collateral (loans or debt instruments) to access certain financing operations with central banks and all types of collateral provided to guarantee derivatives.

Information on loans secured with mortgage guarantees included in the loans and advances to customers portfolio that are linked to the issue of mortgage covered bonds pursuant to the Mortgage Market Law is included in Schedule III on "Policies and procedures on the mortgage market", a special accounting record of issuing entity Banco Sabadell, required by Bank of Spain Circular 5/2011, implementing Royal Decree 716/2009, of 24 April (implementing certain aspects of Law 2/1981 of 25 March on the regulation of the mortgage market).

On the other hand, the bank has used part of its loans and advances portfolio and harmonised loans in fixed income securities by transferring assets to various securitisation funds created for this purpose. Under current regulations, securitisations where there is no substantial risk transfer cannot be derecognised from the balance sheet.

The balance of the financial assets securitised under these programs by the group, identifying those in which the risks and associated profits have been transferred, is as follows:

Thousand euro

	2015	2014
Entirely derecongnised from the balance sheet	**1,390,427**	**1,482,749**
Securitised mortgage assets	358,803	609,155
Other securitised assets	20,630	45,247
Other financial assets transferred	1,010,994	828,347
Entirely retained on the balance sheet	**15,943,390**	**12,284,506**
Securitised mortgage assets	15,788,059	11,739,188
Other securitised assets	155,331	545,318
Other transfers to credit institutions	-	-
Total	**17,333,817**	**13,767,255**

The assets and liabilities corresponding to the asset securitisation funds originating after 1 January 2004 have been maintained in the consolidated income statements (those in which the risks and profits from the transaction were not transferred). In terms of the assets shown, the risk is not transferred as some form of subordinated financing or credit improvement has been transferred to the securitisation funds.

The heading Other transferred financial assets fully derecognised from the balance sheet included mainly assets transferred to SAREB by Banco Gallego, as they continue to be administered by the entity. The value of these assets amounts to €797,131,000.

The increase during the year corresponds to the acquisition of assets from TSB.

Details of Securitisation funds are included in Schedule II.

2. Liquidity Risk

General description

Liquidity risk is due to the possibility of losses being incurred as a result of the Bank's being unable, albeit temporarily, to honour payment commitments 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 associated with factors of a systemic nature or specific to the Bank itself.

The group is exposed to daily demands on its available cash resources to meet contractual obligations related to financial instruments with which it trades, such as maturing deposits, drawdowns of credit facilities, settlements of 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.

In this regard, the objective of Banco Sabadell Group is to maintain liquid assets and a financing structure that, in line with its strategic objectives and based on its Risk Appetite Statement, allows it to fulfil its payment commitments normally and at a reasonable cost, under business as usual conditions or under a stress situation caused by both systemic or idiosyncratic factors.

In order to fulfil these objectives, the Group's current liquidity risk management plan is based on the following principles and pillars, serving the Group's retail business model and defined strategic objectives:

- Involvement of the Board of Directors and Senior Management in the management and control of liquidity risk and funding.
- Clear segregation of functions between the different areas of the organisation, with a clear delineation of the three lines of defence, providing independence in the valuation of positions and in risk control and analysis.
- Decentralised liquidity risk management system for the most significant units, but with a centralised risk monitoring and management system.
- Sound processes of identification, measurement, management, control and information of the different liquidity and financing risks facing the Group.
- Existence of a transfer price system to transfer financing costs.
- Balanced financing structure, based primarily on customer deposits.
- Wide range of unencumbered and immediately available liquid assets to generate liquidity, which make up the Group's first line of defence.
- Diversification of funding sources, with controlled use of short-term wholesale funding and which is not dependent on providers of individual funds.
- Self-funding of significant foreign banking subsidiaries.
- Oversight of the level of encumbrance of the Group's balance sheet.
- Maintenance of a second line of liquidity that makes up the capacity of issuing mortgage covered bonds and territorial bonds.
- Availability of a Liquidity Contingency Plan.

Liquidity management

The purpose of managing liquidity in Banco Sabadell is to guarantee the financing of commercial activities at an adequate cost and within a reasonable time frame, thus minimising the liquidity risk. In recent years, the Bank's financing policy has focused on generating a liquidity gap in commercial business, reducing total financing in wholesale markets (which stood at €27,436 million at the end of 2015) and increasing the Bank's liquidity position.

As a basic policy, the Group must have a liquidity capacity which, at minimum, complies with the minimum thresholds established for the following relevant variables:

- Collateral guarantees under agreement with the Bank of Spain: a minimum figure is set which may be achieved through discountable assets within the National Central Banks of the European Central Bank System as a whole.

- Cash ratio coverage: the cumulative position in coverage of minimum reserves in all Group banks on any day shall be between the following upper and lower limits:
  - Minimum balance in Bank of Spain account.
  - Monitoring indicator for maximum cumulative daily balance.
  - Lower limit of cumulative daily balance.
- Sensitivity matrix by term and product: A certain interest rate risk could arise in operative liquidity management which is limited for each term and product through a maximum sensitivity matrix.
- Maximum level of financing needs on the trading balance sheet.
- Unutilised commitments indicator: a maximum figure is established for loan agreements, credit card facilities, discount facilities and personal mortgage loans as a whole which represent a commitment towards third parties and which have yet to be utilised. This indicator is to be checked on a monthly basis.
- Available Liquid Assets: High quality assets must be available at all times as defined by the regulatory LCR (Liquidity Coverage Ratio), in accordance with regulatory requirements plus a management buffer on net outflows in 30 days provided for by said ratio.
- Interbank lines: For wholesale market funding lines are set with banking counterparties and clearing houses.
- Survival Horizon: the bank must have a buffer of sufficient liquid assets to overcome a stress situation so that it can remain at least one year in a situation wherein it does not acquire liquidity and where this does not affect its operation.
- Loan-to-Deposits (LtD): a target LtD level is set to guarantee the stability of the group's funding structure.

In order to manage its liquidity, the group follows a structure based on Liquidity Management Units ("LMUs"). Each LMU is responsible for managing its own liquidity and for setting its own liquidity risk control metrics in coordination with the Group's corporate area. Current LMUs are: Banco Sabadell, including consolidated subsidiaries, Sabadell United Bank (SUB), Banc Sabadell d'Andorra (BSA) and TSB.

Tools/metrics for monitoring and control of risk management

The basic tools for managing and measuring liquidity risk are:

- Information on daily asset and liability balances.
- Information on the status of liquid assets and second lines of liquidity based on discountable assets at the ECB and on the capacity to generate them. Additionally, Banco Sabadell analyses the robustness of its liquid asset portfolio as discountable assets at the ECB by assessing the sensitivity of the eligible asset base to various combined scenarios of downgrades in rating and impacts on the market price of the assets, in order to verify that the bank's eligible asset base is sufficiently robust to guarantee that the bank has sufficient eligible assets available, considering its current position with the ECB.
- Information on short, medium and long-term maturities on the wholesale financial markets.
- Regular stress tests. Banco Sabadell regularly carries out stress tests centred on the Bank's position in the institutional market, where a prolonged closure of capital and interbank markets is considered, combined with a divestment of deposits from institutions and businesses that professionally manage the Group's treasury funds. These tests set a survival horizon, identifying the period over which the Group can remain in a situation where no new liquidity is acquired without affecting its activities; this guarantees that the Group has the necessary liquid asset buffer to cover the net income and expenses balance in a stress situation.
  To complement this exercise, the Bank carries out a stress test which, unlike the previous tests and as an additional measure, considers the full provision of all available assets in the bank over a one-month period, the outflow of 7.5% of the deposit base of retail customers (households and SMEs), 15% of the deposit base of public institutions and companies over a one-month period and the non-renewal of all securities placed with retail customers.
  Additionally, Banco Sabadell establishes a monthly contingency plan in which two liquidity stress scenarios are considered: a systemic crisis and a crisis specific to Banco Sabadell. This contingency plan takes into account Banco Sabadell's issuing capacity in a capital market under each of the two scenarios, as well as all that of the on-balance assets that are able to generate liquidity, establishing the percentage that could become liquid for each type of asset and in line with the crisis scenario within the space of one week and one month, thus calculating the entity's contingent liquidity in a liquidity crisis scenario.
- Early Warning Indicators (EWIS). Banco Sabadell has designed and implemented an early warnings system to identify any possible strain in capital markets and within the group's own funding structure that could

endanger the Group's liquidity position. These EWIs set limits for the entity's different financial variables, in such a way that once this limits are exceeded the entity must consider adopting different measures and corrective actions to maintain the group's liquidity.

- General information relating to the situation of financial markets: issuances, spreads, reports from external credit agencies, etc.

The risk control and reporting framework for the liquidity risk management limits is comprised of:

- Supervision of global liquidity risks, independently calculating the risk management metrics within risk systems.
- Define the risk measurement methodologies and verify the correct operation of control and measurement systems.
- Daily monitoring of risk indicators and limits, reporting to the various management units (Treasury Management and Capital Market and Financial Management Division).
- Systematic control and analysis of the adherence to limits, identifying instances of non-fulfilment and activating the necessary protocols for their correction.
- Establish and generate the necessary information framework for optimum monitoring and control of risk management limits.

Residual term of transactions

The table below shows the contractual maturities of balances without taking into account, in some cases, value adjustments or losses due to impairment for certain headings of the consolidated balance sheet at 31 December 2015 under a business-as-usual scenario:

Thousand euro

Contractual residual maturities	Demand	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Money Market	391,065	9,413,792	445,450	306,027	-	-	-	301,580	-	**10,857,915**
Loans and receivables	*8,680*	*5,805,725*	*7,386,137*	*18,498,673*	*20,598,107*	15,271,840	11,429,305	10,484,936	41,549,170	**131,032,575**
Debt securities	13,749	63,365	72,594	1,799,352	1,278,195	842,971	1,082,323	1,026,202	17,927,448	**24,106,198**
Other assets	-	-	-	-	-	*12,355*	-	-	-	**12,355**
Total assets	**413,494**	**15,282,883**	**7,904,182**	**20,604,053**	**21,876,302**	**16,127,166**	**12,511,628**	**11,812,718**	**59,476,617**	**166,009,043**
Money market	3,143	5,844,513	3,339,127	462,042	-	11,000,000	3,200,491	552,585	-	**24,401,902**
Customer funds	78,362,599	5,802,802	7,117,230	25,203,139	5,987,693	1,984,034	311,899	770,482	96,975	**125,636,854**
Marketable debt securities	-	2,263,333	1,658,023	8,017,797	4,321,704	2,108,140	1,616,318	3,402,923	5,350,283	**28,738,520**
Subordinated liabilities	-	-	12,600	329,088	101,410	-	-	424,600	598,384	**1,466,082**
Other liabilities	-	153,040	272,013	1,498,599	1,293,407	596,506	415,350	237,867	613,301	**5,080,082**
Total liabilities	**78,365,742**	**14,063,688**	**12,398,994**	**35,510,665**	**11,704,214**	**15,688,680**	**5,544,058**	**5,388,457**	**6,658,942**	**185,323,441**
Trading and hedging derivatives										
Positions received	227	10,274,530	6,890,247	20,901,948	16,104,460	11,772,818	5,687,379	5,457,472	33,915,963	**111,005,045**
Positions paid	-	11,356,744	8,560,152	23,358,811	15,153,056	11,621,381	5,696,020	8,264,069	34,621,332	**118,631,566**
Net	**227**	**(1,082,214)**	**(1,669,905)**	**(2,456,863)**	**951,404**	**151,437**	**(8,641)**	**(2,806,597)**	**(705,369)**	**(7,626,521)**
Contingent risks										
Financial guarantees	96	111,405	135,530	451,011	254,863	128,974	170,322	59,095	1,225,625	**2,536,921**

In this analysis, very short-term loans traditionally present financing needs as they contain the continuous maturities of short-term liabilities, which in typical banking activities see higher turnover rates than assets, but as they are continuously renewed they end up actually covering such needs and even incorporating growth of the outstanding balances.

There are contingent commitments that may also modify liquidity needs. These are mostly credit facilities with established limits which are undrawn by borrowers at the date of the balance sheet. The Board of Directors also establishes limits in this regard for its control.

Finally, it is systematically evident that the financing capacity of the group in capital markets guarantees short-, medium- and long-term needs.

Strategy for financing and liquidity evolution in 2015

The main source of funding of the group is the customer deposits base (mainly demand accounts and term deposits collected through the branch network), complemented by financing through interbank markets and capital markets, where the entity has various short and long-term financing programs to achieve an appropriate level of diversification by product type, term and investor. The entity also maintains a diversified portfolio of liquid assets, mostly eligible as collateral for the financing operations with the European Central Bank (ECB).

On-balance sheet customer funds

At 31 December 2015, customer funds on the balance sheet amounted to €131,489 million, compared with €94,461 million at 2014 year-end and €94,497 million at 2013 year-end (39.2% increase in December 2015 compared with December 2014 as a result of the acquisition of TSB in June 2015 and -0.04% reduction in December 2014 compared with December 2013). In 2015, the movement of balances from term deposits to demand accounts and investment funds has continued, as a result of the downward evolution of interest rates. At 31 December 2015, the balance of demand accounts (checking accounts, together with savings accounts) totalled €84,536 million euros (+95.3%), to the detriment of term deposits, which showed a -11.7% decrease.
On-balance sheet customer funds by maturity:

€millions

	2015	3 months	6 months	12 months	>12 months	No maturity
Total on-balance customer funds (*)	**131,489**	**8.7%**	**8.0%**	**12.7%**	**6.3%**	**64.3%**
Term deposits	42,947	25.2%	22.5%	34.6%	17.7%	0.0%
Demand deposits	84,536	0.0%	0.0%	0.0%	0.0%	100.0%
Retail issuances	4,006	15.9%	21.6%	46.4%	16.1%	0.0%

(*) Includes client deposits (ex-repos) and other liabilities placed by the branch network: bonds mandatorily convertible into shares, straight bonds of Banco Sabadell, commercial paper and others.

€millions

	2014	3 months	6 months	12 months	>12 months	No maturity
Total on-balance customer funds (*)	**94,461**	**10.7%**	**11.6%**	**19.0%**	**12.7%**	**46.0%**
Term deposits	48,639	20.0%	22.3%	34.5%	23.2%	0.0%
Demand deposits	43,275	0.0%	0.0%	0.0%	0.0%	100.0%
Retail issuances	2,547	16.6%	6.0%	46.3%	28.1%	3.0%

(*) Includes client deposits (ex-repos) and other liabilities placed by the branch network: bonds mandatorily convertible into shares, straight bonds of Banco Sabadell, commercial paper and others.

Off-balance sheet customer funds managed by the group and those traded but not under management are shown in Note 31 of these Consolidated annual accounts.

The deposits of the entity were traded through the following units/companies of the group (Commercial Banking, Corporate Banking and Global Businesses, Private Banking, SUB and TSB). Details of the volumes of these business units are included in the section on Business results of the Directors' Report.

During 2015, the generation of Commercial gap has stabilised, with the positive trend seen over the last years continuing, although more moderately. This has allowed, on the one hand, continuing with the policy of the entity of partially refinancing maturities in capital and, at the same time, with the system for the reduction of the "Loan to Deposits" (LTD) ratio of the group (from 147% at the end of 2010 to 106.5% at the end of 2015). The evolution of the ratio over the year has also been positively affected by the incorporation of TSB in June 2015, with a financing structure that is mainly concentrated on customer deposits. To calculate the Loan to Deposits (LtD) ratio, the net credit investment, adjusted by subsidised financing, is used as the numerator, and the retail financing as denominator.

Capital Market

As a result of deleveraging by the Group and its successful campaign to attract deposits, the proportion of funding raised on the wholesale markets has declined steadily in recent years. At the end of 2015, the outstanding balance of capital market funding was €27,436 million, which excluding TSB amounted to €22,961 million compared with an outstanding balance of €23,106 million at 2014 year-end. By type of product, at December 2015, €13,628 million of the total amount placed in capital markets corresponded to mortgage covered bonds, €2,816 million to commercial paper and Euro Commercial Paper (ECP) aimed at wholesale investors, €2,595 million corresponding to senior debt (of which €1,058 were for transactions with guarantees as a result of the acquisition of Banco CAM, €1,388 million corresponded to issuances of subordinated debt and preference shares placed on the market, €6,974 corresponded to securitisation bonds placed on the market (of which €3,951 corresponded to TSB) and €34 million corresponded to other medium- and long-term equity instruments.

The table below shows the maturities of issues to institutional investors by product type at 31 December 2015:

€ million

	2016	2017	2018	2019	2020	2021	>2022	Outstanding balance
Mortgage bonds and covered bonds	2,876	2,022	1,561	1,124	2,172	2,013	1,859	13,628
Secured issuances	-	1,058	-	-	-	-	-	1,058
Senior debt	1,412	-	100	-	-	-	25	1,537
Subordinated debt and preferential bonds	299	66	-	-	425	565	33	1,388
Other medium- and long-term financial instruments	-	-	18	-	-	10	6	34
Total	**4,587**	**3,146**	**1,679**	**1,124**	**2,597**	**2,589**	**1,923**	**17,645**

The Banco Sabadell group performs activities and maintains certain financing programs active on capital markets to diversify its various sources of liquidity.

In terms of short-term financing, the entity maintains a company promissory notes program and an Euro Commercial Paper (ECP) program:

- Company promissory notes program: this program regulates issues of promissory notes and is aimed at institutional and minority investors. On 5 March 2015, the Company promissory notes program of Banco Sabadell for 2015 was registered with the CNMV (Spanish Securities Commission), with an issue limit of €6 billion, extendible to €9 billion. The outstanding balance of the promissory notes program has increased over the year, in terms of both the outstanding balance of unqualified investors, and the institutional customer base. At 31 December, the outstanding balance was of €3,661 million (net of promissory notes subscribed by companies of the Group), vis-à-vis the €2,745 million euros at 31 December 2014.
- Euro Commercial Paper (ECP) Program, aimed at institutional investors, whereby securities are issued for the short term in various foreign currencies: euros, USD and GBP. On 18 December 2015, Banco Sabadell renewed its Euro Commercial Paper Program for a maximum nominal amount of €3.5 billion. This program has been increased from €165.2 million euros at the end of 2014, to €275.9 million euros at 31 December 2015.

Regarding medium- and long-term financing, the entity maintains the following active programs:

- Program for the issue of non-equity securities registered with CNMV ("Fixed Income Program"): this program regulates the issues of bonds and obligations, both straight and subordinated, and mortgage covered bonds, territorial bonds and structured bonds, made under Spanish law through the CNMV and aimed at both national and foreign investors. The limit available for new issues under the Program for the issue of non-equity securities for 2015 of Banco Sabadell at 31 December 2015, was of €6,145.8 million (at 31 December 2014, the outstanding balance under the Fixed Income Program of 2014 was of €5,912.7 million).

  During 2015, Banco Sabadell has issued securities under the Fixed Income Program effective at any time for a total of €10,354.2 million euros, including retained and placed issues. Over the year, the entity has accessed the market on several occasions, taking advantage of available liquidity windows. Specifically, Banco Sabadell made two public issues of five-year mortgage covered bonds in May and October 2015 for an aggregate of €750 million and €1 billion, respectively; two issues of 8-year mortgage covered bonds for a total amount of €300 million, subscribed entirely by the European Investment Bank (EIB); 10 issues of senior debt at 1 and 2 year terms, for a total amount of €2,750 million and 9 issues of structured bonds for a total of €111 million and terms spanning between 1 and 5 years. In the current market context, the entity would have the capacity to issue in various formats and terms.

- Asset securitisation: Since 1993, the group has been very active on this market and has participated in various securitisation programs, in some cases together with other highly solvent entities, granting mortgage loans, loans to small and medium sized enterprises, consumer loans and credit rights derived from financial lease agreements.

  There are currently 35 outstanding asset securitisation operations (including the securitisation of Banco Guipuzcoano, Banco CAM, BMN, Banco Gallego and TSB), although part of the bonds issued were withheld by the entity as liquid assets eligible for financing operations with the European Central Bank, the rest of the bonds were placed on capital markets. At the closing of 2015, the balance of securitisation bonds placed on the market was of €6,974.4 million euros.

For efficiency reasons, during 2015, 7 securitisation operations with relatively small outstanding balances were cancelled early (see further details on securitisation funds in Schedule II of the memorandum).

Overall, in 2015 market performance has been positive, although there have been various episodes of volatility that have resulted in tensions and even the closing of markets over relatively extended periods of time. The system as a whole has not seen the refinancing of a large part of the market maturities. This, combined with the ECB stimulation measures over the last quarter of 2014, has caused an excess of liquidity.

Banco Sabadell has taken part in these ECB stimulation measures by attending targeted four-year liquidity auctions (TLTRO or Targeted Longer-term refinancing operations) in both 2014 and 2015, for a total amount of €11,000 million. The entity has also participated in the Mortgage Bond Purchase Program (CBPP3) implemented by the European Central Bank.

The excess of liquidity in the market, together with a scenario of negative short-term interest rates, have driven down prices in repo financing compared to other alternatives. At 31 December 2015, the net amount of repo financing in nominal terms amounted to€ 5,303 million.

Liquid assets

In addition to these sources of funding, Banco Sabadell also maintains a liquidity buffer in the form of liquid assets to face any possible liquidity needs. This buffer mainly consists of the following assets:

€ million

	2015	2014
Cash (*) + Net Interbank Position	4,016	(68)
Available in policy	4,349	6,911
Assets pledged in policy (**)	*15,899*	*14,111*
Drawn balance in Bank of Spain policy (***)	*11,550*	*7,200*
ECB eligible assets not included in policy	10,785	10,553
Other ECB ineligible marketable assets (****)	3,097	1,362
Total Available Liquid Assets	**22,247**	**18,758**

(*) Surplus reserves in Central Banks

(**) At market value and after applying ECB reductions on monetary policy transactions.

(***) Of which in 2015, €11,000 correspond to ECB 4-year TLTRO auctions (TLTRO or Targeted Longer-term refinancing operations). In 2014, €5,000 correspond to the ECB's TLTRO auction of 17 December 2014.

(****) At market value and after applying reductions on the Liquidity Coverage Ratio (LCR). Includes Fixed Income, which is considered a high-quality and highly liquid asset in terms of its LCR (HQLA) and other marketable assets from different entities within the Group.

In the case of TSB, the first line of liquidity at 31 December 2015, consists mainly of Gilts amounting to €1,718 million and an excess of reserves at the Central Bank of England (BoE) of €3,383 million.

There are no significant amounts of cash and cash equivalents that are not available for use by the group.

In addition to the first line of liquidity, the entity maintains a buffer of mortgage assets and loans to Public administrations eligible as collateral for mortgage covered bonds and territorial bonds, respectively, which at the end of 2015 provided an additional €7,376 million in terms of capacity to issue own new bonds eligible as collateral to be discounted at the ECB. At the closing of 2015, available liquidity amounted to €29,623 million in cash, corresponding to the amount of the first line of liquidity plus the capacity to issue mortgage covered bonds and territorial bonds of the entity at year end.

Fulfilment of regulatory requirements

Banco Sabadell Group has included, as part of its liquidity management, the monitoring of the new short-term Liquidity Coverage Ratio or LCR and the Net Stable Funding Ratio or NSFR, reporting to the regulator on the required information on a monthly and quarterly basis, respectively. The measurement liquidity based on these metrics forms part of the liquidity risk control in the set of the LMUs.

In terms of the LCR ratio, since 1 October 2015, the statutory minimum payment is 60%, a level that is widely surpassed by all UGLs of the entity, with the cases of TSB and Banco Sabadell España being noteworthy, with quite ample levels of LCR. At the group level, the LCR ratio of the entity has been permanently and stably positioned over the year at well above 100%.

As regards the NSFR ratio, it is still in the analysis and final definition stage. The date set for its implementation is January 2018, and just as for the LCR ratio, a period of gradual application is planned. The Bank has nonetheless already commenced the monitoring of this ratio as a liquidity metric at the UGLs level.

Given the funding structure of the entity, with a high level of customer deposits, and the majority of the market financing being focused on the medium-/long-term, the entity has remained stable at levels that are well above 100%.

3.Market risk

Market risk arises from the possibility of incurring losses in the market value of positions maintained in financial assets, due to changes in risk factors which affect its prices and shares, its volatilities and their interconnections (for example, equity, interest rates or exchange rates):

These positions that generate market risk are normally kept for the treasury intermediation or capital markets management business or to maintain the entity's own positions of a discretionary nature.

It may also arise simply by maintaining global balance sheet positions (also known as structural positions) that in net terms are left open. In the latter case, the group uses the market risk management and monitoring system to treat the structural exchange rate risk position. Other market risks of a structural nature, affected by such factors as interest or liquidity rates, are addressed in the relevant sections.

The Market Risk acceptance, management and control system is based on the establishment of limits for expressly allocated positions and the approval of transactions in each business unit, such that different management units have the obligation to manage their positions within the agreed limits at all times and their transactions are subject to approval by the risk department.

The changes in commodities prices have had an impact in 2015, as the group maintains residual exposures, both direct and in underlying assets.

Trading activity

Market risk is measured using the VaR and stressed VaR methodology, which allows the harmonisation of the risks in various types of financial market operations.

The VaR provides an estimate of the maximum potential loss posed by a position due to an adverse but normal movement of any of the identified parameters influencing market risk. This estimate is expressed in monetary terms and refers to a specific date, a specified level of confidence and a specific time horizon. The various market risk factors are taken into consideration for this purpose.

The feasibility of the VaR methodology used is verified using back testing techniques, used to ensure that the VaR estimates are within the considered confidence level.

Stressed VaR is calculated in the same way as the VaR but with a historical window of variations of the risk factors in stressed market conditions. Its monitoring is complemented with specific simulation exercises and scenarios of extreme market situations (stress testing), analysing the impact of various historical and theoretical scenarios on the portfolios, and the calculation of management results, used to monitor stop-loss limits.

Market risk is monitored on a daily basis and reports on current risk levels and on compliance with the limits assigned to each unit established by the Risk Control Committee are sent to the (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) which provide the position's risk profile. Therefore, the use of this methodology does not imply any restriction on the ability to incur losses that exceed the established limit. 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.

Market risk for the Trading Activity incurred in terms of the VaR at day 1 with 99% confidence for 2015 and 2014 is as follows:

€ million

	2015			2014		
	Medium	Maximum	Minimum	Medium	Maximum	Minimum
Interest rate risk	0.94	1.68	0.54	0.98	3.36	0.47
Currency risk - trading	0.14	0.51	0.03	0.12	0.40	0.02
Equity risk	0.52	1.15	0.21	0.78	1.32	0.55
Credit spread	0.10	0.18	0.06	0.07	0.20	0.03
Aggregate VaR	**1.70**	**3.52**	**0.84**	**1.95**	**5.28**	**1.07**

<u>*Structural risks concerning interest rates and exchange rates*</u>

Structural interest rate risk

Structural Interest rate risk arises from changes in market rates of interest that impact on different balance sheet assets and liabilities, which present temporary mismatches in the maturity or repricing dates, as is common in banking. Exposure to this risk in the event of unexpected interest rate movements may ultimately feed through into unforeseen changes in interest margins and economic value.

The metrics developed for the control and monitoring of structural interest rate risk in the group are aligned with the market best practices and are consistently implemented throughout the Balance sheet Management Units (BMUs) and at the heart of each of the local Assets and Liabilities Committees. The diversification effect between currencies and BMUs is taken into account when presenting key figures at the global level.

The Group therefore has two main objectives in terms of interest rate risk management:

- Optimise the Net Interest Income
- Maintain the Economic Value of the Balance Sheet

To accomplish these objectives and at the same time stay within the limits set for risk appetite, an active management of the balance sheet is used both through the development of commercial strategies providing natural hedges, and the contracting of market operations seeking to minimise the risk level assumed.
The set of risk sources taken into account in the control and monitoring process depends on the materiality of each in the various BMUs and is as follows:

- Repricing risk: Is that arising as a result of the different rate at which assets and liabilities renew their interest rates.
- Yield curve risk: is that arising as a result of the shifts of various different types that may be experienced by the market interest rates curve.
- Basis risk: is that arising from the unequal or disparate movements that may be seen in the various interest rate curves to which the sensitive assets and liabilities on the balance sheet are subject.
- Optionality risk: Is that arising as a result of the contractual characteristics of certain products and instruments on the balance sheet. The optionality may be explicit, when clearly established in terms of an observable market variable, or implicit, when it depends on possible considerations of customers. The latter case encompasses the prepayment and early withdrawal options.

The metrics used are as follows:

- Interest rate gap (see table below), a static measure showing the distribution of maturities and repricing of sensitive items on the Balance Sheet. For amounts with no contractual maturity, estimated expected maturities based on the experience of the entity have been used, establishing assumptions of stability and remuneration according to product type.

Thousand euro

Period to review or maturity	Up to 1 month	1 to 3 months	3 to 12 months	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Money market	9,807,247	951,744	98,924	-	-	-	-	-	**10,857,915**
Loans and receivables	34,788,971	23,676,137	50,406,131	7,840,283	3,728,703	2,312,104	3,007,782	5,272,464	**131,032,575**
Debt securities	342,657	1,679,913	907,222	831,147	782,734	1,116,180	1,018,914	17,427,430	**24,106,198**
Other assets	-	-	-	-	12,355	-	-	-	**12,355**
Total assets	**44,938,875**	**26,307,793**	**51,412,277**	**8,671,431**	**4,523,792**	**3,428,284**	**4,026,696**	**22,699,894**	**166,009,043**
Money market	5,847,656	6,828,112	462,042	-	11,000,000	-	264,091	-	**24,401,902**
Customer funds	29,427,051	26,002,732	26,784,682	8,116,393	4,116,816	28,279,913	2,906,414	2,852	**125,636,853**
Marketable debt securities	5,792,409	6,565,701	6,753,093	3,109,655	1,409,883	559,877	1,814,590	2,733,308	**28,738,516**
Subordinated liabilities	66,050	339,850	42,238	35,360	-	-	424,600	557,984	**1,466,082**
Other liabilities	498,507	814,367	2,537,270	475,809	271,556	187,724	95,635	199,214	**5,080,082**
Total liabilities	**41,631,673**	**40,550,763**	**36,579,326**	**11,737,217**	**16,798,255**	**29,027,514**	**5,505,331**	**3,493,358**	**185,323,436**
Hedging derivatives	**(3,668,284)**	**(899,003)**	**90,726**	**700,671**	**2,097,628**	**1,391,312**	**667,253**	**(366,218)**	**14,085**
Interest rate gap	**(361,081)**	**(15,141,973)**	**14,923,678**	**(2,365,115)**	**(10,176,835)**	**(24,207,918)**	**(811,382)**	**18,840,318**	**(19,300,308)**

- Net interest income Sensitivity: measures the short and medium-term impact of variations in interest rates. It is obtained by comparing the financial spread over a one-year period in the baseline scenario, which is obtained from implicit market rates and that obtained from parallel and instantaneous movements of ±100 basis points (*), always considering the most unfavourable scenario.

- Economic Value Sensitivity: measures the long-term impact of interest rate fluctuations. It is obtained by comparing the economic value of the balance sheet in the baseline scenario and that of parallel and instantaneous movements of ±100 basis points (*), always considering the most unfavourable scenario.

- Other statistical and econometric models estimating correlations between various market variables or between these and the historical behaviour of the customer base.

The following table shows the interest rate risk levels in terms of sensitivity of the main foreign currencies of the Group at the end of 2015:

	Immediate and parallel increase in 100bp	
Interest rate sensitivity	**Impact on Net Interest Income**	**Impact on Economic Value**
EUR	(0.1%)	(1.1%)
GBP	2.0%	(0.9%)
USD	(0.2%)	(1.8%)

(*)Note: due to the current level of the market interest rates, in the downturn scenario, a maximum displacement of 100 basis points is used in each term, so that the resulting rate is always greater than or equal to zero.

Derivatives derived from financial markets are used as risk hedging instruments, mainly interest rate swaps (IRS), which are considered as hedging instruments for accounting purposes. Two different forms of macro-hedging are used:

- Macro-hedging of interest rates of cash flows, the purpose of which is to reduce the volatility of the net interest income as a result of interest rate variations, for a one-year time horizon.

- Macro-hedging of interest rates at fair value, the purpose of which is to maintain the economic value of the hedged items, consisting of assets and liabilities at a fixed interest rate.

The balance sheet items recorded at amortised cost do not present any valuation adjustments associated to fluctuations in interest rates. However, for financial assets classified as Financial assets available for sale recorded at fair value, changes in risk premiums have had a more significant impact than the fall in interest rates that has taken place during this year.

Structural exchange rate risk

This risk arises from changes (if any) in the market exchange rates between currencies, which may generate losses in financial investments or in permanent investments in offices and subsidiaries abroad which use currencies other than the euro. Exchange rate 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 established by the Risk Committee.

The Financial Department, through the ALCO, designs and implements the strategies for hedging the structural position in foreign currency with the priority objective of minimising the negative impact on capital ratios -CET1- of fluctuations in exchange rates.

The Market Risk Department and the Audit and Control Department oversee compliance with the objectives and policies of the Group and their effectiveness, reporting to the Risk Committee and the Audit and Control Committee, respectively.

The exchange value in euro of assets and liabilities in foreign currencies maintained by the group at 31 December 2015 and 2014, classed in line with their nature, is as follows:

Thousand euro

	2015			
	USD	GBP	Other currencies	Total
Assets in foreign currencies:	**14,737,033**	**46,239,931**	**665,890**	**61,642,854**
Cash and balances in central banks	530,890	3,758,795	19,922	4,309,607
Loans and advances to credit insititutions	241,347	481,602	69,589	792,538
Debt securities	4,290,721	1,690,073	38,925	6,019,719
Loans and advances to customers	9,097,497	36,296,135	456,138	45,849,770
Other assets	576,578	4,013,326	81,316	4,671,220
Liabilities in foreign currencies:	**11,731,015**	**41,052,234**	**221,502**	**53,004,751**
Deposits from central banks	551,302	1	1	551,304
Deposits from credit institutions	2,974,665	31,654	110,588	3,116,907
Customer deposits	7,898,875	35,528,670	94,662	43,522,207
Other liabilities	306,173	5,491,909	16,251	5,814,333

Thousand euro

	2014			
	USD	GBP	Other currencies	Total
Assets in foreign currencies:	**10,226,699**	**347,822**	**961,332**	**11,535,853**
Cash and balances in central banks	404,408	4,235	12,853	421,496
Loans and advances to credit insititutions	340,935	53,476	113,550	507,961
Debt securities	2,751,995	-	251,239	3,003,234
Loans and advances to customers	6,285,887	242,388	580,714	7,108,989
Other assets	443,474	47,723	2,976	494,173
Liabilities in foreign currencies:	**8,220,855**	**369,204**	**172,386**	**8,762,445**
Deposits from central banks	-	-	1	1
Deposits from credit institutions	1,473,275	28,754	70,378	1,572,407
Customer deposits	6,463,279	295,639	84,782	6,843,700
Other liabilities	284,301	44,811	17,225	346,337

The net position of foreign currency assets and liabilities includes the entity's structural position valued at historic exchange rate which includes €1,656 million corresponding to permanent investments in GBP and €734 million corresponding to permanent investments in USD. The net total of assets and liabilities valued at the fixing exchange rate is covered by forwards operations and currency options, following the group's risk management policy and resulting in a total net open position of €58 million at 31 December 2015.

At year-end 2015 the equity exposure sensitivity to a 1% depreciation in exchange rates against the euro of the main currencies to which exposure exists amounted to €21 million, of which 60% pertains to the British Pound Sterling, 36% pertains to the US Dollar and the remaining amount pertains to other currencies.

4. Operational Risk

Operational risk is defined as the risk of loss resulting from failures or inadequacies in people, processes and systems or from unforeseen external events. This definition includes Reputational Risk (which in turn includes Behavioural Risk), Technological Risk and Model Risk.

Management of operational risk is decentralised and devolved to process managers throughout the organisation. All of those processes are identified on a corporate process map, thus facilitating the compilation of information in a way that reflects the structure of the organisation. The Group has a specialised central unit to manage operational risk, whose main functions are to coordinate, supervise and promote the identification, assessment and management of risks by process managers in line with the Banco Sabadell group's management model.

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 Group. 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. Operational risk management is based on two lines of action:

The first is based on the analysis of processes, the identification of risks associated with said processes that may result in losses, a qualitative assessment of the risks and the associated controls, carried out jointly between process managers and the central operational risk unit. This provides an assessment which lets the entity know its future exposure to the risk in terms of expected and unexpected loss, and also allows trends to be foreseen and the corresponding mitigating actions to be efficiently planned.

This is complemented by the identification, monitoring and active management of the risk through the use of key indicators, causing the establishment of alerts to warn of any increase in this exposure, the identification of the causes for this increase, and the measurement of the efficiency of the resulting controls and improvements.

At the same time, any processes in which a high criticality has been identified due to a lack of service are defined and specific business continuity plans are implemented. In terms of the identified risks, a qualitative estimate is made of the reputational impact that these risks could cause in the event of their occurrence.

The second is based on experience. It consists of recording all losses suffered by the entity in a database, providing information for operational risks encountered by each line of business, as well as their causes, so that action may be taken to minimise these risks.

Additionally, this information allows the coherence between the estimates made on potential and actual losses to be compared and contrasted, in terms of both frequency and severity, iteratively improving the estimates of exposure levels.

A database is available containing historical records of actual losses resulting from operational risk going back to 2002. It is constantly being updated as information is received on losses and recoveries, whether resulting from the Bank's own efforts or from insurance provisions.

Operational risk includes management and control of the following main risks:

- Reputational risk: the possibility of losses arising from negative publicity related to the Bank's practices and activities, potentially leading to a loss of trust in the institution with an impact on its solvency.
- Technology risk: possibility of losses due to inability of the systems infrastructure to fully support the continuation of ordinary business activity.
- Model risk: the possibility of losses arising from decision-making based on the use of inadequate models.

5. Tax risk

Tax risk reflects the possibility of a breach or of uncertainty over the interpretation of tax legislation in any of the jurisdictions where the bank operates.

Banco Sabadell group's objective in this area is to ensure compliance with tax obligations while guaranteeing adequate returns for our shareholders.

The Board of Directors determines the tax risk control and management policies, as well as the tax strategy, with the double objective of ensuring that legal obligations are met and ensuring greater returns for shareholders.

The Tax Advisory Area provides an independent review of the Bank's operations to ensure that they conform to the lax legislation in force. Its functions are divided into two areas, depending on Banco Sabadell's purpose in each case:

- As a taxpayer: with a view to ensuring that Banco Sabadell meets its tax obligations accurately and on time, the Tax Advisory Area performs regular and periodic checks that the Bank's general situation complies with the tax legislation, and sporadic checks, as required, that specific operations are compliant
- As a developer of new products: the Bank's ordinary activity involves creating new products to be offered to our customers. The development of these products must include an analysis of their tax situation with a view to describing their characteristics in a transparent way.

6. Compliance risk

Compliance risk is defined as the risk of incurring legal or administrative penalties, significant financial loss or an impairment of reputation due to a breach of laws, regulations, internal rules and codes of conduct applicable to the banking industry.

One of the essential aspects of the Bank's policy, and the basis of its organisational culture, is rigorous compliance with all legal provisions. The pursuit of our business objectives must be compliant at all times with the current legislation and with best practice.

With this aim in mind, the group has a Compliance Department responsible for promoting and ensuring the highest possible degree of compliance with current regulations, as well as the professional ethics within the group. It also seeks to minimise the possibility of infringement and to ensure that any possible infringements are diligently identified, reported and resolved, and ensure that the corresponding preventive measures are adopted if they are not in place already.

Banco Sabadell has a compliance model that handles the setting of policies, procedures and controls centrally at head office, in addition to the implementation of control programs, and delegates implementation to its subsidiaries and branches in other countries.

This is a flexible risk-focused approach that can adapt with agility to the Group's strategy at any given time and which takes advantage of synergy, particularly in areas with complex far-reaching impacts that require technology to be developed, while it an also adapt to the specific situations and legislation affecting each business or country.

The main challenge is the standardisation throughout the group of compliance control levels, setting minimum standards whose fulfilment is mandatory, regardless of the activity carried out or the country in which it is carried out.

This model is comprised of two main pillars:

(i) A central unit providing services to the entire group and aimed at the global management of the Compliance Risk. Its main activity is the analysis, distribution and control of the implementation of any new regulations with impact on the group, as well as the risk-focused control of the correct compliance with regulations already in place.

It is also directly responsible for the implementation of various processes, classified as of high risk, as they require direct and comprehensive control: Money Laundering Prevention and Countering the Financing of Terrorism; the control of market abuse practices; control of compliance with the Internal Code of Conduct and the implementation and monitoring of investor protection elements (MIFID).

(ii) A network of Regulatory Compliance Managers located at each foreign subsidiary and office (functionally dependent on the Central Compliance Unit and hierarchically dependent on the Director of the foreign subsidiary or office) implementing its own control programs and reporting regularly to the Central Unit, ensuring compliance with internal standards and legislation in force in all countries and activities in which it operates.

To ensure its efficiency, this model is articulated and powered through six catalysts (technology, training, procedures, communication channels, control and monitoring programs and product and regulations approval process).

Note 5 – Minimum own funds and capital management

Regulatory Framework

On January 1, 2014, a new regulatory framework came into force, known generally as Basel III, regulating the minimum own funds to be kept by credit institutions, both at individual and consolidated levels, and the form in which these own funds must be determined, as well as the various processes of capital internal assessment that must be performed, and the public information that must be disclosed to market.

This regulatory framework consists of:

- Directive 2013/36/EU (generally known as CRD-IV), of 26 June, of the European Parliament and the Council, regarding access to the activity of the credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 202/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.

- Regulation (EU) 575/2013 (generally known as CRR), of 26 June 2013, of the European Parliament and the Council, regarding the prudential requirements of credit institutions and investment firms, amending Regulation (EU) 648/2012.

As a Spanish credit institution, the group is subject to Directive CRD-IV, whereby the European Union has implemented the capital norms of the Basel III accords by the Basel Committee on Banking Supervision (BCBS) under a phase-in model until 1 January 2019. This Directive CRD-IV has been implemented in Spain through:

- RD-Law 14/2013, of 29 November, on urgent measures for the adaptation of regulations of the European Union on the supervision and solvency of financial institutions to Spanish law.

- Law 10/2014, of 26 June, on the organisation, supervision and solvency of credit institutions.

- Royal Decree 84/2015, of 13 February, implementing Law 10/2014 of 26 June, on the ordering, supervision and solvency of credit institutions, completing the regulatory implementation of the above law, while merging into a single text all the regulatory requirements for the organisation and discipline of credit institutions.

The CRR Regulations, of immediate application to Spanish credit institutions, implement the requirements of Directive CRD-IV, granting authority to the national authorities of competent jurisdiction to make use thereof in certain options. The Bank of Spain, by virtue of the authorisation issued under RD-Law 14/2013, published Circular 2/2014 and 3/2014, of 31 January and 30 July, respectively, making use of some of the permanent regulatory options established in the CRR Regulations, including the relevant norms applicable to the transitory system of capital requirements and for the treatment of deductions.

Additionally, it should be emphasised that, during 2015, new regulations have been published complementing the CRR Regulations in subjects pertaining to Own Funds, Liquidity, Pillar I Risks and Capital Requirements.

In accordance with the requirements established in the CRR Regulations, credit institutions must at all times meet a total capital ratio of 8%. Nevertheless, it is important to bear in mind that the regulators may exercise their powers under the new regulatory framework and require institutions to maintain additional capital levels.

In this sense, the Institution received a communication from the European Central Bank regarding the decision in terms of the minimum prudential requirements applicable to the institution, following the Supervisory Review and Evaluation Process (SREP), whereby Banco Sabadell must maintain a Common Equity Tier 1 (CET 1) ratio of 9.25%, measured against the phased in regulatory capital. This requirement includes the minimum established by Pillar 1 (4.50%) and the requirement of Pillar 2 (4.75%), including the capital conservation buffer.

Additionally and based on the note published by the Bank of Spain on 28 December 2015, the Bank of Spain has set the counter-cyclical capital buffer for 2016 at 0%, the same as for the prudential capital buffer for institutions of systemic importance, specifically applying to Banco Sabadell, although considered as an O-SII (Other Systemically

Important Institution).

Capital management

The management of capital funds is the result of the ongoing process of capital planning. This process considers the expected evolution in the economic, regulatory and sectorial environment, as well as more adverse scenarios. It takes into account the expected capital consumption in the various activities, under the various scenarios envisaged, and the market conditions that could determine the effectiveness of the various actions that could arise. The process is defined at all times in line with the strategic objectives of the bank and with the search for an attractive profit for the shareholders, whilst always ensuring a level of own funds that is suitable to the risks inherent in the activity.

The bank's general policy on capital management is to ensure that its available capital is sufficient to cover the overall levels of risk being incurred.

The group follows the guidelines defined by the Basel Capital Accord as a basic principle that most closely relates institutions' capital requirements with the risks actually incurred, based on internal risk measurement models that have been previously validated by independent parties.

The bank has supervisory authorisation to use its internal business models for calculating regulatory capital requirements. Based on the risk measurements provided by these new methodologies, the group has a comprehensive risk measurement model under one internal measurement unit, in terms of assigned capital.

The allocation of capital by risk type at the end of 2015 is as follows:

%	2015
Credit risk	79%
Structural risk	7%
Operational risk	7%
Market risk	2%
Others	4%
Total	**100%**

The appraisal of risk in terms of necessary allocated capital enables it to be linked to the yield obtained from a customer and operation level to a business unit level. The Group has implemented a risk adjusted return on capital (RaRoC) system which provides this valuation, enabling uniform comparisons to be made and their inclusion in the transaction pricing process.

The group has sophisticated systems to measure each type of risk incurred and methodologies capable of integrating all of them. Such an approach requires a broad perspective or risk that takes account of possible stress scenarios and suitable financial planning in each case. The risk assessment systems used are in line with current best practice.

Each year the group carries out its own capital assessment process as prescribed by the new framework established by the NACB, and more specifically by the capital adequacy regulations, and reports the results to the supervisory authority.

The process starts from a broad spectrum of previously identified risks and a qualitative internal evaluation of policies, procedures and systems for originating, measuring and controlling each type of risk and appropriate mitigation techniques.

The next stage is to carry out a comprehensive quantitative assessment of the Group's capital requirement. This is based on internal parameters and uses the Group's own models (such as borrower credit rating or scoring systems) and other internal estimates appropriate to each type of risk. The assessments for each type of risk are then integrated and a figure is set under an indicator in terms of assigned capital. In addition, the Group's business and financial objectives and stress testing exercises are reviewed to reach a final determination as to whether certain business developments or extreme scenarios could pose a threat to the Bank's solvency, having regard to its available capital resources.

The level and quality of capital are metrics corresponding to the Risk Appetite Statement within the Group's strategic risk framework, which is explained in Note 4. Financial risk management.

For more information about capital management see the document published annually regarding Information of Prudential Relevance, available on the Bank's website (www.grupbancsabadell.com) under the section Information for Shareholders and investors / Financial information.

Capital resources and capital ratios

At 31 December 2015, the capital resources of the Group amount to €11,417,382,000, which represents a surplus of €4,315,885,000, as shown below:

Thousand euro

	2015	2014	Year-on-year change (%)
Capital	679,906	503,058	35.15
Reserves	11,428,739	8,855,717	29.05
Convertible bonds	-	-	-
Non-controlling interests	24,339	28,919	(15.84)
Deductions	(1,923,514)	(684,483)	181.02
Core capital resources	**10,209,470**	**8,703,211**	**17.31**
Core capital (%)	11.5	11.7	
Preference shares, convertible bonds and deductions	-	-	-
Tier one resources	**10,209,470**	**8,703,211**	**17.31**
Tier I (%)	11.5	11.7	
Tier two resources	**1,207,912**	**838,681**	**44.03**
Tier II (%)	1.4	1.1	
Capital base	**11,417,382**	**9,541,892**	**19.66**
Minimum capital requirement	7,101,497	5,953,425	19.28
Capital surplus	**4,315,885**	**3,588,467**	**20.27**
BIS Ratio (%)	**12.9**	**12.8**	**0.31**
Risk Weighted Assets (RWA)	**88,768,713**	**74,417,813**	**19.28**

2014 figures do not include the restatement explained in Note 1: Comparability

The bank's own core capital funds account for 89.4% of the total capital resources.

Tier 1 capital in Basel III is comprised, in addition to core capital funds, of convertible bonds and the deduction of the intangible assets in the equivalent amount.

Tier 2 capital, contributing 10.6% to the BIS ratio, mainly consists of the subordinated debt and generic provisions (with the statutory carrying limits), and the rest of the required deductions.

In the last 5 years, the bank has increased its capital base through issuances that qualify as CET1 capital, which have generated an increase in capital of over €6.6 billion. This includes the capital increase with preferential subscription rights of €1,607 million carried out in April 2015 as a consequence of the acquisition of TSB.

In 2015 Mandatorily Convertible Subordinated Bonds amounting to €789 million have been converted, with no impact on capital ratios.

Changes in phased-in Common Equity Tier 1 (CET 1) capital in 2014 (€8,703 million) and 2015 (€10,209 million) are mainly due to the aforementioned capital increase, the retained profit from the year and the most significant reductions as a consequence of the acquisition of TSB.

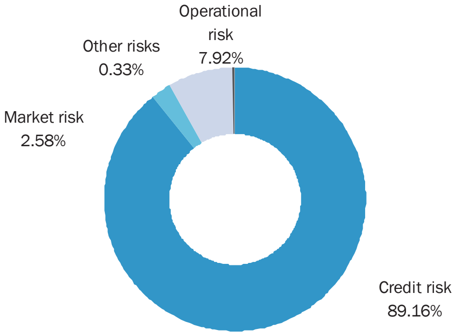
Risk-weighted assets (RWAs) for the period stand at €88,768,713,000, which represents a 19.28% increase compared with the previous year, mainly due to the acquisition of TSB and, to a lesser extent, the changes in deferred tax assets (DTAs).

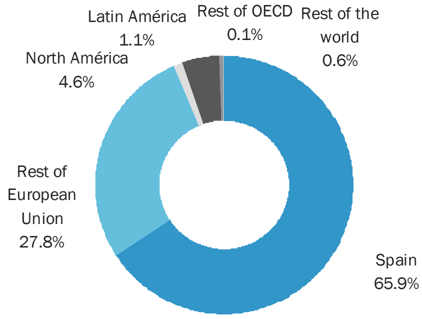
All of these actions and events have enabled Banco Sabadell to reach a phased-in Common Equity Tier 1 (CET 1) level of 11.5%, and a total capital ratio of 12.9% at December 2015, which widely exceeds the standards required in the regulatory framework.

The table below shows the reconciliation of net equity with regulatory capital:

€million	2015	2014
Shareholders' Funds	12,275	10,224
Valuation adjustments	456	937
Non-controlling interests	37	55
Total carrying value of equity	**12,767**	**11,216**
Goodwill and intangible assets	(1,989)	(684)
Other adjustments	(569)	(1,829)
Regulatory accounting adjustments	**(2,558)**	**(2,513)**
Common equity tier 1 capital	**10,209**	**8,703**
Additional tier 1 capital	**-**	**-**
Tier 2 capital	**1,208**	**839**
Total regulatory capital	**11,417**	**9,542**

The distribution of the Own Funds Requirements by risk type and geographical region at the end of 2015 is as follows:





Note 6 – Fair value of financial assets and liabilities

Financial assets and liabilities

The fair value of a financial asset or liability at a given date is understood to be the amount at which it could be delivered or settled, respectively, at that date, between independent and knowledgeable parties acting prudently and without coercion in open market conditions. The most objective and commonly used reference for fair value of a financial asset or liability is the price that would be paid on an organised, transparent and deep market ("quoted price" or "market price").

When there is no market price for a particular financial asset or liability, the fair value can be estimated from the values established for similar assets in recent transactions or, failing that, by using mathematical valuation models suitably tested by the international financial community. When utilising these models, the peculiarities specific to the financial asset or liability being valued are taken into account, particularly the different types of risk that may be associated with them. However, the limitations inherent in the valuation models that have been developed and possible inaccuracies in the assumptions and parameters required by these models may result in the estimated fair value of a financial asset or liability not precisely matching the price at which the asset could be delivered or settled as of the valuation date.

The fair value of financial derivatives quoted on an active market is the daily market price.

In the case of instruments for which quoted prices cannot be determined, prices are estimated using internal models developed by the bank, most of which take data based on observable market parameters as significant inputs. Otherwise, the models make use of other inputs which rely on internal assumptions based on generally accepted practice within the financial services community.

For financial instruments the fair value measurements disclosed in the financial statements are classified according to the following fair value levels:

- Level I: Fair values are obtained from the (unadjusted) prices quoted on active markets for the same instrument.

- Level II: Fair values are obtained from the prices being quoted on active markets for similar instruments, the prices of recent transactions, expected flows or other measurement techniques for which all significant inputs are based on directly or indirectly observable market data.

- Level III: Fair values are obtained by measurement techniques for which some significant inputs are not based on observable market data.

Set out below are the main valuation methods, assumptions and inputs used when estimating the fair value of the financial instruments classified in Levels 2 and 3, according to the type of instrument concerned:

Level 2 financial instruments	Valuation methods	Main assumptions	Main inputs used
Debt securities	Present value method.	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates. - Issuers' credit risk.	- Issuer credit spreads. - Observable market interest rates.
Equity instruments	Various sectorial assessments (P/VC).	Based on the CNAE that is best adjusted to the company's main activity, the P/VC multiple obtained from comparable data is applied.	- CNAEs. - Organised market shares.
Derivatives (*)	Black-Scholes model (analytic/semi-analytic formulae).	For equity derivatives, inflation, currencies or commodities: - Black-Scholes assumes a lognormal process of forward rates taking into account potential convexity adjustments.	For shares, inflation, currencies or commodities: - Forward structure of the underlying asset, given by market data (dividends, swaps points, etc.). - Option volatility surfaces. For interest rate derivatives: - Interest rate time structure. - Underlying asset volatility surfaces. For credit derivatives: - Credit Default Swaps (CDS) values. - Historic credit spread volatility.
	For equity derivatives, currencies or commodities: - Monte Carlo simulations. - SABR.	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. - SABR: stochastic volatility model.	
	For interest-rate derivatives: - Normal Model. - Libor Market Model .	This model assumes that: - The normal model allows negative interest rates. - The forward rates in the term structure of the interest rate curve are perfectly correlated.	
	For credit derivatives: - Intensity models.	These models assume a default probability structure resulting from term-based default intensity rates.	

(*) Due to Banco Sabadell's reduced net position, it is considered that the funding value adjustment (FVA) does not have a material impact on the valuation of derivatives.

Level 3 financial instruments	Valuation methods	Main assumptions	Main non-observable inputs
Debt securities	Present value method.	Calculation of the present value of financial instruments as the present value of future cash flows (discounted at market interest rates), taking into account: - An estimate of pre-payment rates. - Issuers' credit risk. - Current market interest rates.	- Estimated credit spreads of issuer or a similar issuer.
Equity instruments	Cash flow discount method.	Calculation of the present value of future cash flows discounted at market interest rates (CAPM method), taking into account: - An estimate of the company's future cash flows. - Risk in the company's sector- - Macroeconomic inputs.	- Bank's business plans - Issue premiums in the company's sector. - Adjustment due to sysematic risk (Beta Parameter).
Derivatives (*)	For equity derivatives, currencies or commodities: - Monte Carlo simulations.	Black-Scholes model: a lognormal distribution is assumed for the underlying asset with volatility depending on the term. - SABR: stochastic volatility model.	For shares derivatives, inflation, currencies or commodities: - Historical volatilities. - Historical corelations. - PD for calculation CVA and DVA (a).
	For credit derivatives: - Intensity models.	These models assume a default probability structure resulting from term-based default intensity rates.	For credit derivatives: - Estimated credit spreads of issuer or a similar issuer. - Historical volatility of credit spreads.
	For interest-rate derivatives: - Normal Model. - Libor Market Model .	This model assumes that: - The normal model allows negative interest rates. - The forward rates in the term structure of the interest rate curve are perfectly correlated.	For interest-rate derivatives: - PD for calculation CVA and DVA (a).

(a) For the calculation of CVA and DVA fixed severities at 60% have been used which corresponds to the market standard for senior debt. The positive and negative future average exposures were estimated using market models, libor for rates and Black for currencies, using market inputs. Default probabilities for customers without quoted debt securities or CDS were obtained from the internal rating model and for Banco Sabadell those obtained from the CDS quotation have been used.

(*) Given Banco Sabadell's reduced position, it is considered that the funding value adjustment (FVA) has no material impact on the evaluation of derivatives.

Determination of the fair value of financial instruments

A comparison between the value at which the Group’s financial assets and liabilities are recorded on the accompanying consolidated balance sheets and the related fair value is as follows:

Thousand euro

	Note	2015 Accounting balance	2015 Fair value	2014 Accounting balance	2014 Fair value
Assets:					
Cash and balances with central banks		6,139,459	6,140,265	1,189,787	1,189,787
Trading portfolio	8, 9 and 10	2,312,118	2,312,118	2,206,035	2,206,035
Other financial assets at fair value through profit or loss	9	77,328	77,328	137,148	137,148
Available-for-sale financial assets	8 and 9	23,460,356	23,460,356	21,095,619	21,095,619
Loans and receivables	7, 8 and 11	154,754,303	161,677,374	117,895,179	128,834,406
Adjustments to financial assets due to macro-hedging	12	7,693	7,693	-	-
Hedging derivatives	13	700,813	700,813	910,173	910,173
Total assets		**187,452,070**	**194,375,947**	**143,433,941**	**154,373,168**

Thousand euro

	Note	2015 Accounting balance	2015 Fair value	2014 Accounting balance	2014 Fair value
Liabilities					
Trading portfolio	10	1,636,826	1,636,826	1,726,143	1,726,143
Other financial liabilities at fair value through profit or loss		-	-	-	-
Financial liabilities at amortised cost	19, 20, 21, 22 and 23	189,468,677	190,919,750	145,580,114	147,009,131
Adjustments to financial assets due to macro-hedging	12	16,330	16,330	68,020	68,020
Hedging derivatives	13	681,461	681,461	460,296	460,296
Total liabilities		**191,803,294**	**193,254,367**	**147,834,573**	**149,263,590**

In relation to financial instruments whose carrying amount differs from fair value, the latter has been calculated as follows:

– The fair value of “Cash and balances with central banks” is in line with their book value, as these are mainly short-term balances.

– The fair value of “Loans and receivables” in Financial liabilities at amortised cost has been estimated using the discount cash flow method, using market interest rates at the end of each year.

– The headings “Value adjustments of assets/liabilities due to macro-hedging” on the accompanying consolidated balance sheets records the difference between the carrying value of the deposits covered (recorded in “Loans and receivables”) and the fair value calculated using internal methods and observable data variables.

The following table presents the main financial instruments recognised at fair value in the accompanying consolidated balance sheets, broken down according to the valuation method used when estimating their fair value:

Thousand euro

		2015			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Held for trading		794,117	848,633	669,368	2,312,118
Loans and advances to customers		-	-	-	-
Debt securities	8	782,877	200	9,383	792,460
Equity instruments	9	11,212	-	-	11,212
Trading derivatives	10	28	848,433	659,985	1,508,446
Other financial assets at fair value through profit or loss		-	77,328	-	77,328
Loans and advances to credit institutions		-	-	-	-
Debt securities		-	-	-	-
Equity instruments	9	-	77,328	-	77,328
Available-for-sale financial assets		21,917,058	1,383,697	159,596	23,460,351
Debt securities	8	21,714,757	1,172,020	849	22,887,626
Equity instruments	9	202,301	211,677	158,747	572,725
Hedging derivatives	13	1,814	560,363	138,636	700,813
Total assets		**22,712,989**	**2,870,021**	**967,600**	**26,550,610**

Thouaand euro

		2015			
		Level 1	Level 2	Level 3	Total
Liabilities					
Held for trading		151,904	1,235,836	249,086	1,636,826
Loans and advances to credit institutions		-	-	-	-
Trading derivatives	10	-	1,235,836	249,086	1,484,922
Short securities positions		151,904	-	-	151,904
Other financial liabilities at fair value through profit or loss		-	-	-	-
Hedging derivatives	13	12,098	484,211	185,152	681,461
Total liabilities		**164,002**	**1,720,047**	**434,238**	**2,318,287**

Thousand euro

		2014			
	Note	Level 1	Level 2	Level 3	Total
Assets:					
Held for trading		637,996	865,016	703,023	2,206,035
Loans and advances to customers		-	-	-	-
Debt securities	8	575,486	1,013	2,298	578,797
Equity instruments	9	45,068	-	-	45,068
Trading derivatives	10	17,442	864,003	700,725	1,582,170
Other financial assets at fair value through profit or loss		-	137,148	-	137,148
Loans and advances to credit institutions		-	-	-	-
Debt securities		-	-	-	-
Equity instruments	9	-	137,148	-	137,148
Available-for-sale financial assets		19,720,544	1,231,828	15,315	20,967,687
Debt securities	8	19,370,236	1,007,510	15,315	20,393,061
Equity instruments	9	350,308	224,318	-	574,626
Hedging derivatives	13	346,441	401,357	162,375	910,173
Total assets		**20,704,981**	**2,635,349**	**880,713**	**24,221,043**

Thousand euro

		2014			
	Note	Level 1	Level 2	Level 3	Total
Liabilities					
Held for trading		176,170	1,356,253	193,720	1,726,143
Trading derivatives	10	-	1,356,253	193,720	1,549,973
Short securities positions		176,170	-	-	176,170
Other financial liabilities at fair value through profit or loss		-	-	-	-
Hedging derivatives	13	-	244,754	215,542	460,296
Total liabilities		**176,170**	**1,601,007**	**409,262**	**2,186,439**

The movements in the balances of the financial assets and liabilities classified in Level 3 figures in the accompanying consolidated balance sheets are as follows:

Thousand euro

	Assets	Liabilities
Balance at 31 December 2013	**752,122**	**423,292**
Due to acquisitions (*)	1,948	325
Valuation adjustments recorded on income statement (**)	195,650	7,947
Valuation adjustments not recorded on income statement	-	253
Purchases, sales, write-offs	(102,501)	(21,821)
Net additions/(exits) on Level 3	33,134	(214)
Exchange differences and other	360	(520)
Balance at 31 December 2014	**880,713**	**409,262**
Due to acquisitions (*)	-	-
Valuation adjustments recorded on income statement (**)	35,758	75,980
Valuation adjustments not recorded on income statement	69,638	-
Purchases, sales, write-offs	(199,056)	(58,725)
Net additions/(exits) on Level 3	181,672	6,117
Exchange differences and other	(1,125)	1,604
Balance at 31 December 2015	**967,600**	**434,238**

(*) See Note 2.
(**) Relates to securities kept on the balance sheet at 31 December 2015 and 2014.

At 31 December 2015, income from sales of financial instruments classified in Level 3, recorded in the accompanying income statement was not material.

Financial instruments that were transferred between valuation levels during 2015 present the following balances in the accompanying consolidated balance sheet at 31 December 2015:

Thousand euro

			2015					
		From:	Level 1		Level 2		Level 3	
	Note	To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:								
Held for trading			-	-		64,187	-	1,380
Other financial assets at fair value through profit or loss			-	-		-	-	-
Available-for-sale financial assets			-	-		-	-	-
Hedging derivatives	13		-	-		-	-	-
Liabilities								
Held for trading			-	-		6,171	-	54
Other financial liabilities at fair value through profit or loss			-	-		-	-	-
Hedging derivatives	13		-	-		-	-	-
Total			**-**	**-**	**-**	**70,358**	**-**	**1,434**

Thousand euro

			2014					
		From:	Level 1		Level 2		Level 3	
	Note	To:	Level 2	Level 3	Level 1	Level 3	Level 1	Level 2
Assets:								
Held for trading			-	-	-	54,543	4,487	16,922
Other financial assets at fair value through profit or loss			-	-	-	-	-	-
Available-for-sale financial assets			-	-	45,253	-	-	-
Hedging derivatives	13		-	-	-	-	-	-
Liabilities								
Held for trading			-	-	-	88	-	302
Other financial liabilities at fair value through profit or loss			-	-	-	-	-	-
Hedging derivatives	13		-	-	-	-	-	-
Total			**-**	**-**	**45,253**	**54,631**	**4,487**	**17,224**

At 31 December 2015, the effect resulting from replacing the main assumptions used in the valuation of financial instruments in Level 3 by other reasonably possible assumptions, taking the highest value (most favourable assumption) or lowest value (least favourable assumption) in the range that is considered likely, is as follows, solely indicating the effect on the income statement because at 31 December there are no Level 3 instruments measured in equity.

Thousand euro

		2015		2014	
		Potential impact on consolidated income statement		Potential impact on consolidated income statement	
	Note	Most favourable assumption	Least favourable assumption	Most favourable assumption	Least favourable assumption
Assets:					
Held for trading (*)		7,999	(38,763)	8,932	(50,679)
Hedging derivatives (**)	13	-	-	-	-
Liabilities					
Held for trading (*)		19	(130)	-	-
Hedging derivatives	13	619	(290)	355	(87)
Total liabilities		**8,637**	**(39,183)**	**9,287**	**(50,766)**

(*) Calculation does not include closed positions as they do not have any potential impact on profit and loss because any changes in valuation of the financial instruments offset each other
(**) Potential impact is not material

Loans and financial liabilities at fair value through profit or loss

At 31 December 2015 and 2014 the balance sheets contained in this document show no loans or financial liabilities at fair value other than those registered in the chapters “Financial assets and liabilities held for trading – Loans to customers”, “Other fair value instruments with changes in profit or loss” and “Other liabilities at fair value with changes in profit or loss”.

Financial instruments at cost

At 31 December 2015 and 2014 there were equity instruments, derivatives with equity instruments as the underlying assets and discretionary profit sharing in certain companies which were recorded at cost in the consolidated balance sheets because their fair value could not be estimated in a sufficiently reliable manner. This was because they pertained to holdings in companies that are not quoted in organised markets and therefore involve a significant level of non-observable inputs. At these dates, the balance of these financial instruments, which were recorded in the Financial assets available for sale portfolio, was not material.

No financial instruments recorded at cost have been sold in 2015.

Non-financial assets

Real estate assets

At 31 December 2015 and 2014, the net carrying values of real estate assets do not differ significantly from the fair values of these assets (see Notes 14, 16 and 18).

The fair value of the Group's real-estate assets is estimated on the basis of appraisals by independent valuation companies on the Bank of Spain's Special Register, in accordance with the criteria included in Order ECO/805/2003 of 27 March 2003.

In the valuation techniques used, the valuation companies maximise the use of observable market data and other factors which are taken into account by market operators when setting prices. The use of subjective considerations and non-observable or non-verifiable data is restricted to the extent possible.

The following measurement hierarchy levels would correspond to the main valuation methods applied:

Level 2

- Comparison method - applicable to all kinds of properties provided that there is a representative market of comparable properties and sufficient data is available on transactions that reflect the current market situation.
- Rental update method - applicable when the property generates or may generate rentals and there is a representative market of comparable data.
- Statistical model – This model adjusts the value of the assets based on the date of acquisition and the location, updating the value in accordance with price trends in the area concerned as from the date of purchase. To this end, it includes statistical information on price behaviour in all provinces provided by external valuation companies and demographic data from the officinal National Statistics Institute to calculate sensitivity on a municipality level. At the same time, the figure calculated is adjusted based on the degree of maturity (finished product, development in progress, plots under management) and use (residential, industrial, etc.) of the asset.

Level 3

- Cost method – applicable to determine the value of buildings at the project, construction or refurbishment phase.
- Residual method – in the present macroeconomic climate, the dynamic calculation procedure is being used preferentially in new land valuations to the detriment of the statistical procedure, which is reserved for specific cases in which the envisaged time limits for project execution are in line with the relevant regulations.

Depending on the type of asset, the methods used in the valuation of the Group's portfolio are the following:

- *Finished work*: measured using the comparison, rental update or statistical methods (Level 2).
- *Work in progress*: measured using the cost method taking the sum of the land value and work performed (Level 3):
- *Land*: measured using the residual method (Level 3).

Fair value calculation

The following table presents the main real estate assets, broken down according to the valuation method used when estimating their fair value:

Thousand euro

	Fair value			
	Level 1	Level 2	Level 3	Total
Housing	-	4,560,387	-	4,560,387
Offices, retail outlets and other properties	-	2,101,586	-	2,101,586
Land and building plots	-	-	2,383,000	2,383,000
Work in progress	-	-	457,000	457,000
Total assets	**-**	**6,661,973**	**2,840,000**	**9,501,973**

Significant non-observable variables used in valuations classed in Level 3 were not developed by the Group but by the independent valuation companies that performed the appraisals. Therefore, as they are not defined internally, it has not been considered necessary to carry out a sensitivity analysis.

Movements in balances in 2015 classed in Level 3 were as follows:

Thousand euro

	Housing	Offices, retail outlets and other properties	Land, building plots and work in progress
Balance at 31 December 2014	**-**	**-**	**2,906,000**
Purchases	-	-	677,229
Sales	-	-	(469,000)
Impairments recorded on the income statement (*)	-	-	(205,311)
Net additions/(exits) on Level 3	-	-	(68,918)
Balance at 31 December 2015	**-**	**-**	**2,840,000**

(*) Relates to securities kept on the balance sheet at 31 December 2015 and 2014.

At 31 December 2015, income from sales of real estate assets classified in Level 3, recorded in the accompanying income statement, was not material.

The fair value of real estate assets appraised by valuation companies, portfolios of repossessed assets and own-use assets classified in Non-current assets held for sale, real estate investment and inventories in 2015 is as follows:

Thousand euro

	Non-current assets held for sale		Tangible assets		
Appraisal company	**Own use**	**Repossessed**	**Own use**	**Investment property**	**Inventories**
Afes Tecnicas de Tasacion, S.A.	18,383	33,143	120,214	150,562	12,624
Alia Tasaciones, S.A.	594	124,759	8,826	72,500	65,041
Arco Valoraciones S.A.	1,664	17,193	29,975	42,304	7,639
Col.lectiu D'arquitectes Taxadors, S.A.	86	30,630	15,683	12,282	44,338
Cushman & Wakefield	-	-	1,580	-	-
Egara Informes, S.L.	-	2,003	-	1,213	-
Eurovaloraciones, S.A.	21,104	21,837	104,990	19,039	17,565
Gestion de Valoraciones y Tasaciones, S.A.	6,207	289,174	110,401	976,448	447,783
Iberica de Tasaciones, S.A.	-	23,578	-	13,854	-
Ibertasa, S.A.	2,253	207,167	19,173	151,756	649,862
Knight Frank Madrid S.A.	-	-	-	-	17,394
Krata, S.A.	2,851	172,878	159,925	92,312	244,430
Servatas S.A.	-	1,095	-	733	44
Sociedad de Tasacion, S.A.	1,760	786,419	16,973	568,300	1,478,933
Tabimed Gestion de Proyectos S.L.	-	22,395	-	2,229	732
Tasaciones de Bienes Mediterraneo, S.A.	-	89,946	-	14,211	1,696
Tasaciones Hipotecarias	369	19,840	-	13,462	16,997
Tasaciones Inmobiliarias, S.A.	-	16,089	-	4,940	48,906
Tasaciones Madrid, S.A.	-	131	-	-	8,447
Tecnicos en Tasación, S.A.	2,725	-	18,157	361	-
Tecnitasa Técnicos en Tasación S.A.	-	111,897	-	45,223	270,083
Thirsa	-	12,450	-	1,511	915
Tinsa Tasaciones Inmobiliarias, S.A.	2,908	254	144,835	2,570	-
Valoraciones Mediterraneo, S.A.	-	1,140	-	678	5,088
Valtecnic, S.A.	-	593	-	137	7,067
Rest (*)	2,010	475,409	230,854	155,280	309,964
Total	**62,914**	**2,460,020**	**981,586**	**2,341,905**	**3,655,548**

(*) Includes restated valuations using statistical methods (Note 1).

Note 7 – Loans and advances to credit institutions

Loans and advances to credit institutions recorded in the consolidated balance sheet at 31 December 2015 and 2014 are disclosed in the following table:

Thousand euro

	2015	2014
By heading:		
Loans and receivables	6,206,088	4,623,197
Total	**6,206,088**	**4,623,197**
By nature:		
Fixed-term deposits	1,247,966	959,826
Hybrid financial assets	3,176	10,887
Assets acquired under repurchase agreements	3,101,716	1,420,461
Other accounts	1,669,977	1,596,831
Doubtful assets	566	659
Deposits secured due to market transactions	63,448	476,312
Other financial assets	117,461	154,755
Impairment adjustments	(1,801)	(2,347)
Other valuation adjustments	3,579	5,813
Total	**6,206,088**	**4,623,197**
By currency:		
In euro	5,413,550	4,115,236
In foreign currency	792,538	507,961
Total	**6,206,088**	**4,623,197**

Average annual interest rates on loans and advances to credit institutions for 2015 and 2014 were 0.57% and 0.94% respectively (0.69% in 2015 excluding TSB).

Note 8 – Debt securities

Debt securities reported in the consolidated balance sheet at 31 December 2015 and 2014 are disclosed as follows:

Thousand euro

	2015	2014
By heading:		
Held for trading	792,460	578,797
Available-for-sale financial assets	22,887,626	20,393,061
Loans and receivables	1,732,478	2,436,259
Held-to-maturity investments	-	-
Total	**25,412,564**	**23,408,117**
By nature:		
Government securities	21,091,462	18,247,410
Treasury bills	148,114	57,303
Other book entry debt	8,199,658	6,667,192
Rest	12,743,690	11,522,915
Issued by financial institutions and others	4,322,797	5,164,988
Doubtful assets	11,422	11,215
Impairment adjustments	(13,117)	(15,496)
Other valuation adjustments	-	-
Total	**25,412,564**	**23,408,117**
By currency:		
In euro	19,392,845	20,404,883
In foreign currency	6,019,719	3,003,234
Total	**25,412,564**	**23,408,117**

Average annual rates of interest on debt securities in 2015 and 2014 were 2.79% and 3.55% respectively (2.81% excluding TSB).

Details of debt instruments recorded under Available-for-sale financial assets are as follows:

Thousand euro

	2015	2014
Amortised cost (*)	22,180,596	19,211,868
Fair value	22,887,626	20,393,061
Accumulated losses recognised in equity at year end	(231,960)	(110,489)
Accumulated gains recognised in equity at year end	938,990	1,291,682

(*) Includes the results from impairment in the 2015 and 2014 income statement: income of € 1,719,000 and € 5,556,000 respectively, of which accumulated losses from impairment in 2015 and 2014 of € 1,106,000 and € 6,626,000 respectively.

The breakdown of the Group's government debt exposures classified as financial assets available for sale is as follows:

Thousand euro

	2015	2014
Amortised cost	18,941,738	15,236,688
Fair value	19,450,687	16,153,163
Accumulated losses recognised in equity at year end	(211,136)	(69,172)
Accumulated gains recognised in equity at year end	720,085	985,647

Note 9 – Equity instruments

The balance in Equity instruments on the consolidated balance sheets at 31 December 2015 and 2014 is disclosed as follows:

Thousand euro

	2015	2014
By heading:		
Held for trading	11,212	45,068
Other financial assets at fair value through profit or loss	77,328	137,148
Available-for-sale financial assets	572,730	702,558
Total	**661,270**	**884,774**
By nature:		
Resident sector	168,931	311,370
Credit institutions	9,207	18,098
Other	159,724	293,272
Non-resident sector	324,737	280,749
Credit institutions	227,247	232,232
Other	97,490	48,517
Shares in investment funds and companies	167,602	292,655
Total	**661,270**	**884,774**
By currency:		
In euro	514,216	829,483
In foreign currency	147,054	55,291
Total	**661,270**	**884,774**

At 2015 year-end, there are no investments in quoted equity instruments whose share price has not been considered as reference of their fair value at closing.

Financial assets at fair value through profit or loss consisted of investments associated with unit-linked life policies sold through two Group subsidiaries: Assegurances Segur Vida, S.A. and Mediterráneo Vida Sociedad Anónima de Seguros y Reaseguros.

On 29 December 2015, Bansabadell Inversió i Desenvolupament, S.A.S.U. (BIDSA), a company wholly owned by Banco de Sabadell, S.A., sold its interest in Eolia Renovables, representing 6.08%. The sale totalled €16,421,000, earning a profit for the Group of €8,084,000.

On 4 July 2014 Bansabadell Inversió i Desenvolupament, S.A., S.U. (BIDSA), a company 100% owned by Banco de Sabadell, sold 5,259,599 shares in Fluidra, which represented a 4.67% interest. Following the sale, BIDSA maintains a 5% holding in this company. The sale totalled €15,980,000, earning a profit for the Group of €1,738,000.

Details of equity instruments comprised within the "available-for-sale financial assets" category are as follows:

Thousand euro

	Note	2015	2014
Cost		452,213	670,436
Fair value		572,730	702,558
Accumulated losses recognised in equity at year end		(1,236)	(42,684)
Accumulated gains recognised in equity at year end		121,753	74,806
Losses recognised as impairment in the income statement for the year	38	(134,109)	(21,266)

Banco de Sabadell, S.A. and its wholly-owned subsidiary Bansabadell Holding, S.L., S.U. participated in the capital increase carried out by Banco Comercial Português, S.A. (BCP) on 14 July 2014, subscribing 222,867,253 shares and 1,924,409,397 shares respectively, for a total of €163,594,000. At 31 December 2015 the group holds a 5.07% interest in the entity.

During this year, there has been a deterioration of the stake that the Group holds in Banco Comercial Português, S.A. (BCP) by the amount of €71,215,000. This deterioration led to its stake in this company, at 31 December 2015, being valued at €146,449,000 (€196,765,000 in 2014, including gains of €20,901,000 in net equity valuation adjustments).

Additionally, during this year, there has been a deterioration of the interest held by the group in Sociedad de gestión de activos procedentes de la reestructuración Bancaria, S.A. (SAREB) by the amount of €56,576,000. As a result of this deterioration, the stake in this company, at 31 December 2015, was valued at €26,624,00 (€83,200,000 in 2014).

On 2 November 2015, Visa Inc. announced a tender offer of 100% of its shares in Visa Europe. The estimated consideration for shares owned by the group would consist of the up-front submission of an amount at cost estimated at €70 million, as it is still pending final confirmation from Visa Europe, plus the delivery of convertible preferential shares in Visa Inc., whose exchange ratio is subject to an eventual reduction in the case of future legal contingencies of Visa Europe, as well as an earn-out based on the fulfilment of certain objectives by Visa Europe in the four years following the acquisition.

At 31 December 2015, only the up-front cash estimate has been considered when determining the fair value of Visa Europe shares due to the high level of uncertainty and the inability to reliably estimate the rest of the consideration components. As the shareholding was fully deteriorated prior to the tender offer, the total fair value has been recorded as accumulated profits charged to net equity.

Note 10 – Trading derivatives (assets and liabilities)

The breakdown by transaction types of the trading derivatives balances on the asset and liability sides of the consolidated balance sheet at 31 December 2015 and 2014 is as follows:

Thousand euro

	2015		2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Securities risk	259,555	233,732	218,109	187,548
Interest rate risk	916,789	961,604	929,329	1,004,159
Currency risk	312,200	269,290	416,612	340,175
Other kinds of risk	19,902	20,296	18,120	18,091
Total	**1,508,446**	**1,484,922**	**1,582,170**	**1,549,973**
By currency:				
In euro	1,367,187	1,342,124	1,489,476	1,448,137
In foreign currency	141,259	142,798	92,694	101,836
Total	**1,508,446**	**1,484,922**	**1,582,170**	**1,549,973**

Fair values of derivatives at 31 December 2015 and 2014 are disclosed below:

Thousand euro

	2015	2014
Assets		
Trading derivatives:	*1,508,446*	*1,582,170*
Swaps, CCIRS, Call Money Swap	910,320	899,744
Exchange-rate options	22,631	40,966
Interest-rate options	56,296	81,760
Index and securities options	279,457	235,858
Currency forwards	239,742	323,842
Total assets held for trading	**1,508,446**	**1,582,170**
Liabilities		
Trading derivatives:	*1,484,922*	*1,549,973*
Swaps, CCIRS, Call Money Swap	894,460	906,701
Exchange-rate options	29,298	40,456
Interest-rate options	103,588	149,527
Index and securities options	254,027	205,376
Currency forwards	203,549	247,913
Total liabilities held for trading	**1,484,922**	**1,549,973**

Note 11 – Loans and advances to customers

Loans and advances to customers on the balance sheet at 31 December 2015 and 2014 are detailed as follows:

Thousand euro

	2015	2014
By heading:		
Loans and receivables	146,815,737	110,835,723
Total	**146,815,737**	**110,835,723**
By nature:		
Assets acquired under repurchase agreements through central counterparties	728,475	587,597
Trade credit	2,694,039	2,269,941
Secured loans	92,739,951	62,444,496
Other term loans	32,685,849	28,382,718
On-demand loans and other	7,206,937	4,561,383
Finance leases	2,070,028	2,124,317
Factoring and confirming	2,971,023	2,597,331
Doubtful assets	12,470,413	15,714,213
Impairment adjustments	(6,609,577)	(7,715,826)
Other valuation adjustments	(141,401)	(130,447)
Total	**146,815,737**	**110,835,723**
By sector:		
Government debt securities	5,572,700	6,006,814
Resident	85,760,492	86,528,957
Non-resident	49,763,110	10,432,012
Doubtful assets	12,470,413	15,714,213
Impairment adjustments	(6,609,577)	(7,715,826)
Other valuation adjustments	(141,401)	(130,447)
Total	**146,815,737**	**110,835,723**
By currency:		
In euro	100,965,967	103,726,734
In foreign currency	45,849,770	7,108,989
Total	**146,815,737**	**110,835,723**
By geographical region		
Spain	104,752,006	108,307,267
Rest of the European Union	36,417,861	4,373,260
Latin America	2,351,185	1,112,574
North America	9,235,497	4,223,940
Rest of OECD	149,741	118,648
Rest of the world	519,024	415,860
Impairment adjustments	(6,609,577)	(7,715,826)
Total	**146,815,737**	**110,835,723**

Average annual rates of interest on loans and advances to customers in 2015 and 2014 were 3.27% and 3.42% respectively (3.16% in 2015 excluding TSB).

The loans and advances to customers heading of the consolidated balance sheets includes certain assets pledged in financing operations, i.e. offered as collateral or guaranties with respect to certain liabilities. For more information please see note 4. Management of financial risks – Credit risk.

Finance leasing

Goods assigned under a financial lease system are recorded at the amortised cost of the rentals payable by the lessee, plus the guaranteed or unguaranteed residual value, not including the financial burdens or the value added tax. These are as follows:

Thousand euro

	2015	2014
Financial leases		
Gross total investment	2,083,279	2,151,998
of which: contingent rents recognised on income	77,630	98,496
Unearned financial income	272,662	310,407
Unguaranteed residual value	126,034	166,446
Value adjustments due to impairment	68,509	85,114

The table below shows the cut-offs of the current value of the minimum future payments to be received by the group during the period of mandatory compliance (considering that no extensions or existing purchase options are to be exercised).

Thousand euro

	Up to 1 year	1 to 5 years	More than 5 years	Total
Minimum payments receivable from financial leases				
Minimum amounts receivable due to mandatory payments	442,568	1,131,712	606,212	2,180,492

Unimpaired financial assets past-due

The balance of non-doubtful loans and advances to customers past-due and pending collection at 31 December 2015 amounts to €161,702,000 (€222,857,000 at 31 December 2014). Of this total, over 60% of the balance at 31 December 2015 (71% of the balance at 31 December 2014) has reached maturity over a term not exceeding one month.

Doubtful assets

Assets recognised as doubtful under the different balance sheet headings at 31 December 2015 and 2014 were as follows:

Thousand euro

	2015	2014
By heading:		
Loans and advances to credit institutions	566	659
Debt securities	11,422	11,215
Loans and advances to customers	12,470,413	15,714,213
Total	**12,482,401**	**15,726,087**
By sector:		
Public institutions	11,458	16,600
Credit institutions	566	659
Other private sectors	12,470,377	15,708,828
Total	**12,482,401**	**15,726,087**

The movement in doubtful assets is as follows:

Thousand euro

Balance at 31 December 2013	**17,707,334**
Additions	3,198,763
Disposals	(4,282,908)
Amortisations	(897,103)
Balance at 31 December 2014	**15,726,087**
Acquisition of TSB (*)	252,697
Additions	1,984,531
Disposals	(4,443,097)
Amortisations	(1,037,817)
Balance at 31 December 2015	**12,482,401**

(*)See Note 2.

The distribution of doubtful assets at 31 December 2015 and 2014 according to the type of security provided is as follows:

Thousand euro

	2015	2014
Mortgage-secured doubtful assets (*)	7,308,197	10,520,551
Other financial collateral (**)	2,878,060	2,228,791
Others	2,296,144	2,976,745
Total	**12,482,401**	**15,726,087**

(*) Mortgaged-secured assets with an outstanding risk below 100% of the appraisal value

(**) Includes other assets secured with financial collateral.

The distribution of doubtful assets by geographical region at 31 December 2015 and 2014 was:

Thousand euro

	2015	2014
Spain	11,699,177	14,998,078
Rest of European Union	589,474	430,238
Latin America	101,482	161,649
North America	42,602	54,581
Rest of OECD	9,507	11,966
Rest of the world	40,159	69,575
Total	**12,482,401**	**15,726,087**

Financial income accrued on impaired financial assets but not recognised in the consolidated income statement at 31 December 2015 amounts to €723,241,000 and to €811,088,000 at 31 December 2014.

The movements in impaired financial assets written off because their recovery is regarded as unlikely is as follows:

Thousand euro

Balance at 31 December 2013	**5,383,057**
Scope additions/exclusions (*)	
Additions	**1,024,390**
Charged to impairment adjustments	897,103
Charged directly to the income statement:	-
Overdue unpaid items	127,287
Other items	-
Disposals	**(797,320)**
Recovery of principal in cash	(133,878)
Recovery of overdue unpaid items in cash	(4,558)
Acquisitions of tangible assets and debt remission	(25,307)
Due to bad-debt write off	(633,577)
Balance at 31 December 2014	**5,610,127**
Scope additions/exclusions (*)	
Acquisition of TSB(*)	**118,093**
Additions	**1,124,696**
Charged to impairment adjustments	1,037,225
Charged directly to the income statement:	43,999
Overdue unpaid items	43,472
Other items	-
Disposals	**(897,205)**
Recovery of principal in cash	(100,013)
Recovery of overdue unpaid items in cash	(18,865)
Repossession of tangible assets and write-offs	(19,714)
Expiry	-
Acquisitions of tangible assets and debt remission	-
Due to bad-debt write off	(758,613)
Exchange differences	**-**
Balance at 31 December 2015	**5,955,711**

(*) see Note 2.

On 25 March 2015, a new purchase agreement was signed with Aiqon Capital (Lux), S.A.R.L. of the fully provisioned loans portfolio at a total of €798.1 million for the price of €22.05 million. Then, on 26 March 2015, another purchase of the doubtful loans portfolio of LVS II Lux XIX S.A.R.L. of €218.68 million and the fully provisioned loans portfolio of €11.17 million, for the cost of €100.25 million.

These operations carried out in 2015 resulted in a net loss of €23.2 million, recorded in the financial transactions statement.

Following a competitive tender, on 4 August 2014, Banco Sabadell formalised a purchase agreement with Aiqon Capital (Lux), S.A.R.L., for a portfolio of fully-provisioned loans in an aggregate amount of €554.7 million for a price of €23.3 million, and this profit was recorded in the financial transactions statement.

Value adjustments

Allowances for value adjustments due to impairment of assets under the different balance sheet headings at 31 December 2015 and 2014 are as follows:

Thousand euro

	2015	2014
Loans and advances to credit institutions	1,801	2,347
Debt securities	13,117	15,496
Loans and advances to customers	6,609,577	7,715,826
Total	**6,624,495**	**7,733,669**

The group considers that the value adjustments due to impairment of assets and the provisions are sufficient to absorb any possible losses resulting from our assets and the outcome of any open contingency that the bank may have.

Detailed movements in value adjustments made for credit risk coverage and the balance at the beginning and end of the year are as follows:

Thousand euro

	Determined individually	Determined collectively	IBNR coverage (***)	Country risk	Total
Balance at 31 December 2013	**1,247,109**	**6,804,282**	**1,141,236**	**(2,884)**	**9,189,743**
Movements reflected in impairment losses (**)	**538,462**	**412,315**	**47,907**	**762**	**999,446**
Movements not reflected in impairment losses	**(385,953)**	**(2,013,281)**	**(54,228)**	**5,768**	**(2,447,694)**
Utilisation of allowances	(381,290)	(1,737,472)	(46,226)	-	(2,164,988)
Other movements	(4,663)	(275,809)	(8,002)	5,768	(282,706)
Adjustments for exchange differences	**-**	**(9,036)**	**1,095**	**115**	**(7,826)**
Balance at 31 December 2014	**1,399,618**	**5,194,280**	**1,136,010**	**3,761**	**7,733,669**
Acquired through TSB (*)	**1,873**	**76,755**	**183,053**	**-**	**261,681**
Movements reflected in impairment losses (**)	**781,673**	**155,376**	**192,533**	**653**	**1,130,235**
Movements not reflected in impairment losses	**181,108**	**(2,496,182)**	**(193,239)**	**-**	**(2,508,313)**
Utilisation of allowances	(761,152)	(1,205,625)	(282,651)	-	(2,249,428)
Other movements (****)	942,260	(1,290,557)	89,412	-	(258,885)
Adjustments for exchange differences	**-**	**1,142**	**5,940**	**141**	**7,223**
Balance at 31 December 2015	**2,364,272**	**2,931,371**	**1,324,297**	**4,555**	**6,624,495**

(*) See Note 2.

(**) The sum of this figure, the amortisation charged to impaired financial assets written off against income and bad-debt recoveries are reflected under the heading Impairment losses on financial assets (see Note 38).

(***) Collective value adjustments for losses incurred but not reported (see Note 1d).

(****) Corresponds to the transfer of €258,885,000 in value adjustments recorded for the coverage of credit risk to non-current assets held for sale (see Note 13) and real estate investments (Note 15).

The distribution of asset impairment adjustments by geographical region at 31 December 2015 and 2014 is as follows:

Thousand euro

	2015	2014
Spain	6,238,422	7,404,468
Rest of European Union	309,367	233,650
Latin America	49,408	71,402
North America	7,057	2,156
Rest of OECD	4,630	3,252
Rest of the world	15,611	18,741
Total	**6,624,495**	**7,733,669**

Note 12 – Adjustments of financial assets and liabilities due to macro-hedges

At 31 December 2015 the balances under this heading on the asset and liability sides of the consolidated balance sheet were made up of gains and losses on items covered by fair value hedges of the interest rate risk on portfolios of financial instruments. The net adjustment relating to hedged items generated gains/losses of €8,637,000 at 31 December 2015 (losses/gains of €68,020,000 at 31 December 2014). These were almost entirely offset by gains on their associated hedging derivatives.

Note 13 – Hedging derivatives (assets and liabilities)

The fair value of these items of the consolidated balance sheet, in terms of the type of hedging carried out, at 31 December 2015 and 2014 are disclosed as follows:

Thousand euro

	2015		2014	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Micro-hedges:				
Fair value hedges	171,755	379,355	148,824	62,544
Cash flow hedges	436,441	161,281	663,715	233,620
Net investment hedges for operations in foreign countries	13,383	173	-	-
Macro-hedges:				
Fair value hedges	79,234	76,857	97,634	81,869
Cash flow hedges	-	63,795	-	82,263
Total	**700,813**	**681,461**	**910,173**	**460,296**
By currency:				
In euro	537,267	353,525	892,046	456,719
In foreign currency	163,546	327,936	18,127	3,577
Total	**700,813**	**681,461**	**910,173**	**460,296**

The bank enters into interest rate hedging contracts as part of its policy for managing interest rate risk (see Note 4 on financial risk management).

The main types of hedging instrument used are described below:

a) Fair value hedges:

Are those that cover exposure to the variation in the fair value of a specific type of risk, with micro-hedging operations being those covering the risk of an asset or liability operation, and macro-coverage being those covering a portfolio of financial assets or financial liabilities.

The Group classifies in this category the derivatives contracted to mitigate the interest rate risk in fixed-rate asset and liability operations.

The derivatives used in such hedging mainly consist of interest rate swaps. The composition of these hedges is as follows:

- Macro-hedges of liabilities at a fixed rate, including the financing operations of the entity on the capital market and operations with term deposits contracted with customers. The fair value of the swaps included in these hedges, at 31 December 2015 and 31 December 2014, amount to an amount receivable of €32,740,000 and €96,562,000 respectively.

- Macro-hedges of fixed-rate debt securities classified in the portfolio as available for sale. The fair value of the swaps included in these hedges at 31 December 2015 and 31 December 2014, amount to a credit amount of €16,683,000 and €80,797,000, respectively.

- Macro-hedges of mortgage loans granted to customers. The fair value of the swaps included in these hedges at 31 December 2015 amount to €971,000.

- Micro-hedges of fixed-rate liability transactions consisting of term deposits contracted with customers and issued subordinated debt. The fair value of the swaps included in these hedges at 31 December 2015 and 31 December 2014, amount to a credit balance of €22,853,000 and €48,517,000 respectively.

- Micro-hedges of fixed-rate liability transactions consisting of customer demand accounts. The fair value of the swaps included in these hedges at 31 December 2015 amount to €271,000.

- Micro-hedging of fixed-rate asset transactions. The fair value of the swaps included in these hedges at 31 December 2015 and 31 December 2014, amount to a credit balance of €323,165,000 and €11,382,000 respectively.

Gains and losses recognised during the year on hedging instruments and on hedged items are shown in the following table:

Thousand euro

	2015		2014	
	Hedging instruments	Hedged items	Hedging instruments	Hedged items
Micro-hedges	**(25,763)**	**24,604**	**48,738**	**(49,807)**
Fixed-rate assets	(16,526)	16,604	47,419	(48,373)
Capital market	(5)	(570)	5,356	(4,300)
Fixed-rate liabilities	(9,232)	8,570	(4,037)	2,866
Macro-hedges	**(15,053)**	**24,252**	**(201,620)**	**201,620**
Capital markets and fixed-asset liabilities	6,338	3,411	(129,302)	129,302
Fixed-rate assets	(21,391)	20,841	(72,318)	72,318
Total	**(40,816)**	**48,856**	**(152,882)**	**151,813**

b) Cash flow hedges

Are those covering the variation in cash flows from financial instruments associated with a specific risk or a transaction seen as highly likely.

The derivatives used in these hedges consist mainly of interest rate swaps and forward operations on purchases of financial assets. The composition of these hedges is as follows:

- Micro-hedges for future purchase interest rates on fixed income securities. The entity designates as hedging elements the derivative agreements settled at their gross amount through the delivery of the underlying asset (according to the contracted price) which, in accordance with the implementation AIS 39, may be considered as cash flow hedges with respect to the consideration to be paid in a future transaction which is to take place as a result of the settlement of the derivative itself in gross terms. If the derivative had not been contracted, the group would be exposed to changes in the purchase price. The fair value of the forward securities contracted at 31 December 2015 and 31 December 2014, amount to a credit balance of €10,284,000 and a debit balance of €346,441,000, respectively.

- Micro-hedges of interest rates on bonds tied to inflation. The bank has contracted financial swaps to cover the variation in the future cash flows to be settled with the inflation bonds. The fair value of these swaps at 31 December 2015 and 31 December 2014, amounted to a debit balance of €280,814,000 and €153,061,000, respectively.

- Macro-hedges of cash flows, the purpose of which is to reduce the volatility of the intermediation margin due to variations in interest rates over a one-year time horizon. These macro-hedges hedge future cash flows based on the net exposure of a portfolio consisting of highly probable liabilities with an exposure similar to the interest rate risk. Hedging instruments used for this purpose are financial swaps of interest rates. The fair value of such swaps, at 31 December 2015 and 31 December 2014, amounted to a credit balance of €60,211,000 and €82,263,000, respectively.

- Micro-hedges of securitisation bonds denominated in foreign currency to reduce volatility facing exchange rate variations. A cross currency interest rate swap has been contracted to hedge this amount, the reasonable value of which, at 31 December 2015, was €10,288,000.

Amounts recognised in net equity during the year and amounts written off from net equity and included as results during the year are recorded in the statement of net equity of Banco Sabadell.

In 2015, the ineffectiveness of the cash flow hedges has generated losses of €2,716,000.

c) Hedging of net investments in foreign businesses.

These operations cover the foreign exchange risk of investments made in companies of the group that are located in countries where the operating currency is not the euro.

At present, GBP 768 million and MXN 4,316 million are being hedged by forward foreign currency operations. The fair value of these hedging derivatives at 31 December 2015 amounted to a debit balance of €13,210,000.

Note 14 – Non-current assets held for sale and liabilities associated with non-current assets held for sale

The components of this item on the consolidated balance sheet at 31 December 2015 and 2014 are as follows:

Thousand euro

	2015	2014
Assets	**3,165,293**	**2,873,974**
Property, plant and equipment for own use	97,351	134,559
Repossessed assets	3,047,535	2,738,270
Equity instruments	19,452	-
Other assets leased out under operating leases	955	1,145
Impairment adjustment	**(622,907)**	**(624,039)**
Total non-current assets held for sale	**2,542,386**	**2,249,935**
Liabilities	-	-
Total liabilities associated with non-current assets held for sale	-	-

Repossessed assets comprise assets received from borrowers or other debtors of the bank for the full or partial settlement of financial assets representing claims against those borrowers or debtors.

Total tangible assets for own use relate to residential property (offices).

Concerning repossessed properties, 91.42% pertain to residential assets, 6.82% to industrial assets and 1.76% to rural properties.

The average length of time that assets remain within the category of non-current assets held for sale – repossessed properties is 29.5 months in 2015 (30 months in 2014). Policies for disposal of these assets are described in Note 4.

The percentage of repossessed properties sold with financing by the bank in 2015 was 34.73% (42.7% in 2014).

Movements in the Group's non-current assets held for sale in 2015 and 2014 are as follows:

Thousand euro

		Non-current assets held for sale
Cost:		
Balances at 31 December 2013	**Note**	**2,820,482**
Additions		1,215,603
Disposals		(749,876)
Other transfers	16	(141,740)
NPL transfers (*)		(270,495)
Balances at 31 December 2014		**2,873,974**
Additions		1,373,440
Disposals		(722,570)
Other transfers	16	(113,611)
NPL transfers (*)		(245,940)
Balances at 31 December 2015		**3,165,293**
Impairment adjustment:		
Balances at 31 December 2013		**550,134**
Net transfer impacting results	42	264,260
Utilisations		(153,372)
Other transfers	16	(36,983)
Balances at 31 December 2014		**624,039**
Net transfer impacting results	42	261,552
Reversals impacting results	42	(160,291)
Utilisations		(61,653)
Other transfers	16	(40,740)
Balances at 31 December 2015		**622,907**
Net balances at 31 December 2014		**2,249,935**
Net balances at 31 December 2015		**2,542,386**

(*) Fund derived from value adjustments made in relation to credit risk hedging

Note 15 – Investments

Movements in this item at 31 December 2015 and 2014 are as follows:

Thousand euro

Balance at 31 December 2013	**640,842**
Scope additions/exclusions (*)	(1,255)
Profit/(loss) for the year	101
Capital increase or acquisition	75,795
Sale or dissolution	(125,995)
Dividends	(69,062)
Transfer	52,486
Impairment, valuation adjustments, translation differences and other (**)	(59,685)
Balance at 31 December 2014	**513,227**
Scope additions/exclusions (*)	-
Profit/(loss) for the year	48,795
Capital increase or acquisition	116,469
Sale or dissolution	(273,253)
Dividends	(35,070)
Transfer	-
Impairment, valuation adjustments, translation differences and other (**)	(29,172)
Balance at 31 December 2015	**340,996**

(*) see Note 2.
(**) Includes €25,694,000 (€36,821,000 in 2014) with respect to investment impairment. (Note 39)

The main investee companies included for the first time in the balance sheet and those no longer in the balance sheet in 2014 and 2015 are indicated in Schedule I.

In April 2015 Banco Sabadell participated in the capital increase carried out by Metrovacesa, contributing €112 million and carrying an impairment of €59.2 million (Note 39). In September 2015, 100% of the interests held in this company were sold (the derecognised net carrying value amounted to €270,027,000).

The goodwill associated with investments at 31 December 2015 was €14,473 thousand (€17,244 in 2014).

At 31 December 2015 no support agreements or other kind of significant contractual commitment has been provided by the bank or its subsidiaries to associates.

The reconciliation between the group's investment in investee companies and the balance recorded under the heading Investments.

Thousand euro

	2015	2014
Group investment in investees (Schedule I)	370,706	763,473
Contributions due to accumulated profits	199,821	119,844
Valuation adjustments (impairment and exchange differences)	(229,531)	(370,090)
Total	**340,996**	**513,227**

At 31 December 2015 and 2014, the aggregate book value of interests in associated entities considered individually not material was of €144,986,000 and €360,945,000, respectively.

The main financial figures of Bansabadell Vida at 31 December 2015 and 2014 are as follows:

Thousand euro

	BanSabadell Vida (*)	
	2015	2014
Total assets	6,500,714	5,958,746
Of which financial investments	*6,314,678*	*5,767,607*
Total liabilities	6,122,844	5,605,302
Of which technical provisions	*5,765,573*	*5,271,816*
Result of the technical life account	96,528	95,424
Of which premiums allocated to the year	*2,829,184*	1,278,336
Of which claims ratio for the year	*(2,768,577)*	(1,345,198)
Of which technical financial yield	*108,566*	210,801

(*) Figures taken from BanSabadell Vida accounts without taking into considerationconsolidation adjustments nor the Group's percentage holding

Note 16 – Tangible assets

The composition of this item on the consolidated balance sheet at 31 December 2015 and 2014 was as follows:

Thousand euro

	2015				2014			
	Cost	Depreciation	Impairment	Net value	Cost	Depreciation	Impairment	Net value
Property, plant and equipment	**3,223,624**	**(1,351,880)**	**(25,123)**	**1,846,621**	**2,799,090**	**(1,163,189)**	**(22,614)**	**1,613,287**
For own use:	3,034,705	(1,300,962)	(24,220)	1,709,523	2,687,355	(1,131,824)	(22,614)	1,532,917
Computer equipment and related facilities	490,400	(352,834)	-	137,566	467,597	(328,021)	-	139,576
Furniture, vehicles and other facilities	1,275,207	(683,205)	(1,631)	590,371	1,091,149	(605,390)	(1,128)	484,631
Buildings	1,215,047	(256,076)	(22,589)	936,382	1,099,242	(196,817)	(21,454)	880,971
Work in progress	16,060	-	-	16,060	76	-	-	76
Other	37,991	(8,847)	-	29,144	29,291	(1,596)	(32)	27,663
Leased out under operating leases	188,919	(50,918)	(903)	137,098	111,735	(31,365)	-	80,370
Investment property	**2,940,088**	**(149,513)**	**(448,670)**	**2,341,905**	**2,838,267**	**(114,576)**	**(354,112)**	**2,369,579**
Buildings	2,918,157	(147,503)	(442,003)	2,328,651	2,805,037	(112,915)	(342,008)	2,350,114
Rural property, plots and sites	21,931	(2,010)	(6,667)	13,254	33,230	(1,661)	(12,104)	19,465
Total	**6,163,712**	**(1,501,393)**	**(473,793)**	**4,188,526**	**5,637,357**	**(1,277,765)**	**(376,726)**	**3,982,866**

Movements in tangible assets for 2015 and 2014 are shown in the following table:

Thousand euro

		Land and buildings	Furnishings and equipment	Investment property	Leased under operating lease	Total
Cost:	**Nota**					
Balances at 31 December 2013		**1,183,635**	**2,022,231**	**2,665,925**	**108,451**	**5,980,242**
Scope additions/exclusions	2	-	-	-	-	-
Additions		45,987	106,345	397,519	37,638	587,489
Disposals		(101,013)	(569,830)	(481,400)	(34,354)	(1,186,597)
Other transfers		-	-	268,435	-	268,435
NPL transfers (*)		-	-	(12,212)	-	(12,212)
Balances at 31 December 2014		**1,128,609**	**1,558,746**	**2,838,267**	**111,735**	**5,637,357**
Scope additions/exclusions	2	17,600	4,635	-	-	22,235
Acquired through TSB	2	234,460	104,709	-	28,204	367,373
Additions		34,100	191,203	323,511	78,049	626,863
Disposals		(145,300)	(93,651)	(382,838)	(28,577)	(650,366)
Other transfers		6,902	3,495	174,092	-	184,489
NPL transfers (*)		-	-	(12,944)		(12,944)
Exchange rate		(7,273)	(3,530)		(492)	(11,295)
Balances at 31 December 2015		**1,269,098**	**1,765,607**	**2,940,088**	**188,919**	**6,163,712**
Accumulated depreciation:						
Balances at 31 December 2013		**186,007**	**1,304,589**	**75,407**	**37,743**	**1,603,746**
Additions		15,998	107,382	47,916	15,361	186,657
Disposals		(3,592)	(478,560)	(8,628)	(21,739)	(512,519)
Other transfers		-	-	(119)	-	(119)
Balances at 31 December 2014		**198,413**	**933,411**	**114,576**	**31,365**	**1,277,765**
Scope additions/exclusions	2	-	3,728	-	-	3,728
Acquired through TSB	2	76,115	60,450	-	19,045	155,610
Additions		19,715	104,467	54,801	17,979	196,962
Disposals		(26,266)	(66,680)	(17,616)	(17,280)	(127,842)
Other transfers		(533)	2,776	(2,248)	-	(5)
Exchange rate		(2,521)	(2,113)		(191)	(4,825)
Balances at 31 December 2015		**264,923**	**1,036,039**	**149,513**	**50,918**	**1,501,393**
Impairment losses:						
Balances at 31 December 2013		**120,211**	**8,440**	**312,523**	**-**	**441,174**
Net transfer impacting results		(14,593)	3,175	99,579	-	88,161
Utilisations		(84,132)	(10,487)	(136,931)	-	(231,550)
Other transfers		-	-	78,941	-	78,941
Balances at 31 December 2014		**21,486**	**1,128**	**354,112**	**-**	**376,726**
Scope additions/exclusions	2	10,244	-	-	-	10,244
Transfers impacting results	39	3,646	-	263,328	903	267,877
Reversals impacting results	39	(1,438)	(100)	(107,713)	-	(109,251)
Utilisations		(10,746)	-	(106,846)	-	(117,592)
Other transfers		(603)	603	45,789	-	45,789
Balances at 31 December 2015		**22,589**	**1,631**	**448,670**	**903**	**473,793**
Net balances at 31 December 2014		**908,710**	**624,207**	**2,369,579**	**80,370**	**3,982,866**
Net balances at 31 December 2015		**981,586**	**727,937**	**2,341,905**	**137,098**	**4,188,526**

(*) Fund derived from value adjustments made in relation to credit risk hedging

The origin of the amortised cost of transfers to tangible assets during 2015 is detailed below:

Thousand euro

	Note	2015	2014
Inventories	18	65,835	84,854
Non-current assets held for sale	14	72,871	104,757
Doubtful loans		(12,944)	(12,212)
Total		**125,762**	**177,399**

The gross value of own-use tangible assets that were fully depreciated and remained in use at 31 December 2015 and 2014 amounted to €379,757,000 and €361,201,000, respectively.

The net carrying amount of tangible assets relating to foreign operations was €279,021,000 at 31 December 2015 (€53,580,000 at 31 December 2014).

The group has concluded property sales in which operating leases (maintenance, insurance and taxes borne by the Bank) relating to those properties are simultaneously signed with the purchasers. The main characteristics of the most significant lease contracts in force at the end of 2015 are as follows:

	31/12/2015			
Operating lease contracts	**No. properties sold**	**No. contracts with purchase option**	**No. contracts without purchase option**	**Mandatory term**
2010	379	379	-	10 years
2012	4	4	-	15 years
2012 (inclusion Banco CAM)	20	20	-	10 to 12 years

For the batch of 379 properties sold in April 2010 for which an operating lease was arranged at the time of the sale, the income for the mandatory term of the lease, initially set at €37,500 per month, is updated annually based on the Spanish CPI with a minimum rise of 2.75% per year until April 2018. Rentals on other properties are updated annually in line with the CPI.

In relation to this group of operating leases:

- Lease expenses for all lease contracts in force in 2015 and 2014 totalled €49,131,000 and €49,272,000, respectively, recognised in other general administration expenses for property, plant and equipment under Administration expenses (Note 37).
- The present values of minimum future rental payments to be incurred by the Bank during the minimum term of the leases (assuming that none of the available options to renew the lease or purchase the asset are likely to be exercised) at 31 December 2015 stood at €50,983,000 for leases with terms of one year (€50,196,000 in 2014), €168,370,000 for one to five years (€173,645,000 in 2014) and €253,034,000 for more than five years (€262,427,000 in 2014).

With regard to the “Leased out under operating leases” column of the table, the bulk of the operating lease business is carried out by BanSabadell Renting, S.A. and consists in vehicle leasing.

Neither the rental income from these investment properties nor the associated direct costs, whether the properties were producing rental income during the year or not, were significant in relation to the consolidated annual accounts.

In compliance with accounting requirements under Article 93.1.a) and c) of the revised Corporate Income Tax Act, with respect to the mergers taking place to date between Banco de Sabadell, S.A. and Solbank SBD, S.A., Banco Herrero, S.A., Banco de Asturias, S.A., BanSabadell Leasing EFC, S.A., Solbank Leasing EFC, S.A., BanAsturias Leasing EFC, S.A., Banco Atlántico, S.A., Banco Urquijo, S.A., Europea de Inversiones y Rentas S.L., Banco CAM, S.A., Banco Guipuzcoano, S.A., BS Profesional, Axel Group, Sabadell Solbank S.A.U. (formerly Lloyds Bank) and Banco Gallego, S.A., data are available showing the years in which depreciable assets were acquired by the companies being merged. Also available are detailed lists of acquired assets that have been recorded in the accounting records for Banco Sabadell, S.A. at values that were at variance with those figuring for the transferring entities prior to their being merged and showing the two values, the depreciation charges and the impairment adjustments entered in the accounting records of the acquirer and the acquires.

Note 17 – Intangible assets

The composition of this item at 31 December 2015 and 2014 is as follows:

Thousand euro

	2015	2014
Goodwill	**1,092,777**	**1,084,146**
Banco Urquijo Sabadell Banca Privada, S.A.	473,837	473,837
Grupo Banco Guipuzcoano	285,345	285,345
Sabadell United Bank, N.A.	70,645	62,697
From acquisition of Banco BMN Penedès assets	245,364	245,364
Rest	17,586	16,903
Other intangible assets	**987,793**	**507,150**
With a finite useful life:	987,793	507,150
Contractual relations wtih customers and brand (Banco Urquijo)	7,106	9,860
Contractual relations with customers (Banco Guipuzcoano)	26,960	32,448
Private Banking business, Miami	25,783	26,127
Contractual relations with customers (Sabadell United Bank)	15,795	17,559
Contractual relations with customers (TSB) (*)	388,978	-
Computer applications	508,397	405,417
Other deferred expenses	14,774	15,739
Total	**2,080,570**	**1,591,296**

(*) See Note 2

Goodwill

As stipulated in the applicable regulatory framework, Banco Sabadell has performed an analysis to assess the existence of any impairment to goodwill.

The valuation method used in the analysis has been to estimate the present value of future distributable net profits associated with the business carried out by the Bank over a projection period of 5 years (up to 2020). It is expected that by 2020 the Bank will have generated recurring profits and therefore, taking that year as a reference, the terminal value is estimated using a zero growth rate in perpetuity, in line with a conservative approach.

The low interest rates context has affected the discount rates used by the bank in its valuations. Specifically, the discount rate applied to business in Spain has fallen by 50bp reaching 9.5%, compared with the 10% used in previous years. However, the reduction in this rate is less than the decline of the ten-year Spanish bond, due to the increase in the Banco Sabadell beta compared with the previous years and also due to prudential reasons and because, in an exceptional manner, the 30-year Spanish bond has been used as a risk-free interest rate. If the reference of the Spanish bond had not changed, the discount rate would have been close to 8%, and this change is far more prudent in this assumption given the current interest rate situation.

The key variables on which the financial projections are built are: growth in net interest income (determined on the basis of forecast business volumes and rates of interest), changes in other income and expense items, and capital ratios.

Recoverable values, both on an overall level and on the level of the CGUs, are higher than the respective carrying values and therefore no impairment has been recognised.

In addition, a sensitivity analysis has been conducted and some key valuation variables were subjected to stress; again, there was no indication of any impairment. The variables on which the analysis was based include the cost of capital, the minimum capital requirements, revenues, cost growth and recurring cost of risk.

Macroeconomic assumptions used in the evaluation of goodwill impairment are as follows:

The expansion phase of the activity in Spain will continue throughout 2016, although with lower growth rates than in 2015. Once again the economy will stand out positively within the overall Euro zone, and net jobs will continue to be created, which will be favoured by the underused capacity in the labour market and by the containment of labour costs.

The reduced growth forecast of the economy is associated with the weakness of the emerging economies, especially Brazil. Along these lines, the Spanish economy is the most exposed to Latin America of all the main economies of the Euro zone. The reduction of the positive impact of some of the factors that have recently been supporting the activity, such as tax policy or more lax financing conditions, will also contribute to the reduced growth dynamics. In any case, domestic demand shall continue to be the main source of economic growth and this will be favoured by the improved financial situation of the private agents. The main risk at domestic level shall be political, in a scenario of tougher governability.

Regarding inflation, it shall remain at very low levels, continuing to be held down by the energy component. It shall also remain below the average of the Euro zone, due to the higher excess of production capacity in Spain.

Evaluation of the existence of any evidence of impairment in significant goodwill:

Banco Urquijo

Banco Urquijo's goodwill is allocated to the cash-generating units (CGUs) thought likely to benefit from the synergies identified. The CGUs and their relative importance with respect to the total goodwill are as follows: Private Banking CGU (12.7%), Commercial Banking CGU (21.2%), Corporate Banking CGU (1.9%) and Remainder CGU (2.3%). 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 (61.9%).

Banco Guipuzcoano

Banco Guipuzcoano's goodwill was assigned to the Commercial Banking CGU and reflects the future income generation potential of the acquired assets and liabilities, the value of the potential cost and income synergies identified and the costs associated with the transaction.

Sabadell United Bank

The valuation method used for the goodwill of Sabadell United Bank was to estimate the present value of future distributable net profits associated with the business carried out by the bank over a projection period of 4 years (up to 2019) and to calculate a terminal value based on a nil growth rate in perpetuity. The discount rate used was 13.20%. The impairment test on the associated goodwill was validated by an independent expert.

BMN-Penedès

Concerning the goodwill resulting from the business combination consisting of the acquisition of assets from BMN-Penedès, this was assigned to the Commercial Banking CGU. At the close of 2015 the Bank carried out an assessment of whether there were any indications of impairment to that goodwill and estimated the recoverable value.

At the end of 2015, on the basis of the above goodwill, the bank has assessed whether there is any evidence of impairment and has estimated the recoverable value. According to the results of this assessment, there has been no impairment of said goodwill.

Under the revised Spanish Corporate Income Tax Act, this goodwill is not tax deductible.

Other intangible assets

Banco Urquijo

Under the "other intangible assets" heading, the main intangibles associated with the purchase of Banco Urquijo were the values of contractual rights under agreements with customers taken over from Banco Urquijo in relation to certain products (SICAVs, investment and pension funds, credit/debit cards, short-term loans, brokerage and securities custody), the values of deposits, and the value of the Banco Urquijo Brand.

These intangible items have finite useful lives of twelve years for Private Banking customers, seven years for Commercial Banking customers and five years for other categories. They are being amortised of these lives on a straight-line basis in a similar way to that used for tangible assets.

Private Banking business, Miami

The intangibles associated with the 2008 acquisition of the Miami Private Banking business include the value of contractual arrangements arising from customer relationships transferred along with the business and consisting mainly of short-term loans and deposits. These assets are being amortised over a period of 15 years as from their creation.

Caja de Ahorros del Mediterráneo, Miami Agency

The intangible assets associated with the 2012 acquisition of the business of the Miami branch of Caja de Ahorros del Mediterráneo included contractual rights arising from customer relationships, relating mainly to deposits, handled by the branch. These assets are being amortised over a period of 10 years as from their creation.

Private banking business of Lloyds Bank in Miami

The intangibles associated with the 2013 acquisitions of Lloyds Bank Miami private banking business include the value of contractual arrangements arising from customer relationships transferred along with the business, mainly deposits and business relations with certain customers. These assets are being amortised over a period of 10 years as from their initial recognition.

Banco Guipuzcoano

The intangible assets associated with the acquisition of Banco Guipuzcoano are made up largely of the value of rights under contracts with customers from Banco Guipuzcoano for core (demand) deposits and mutual funds. The core deposits were valued according to the income approach, using the cost saving method. The fair value was determined, in most cases, by estimating the net present value of the cash flows generated by the lower cost of core deposits compared with alternative funding sources. The mutual fund management was valued by the income approach using the excess earnings method. The fair value was determined, in most cases, by estimating the net present value of the cash flows in the form of commissions from the distribution of mutual funds. These assets are to be amortised over a period of 10 years from the date of acquisition of Banco Guipuzcoano.

Sabadell United Bank

Sabadell United Bank encompasses a number of acquisitions made in the United States (Mellon United Bank, Lydian and JGB) in which intangible assets amounting to USD 40,496,000 were recognised relating mainly to core deposits and contractual relations with certain customers. These are intangibles with finite lives since it can be assumed that customer accounts will be closed over time due to changes in address, decease or changes in bank preferences.

The assets are being amortised over a period of 7 to 11 years from initial recognition and were valued at USD 17,196,000 and USD 21,318,000 at 31 December 2015 and 2014, respectively.

TSB

Note 2 of the consolidated annual accounts contains details of the intangible assets associated with the acquisition of TSB.

To measure the evidence of impairment of other intangible assets, the value in use is calculated using the income approach (discounted cash flow), 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 assets have not suffered any decline in value.

Software purchase costs comprise mainly the capitalised costs associated with subcontracted IT work and the purchase of software licences.

Movements in goodwill in 2015 and 2014 have been as follows:

Thousand euro

	Goodwill	Impairment	Total
Balance at 31 Decembre 2013	**1,074,828**	**(1,619)**	**1,073,209**
Additions	7,143	-	7,143
Disposals	-	-	-
Exchange differences	892	-	892
Other	1,283	1,619	2,902
Balance at 31 Decembre 2014	**1,084,146**	**-**	**1,084,146**
Additions	683	-	683
Disposals	-	-	-
Exchange differences	7,948	-	7,948
Other	-	-	-
Balance at 31 Decembre 2015	**1,092,777**	**-**	**1,092,777**

Movements in other intangible assets in 2015 and 2014 are as follows:

Thousand euro

	Note	Cost	Depreciation	Impairment	Total
Balance at 31 December 2013		**1,291,857**	**(851,082)**	**(12,247)**	**428,528**
Additions		176,376	(91,447)	-	84,929
Disposals		(80,581)	67,569	6,705	(6,307)
Other		-	-	-	-
Balance at 31 December 2014		**1,387,652**	**(874,960)**	**(5,542)**	**507,150**
Acquired through TSB (*)	2	426,948	-	-	426,948
Additions		186,397	(131,900)	(1)	54,496
Disposals		(9,723)	4,024	5,490	(209)
Other		(7,029)	6,437	-	(592)
Balance at 31 December 2015		**1,984,245**	**(996,399)**	**(53)**	**987,793**

(*) See Note 2.

The gross value of other intangible assets that were still in use and had been fully amortised at 31 December 2015 and 2014 totalled €408,239,000 and €574,214,000, respectively.

Note 18 – Other assets

The composition of other assets at 31 December 2015 and 2014 is as follows:

Thousand euro

	2015	2014
Inventories	3,655,548	4,021,357
Other	943,855	250,530
Total	**4,599,403**	**4,271,887**

The heading Others mainly includes expenses paid and unaccrued, the periodification of customer fees and transactions pending settlement.

Movements in inventories in 2015 an 2014 have been as follows:

Thousand euro

	Note	Land	Works under construction	Finished works	Total
Balance at 31 December 2013		**2,114,809**	**747,002**	**885,166**	**3,746,977**
Additions		579,958	112,008	842,027	1,533,993
Disposals		(247,664)	(361,437)	(239,078)	(848,179)
Impairment charged to income statement	39	(171,811)	(84,393)	(70,376)	(326,580)
Other transfers	16	(67,413)	(7,876)	(9,565)	(84,854)
Other		-	-	-	-
Balance at 31 December 2014		**2,207,879**	**405,304**	**1,408,174**	**4,021,357**
Additions		389,468	138,919	516,064	1,044,451
Disposals		(338,388)	(130,612)	(415,802)	(884,802)
Transfer of impairments charged to income statement	39	(131,883)	(73,428)	(254,312)	(459,623)
Reversal of impairments charged to income statement	39	-	-	-	-
Other transfers	16	(42,268)	(26,650)	3,083	(65,835)
Other		-	-	-	-
Balance at 31 December 2015		**2,084,808**	**313,533**	**1,257,207**	**3,655,548**

At 31 December 2015, there are no inventories associated with mortgage loans.

Nota 19 – Credit institutions deposits

Deposits from credit institutions included under liabilities on the consolidated balance sheet are detailed as follows at 31 December 2015 and 2014:

Thousand euro

	2015	2014
By heading:		
Financial liabilities at amortised cost	14,724,718	16,288,193
Total	**14,724,718**	**16,288,193**
By nature:		
Term deposits	7,098,765	8,270,198
Assets ceded under repurchase agreements	7,181,238	7,428,793
Other accounts	449,105	645,434
Valuation adjustments	(4,390)	(56,232)
Total	**14,724,718**	**16,288,193**
By currency:		
In euro	11,607,811	14,715,786
In foreign currency	3,116,907	1,572,407
Total	**14,724,718**	**16,288,193**

Average annual rates of interest payable on deposits from credit institutions for 2015 and 2014 were 0.80% and 1.47% respectively (0.80% in 2015 excluding TSB).

Note 20 – Customer deposits

The deposits from customers reported on the consolidated balance sheet at 31 December 2015 and 2014 can be analysed as follows:

Thousand euro

	2015	2014
By heading:		
Financial liabilities at amortised cost	132,876,312	98,208,370
Total	**132,876,312**	**98,208,370**
By nature:		
Demand deposits	84,536,132	43,274,963
Current accounts	49,828,204	30,400,408
Savings accounts	33,622,239	12,152,099
Other accounts	1,085,689	722,456
Term deposits	46,376,324	53,395,928
Fixed-term	39,561,714	45,991,588
Issued non-marketable bonds and covered bonds	3,427,124	4,754,882
Hybrid deposits	3,246,439	2,511,337
Others	141,047	138,121
Deposits available with advance notice	-	-
Repurchase agreements	1,950,585	1,291,799
Valuation adjustments	13,271	245,680
Total	**132,876,312**	**98,208,370**
By sector:		
Public institutions	5,547,511	2,804,065
Residents	81,663,154	86,449,217
Non-residents	45,652,376	8,709,408
Valuation adjustments	13,271	245,680
Total	**132,876,312**	**98,208,370**
By currency:		
In euro	89,354,105	91,364,670
In foreign currency	43,522,207	6,843,700
Total	**132,876,312**	**98,208,370**

Average annual rates of interest payable on customer deposits fro 2015 and 2014 were 0.67% and 1.19% respectively (0.67% in 2015 excluding TSB).

Note 21 – Marketable debt securities

Details of issues, buybacks and redemptions of debt securities by the Group from 31 December 2014 to 31 December 2015 are set out in the table below together with comparative information from the previous year.

Thousand euro

	31/12/15						
	Outstanding opening balance 31/12/2014	Scope additions/ exclusions (*)	Acquisitions through TSB (*)	(+) Issues	(-) Buybacks or reimbursements	(+/-) Adjustments due to exchange rate	Outstanding closing balance 31/12/2015
Debt securities issued in an EU Member State requiring filing of a prospectus	20,032,274	-	-	14,197,655	(11,309,215)	2,526	22,923,240
Debt securities issued in an EU Member State not requiring filing of a prospectus	164,055	-	14,077	3,759,285	(461,684)	7,644	3,483,377
Other debt securities issued outside an EU Member State	-	-	-	-	-	-	-
Total	**20,196,329**	**-**	**14,077**	**17,956,940**	**(11,770,899)**	**10,170**	**26,406,617**

(*) See Note 2.

Thousand euro

	31/12/14					
	Outstanding opening balance 31/12/2013	Scope additions/ exclusions (*)	(+) Issues	(-) Buybacks or reimbursements	(+/-) Adjustments due to exchange rate	Outstanding closing balance 31/12/2014
Debt securities issued in an EU Member State requiring filing of a prospectus	21,096,546	-	6,628,200	(7,722,800)	30,328	20,032,274
Debt securities issued in an EU Member State not requiring filing of a prospectus	70,369	-	183,506	(90,945)	1,125	164,055
Other debt securities issued outside an EU Member State	-	-	-	-	-	-
Total	**21,166,915**	**-**	**6,811,706**	**(7,813,745)**	**31,453**	**20,196,329**

(*) See Note 2.

Details of marketable debt securities issued by the Group and recorded on the balance sheet at 31 December 2015 and 2014 are given in the table below, by type of issue:

Thousand euro

	2015	2014
Ordinary bonds	5,729,404	3,428,046
Straight bonds	4,403,806	2,170,855
Structured bonds	266,548	198,141
Goverment guaranteed ordinary bonds	1,059,050	1,059,050
Promissory notes	3,937,214	2,909,852
Mortgage covered bonds	9,999,800	10,080,400
Territorial Bonds	-	-
Securitisation fund	6,601,999	3,621,063
Valuation and other adjustments	138,200	156,968
Total	**26,406,617**	**20,196,329**

Schedule V shows details of the outstanding issuances at the 2015 and 2014 year-end.

Note 22 – Subordinated liabilities

Details of subordinated liabilities issued by the group and recorded on the consolidated balance sheet at 31 December 2015 and 2014 are as follows:

Thousand euro

	Amounts	
	31/12/2015	31/12/2014
Total subordinated bonds	1,438,212	911,553
Total preferential shares	18,400	88,817
Valuation and other adjustments	16,167	11,992
Total	**1,472,779**	**1,012,362**

Schedule V shows the outstanding issued subordinated liabilities at 2015 and 2014 year-end.

On 22 December 2014, under the powers granted by the Board of Directors at a meeting held on 18 December 2014, the Executive Committee of Banco de Sabadell, S.A. and the competent governing bodies of Sabadell International Equity Ltd., Guipuzcoano Capital S.A.U. and CAM Capital S.A.U. respectively agreed, following authorisation by the Bank of Spain, to redeem the outstanding nominal balance of the following preference share issues and subordinated bond issues:

€million

Name	Issuing entity	Redemption date	Outstanding nominal balance
Series I/2009 Preference Shares	Banco de Sabadell, S.A.	24/02/15	10.84
Special Subordinated Debt Issue	Banco de Sabadell, S.A. (Emisor original CAM)	24/02/15	6.13
Subordinated Bonds November 1988 Issue	Banco de Sabadell, S.A. (Emisor original Caja de Ahorros de Torrent)	24/02/15	0.1
First Issue Subordinated Bonds September1988	Banco de Sabadell, S.A. (Emisor original CAM)	24/02/15	0.62
Series A Preference Shares	Sabadell International Equity LTD.	24/02/15	18.79
Series I Preference Shares	Guipuzcoano Capital, S.A.U.	24/02/15	1.16
Series III Preference Shares	Guipuzcoano Capital, S.A.U.	19/02/15	17.73
Series A Preference Shares	CAM Capital, S.A.U.	24/02/15	6.07
Series B Preference Shares	CAM Capital, S.A.U.	24/02/15	3.45
Series C Preference Shares	CAM Capital, S.A.U.	24/02/15	20.4

The Issues were redeemed through the payment in cash on the redemption date of 100% of the nominal value plus any accrued unpaid remuneration, in accordance with the issuer's powers as provided in the terms and conditions of the relevant prospectuses approved and entered in the official register of the National Securities Market Commission. The entire redemption was carried out in February 2015.

At a meeting held on 30 September 2013, the Board of Directors of Banco de Sabadell, S.A. agreed to the involvement of Banco Sabadell in the management of the subordinated debt and preference shares of Banco Gallego, S.A. within the liquidation plan for NCG Banco Gallego. The management of Banco Gallego's hybrid instruments consisted of a forced reduction in their valuation. This reduction took the form of:

- for the subordinated debt, an obligatory amendment to certain characteristics of those instruments and their reconfiguration as senior fixed income securities of Banco Gallego;
- for the preference shares, the mandatory repurchase in cash by Banco Gallego, with the repurchase price including the aforementioned reduction in the valuation of the instrument and with the holder of the securities being obliged to reinvest the repurchase price in the subscription of senior fixed income securities of Banco Gallego.

By means of its involvement in the management of hybrid instruments, Banco Sabadell offered investors the possible alternative of subscribing new Banco Sabadell mandatorily convertible subordinated bonds in series III/2013 ("III/2013 Bonds") or series IV/2013 ("IV/2013 Bonds"), depending on the kind of Banco Gallego securities that they held.

Once the period was concluded during which hybrid instrument holders could choose to subscribe the III/2013 Bonds and IV/2013 Bonds issued by Banco Sabadell, applications were received for 50,954,400 III/2013 Bonds and

70,720,450 IV/2013 Bonds. The nominal values at which they were issued and the nominal outstanding balance of mandatorily convertible subordinated bonds are as follows:

Thousand euro

Mandatorily convertible bonds	Initial nominal balance	Outstanding nominal balance	
		31/12/15	31/12/14
Bonds III/2013	50,954	42,238	44,256
Bonds IV/2013	70,720	35,360	53,040

The maturity date for III/2013 Bonds is 28 October 2016. The IV/2013 Bonds mature on 28 October 2017. 25% of the initial nominal value must be converted annually. The nominal interest rate pertaining to the II/2013 and IV/2013 is 5% p.a.

On 28 October 2014, the first voluntary conversion into shares was carried out for holders of mandatorily convertible subordinated bonds issue III/2013. At a meeting of the Board of Directors on 30 October 2014, the Board partially implemented, for a nominal amount of €379,425.5, the resolution to increase capital adopted by the Board on 30 September 2013 in order to meet the voluntary conversion of 6,698,074 bonds under said issue. The increase in capital was filed with the Barcelona Mercantile Registry on 12 November 2014, and resulted in the issue and allotment of a total of 3,035,404 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 21 November 2014.

On 28 October 2014 the necessary partial conversion event took place and in relation to the IV/2013 Series Banco Sabadell Mandatorily Convertible Subordinated Bond issue, and accordingly 25% of the nominal amount of the 70,720,450 IV/2013 Bonds were converted through a reduction of 25% in their initial nominal value. To complete the necessary partial conversion of the IV/2013 Bonds, on 30 October 2014, the capital increase resolution adopted by the Board of Directors on 30 September 2013 was partially implemented, for a nominal amount of €996,982.125. The capital increase was filed with the Barcelona Mercantile Registry on 12 November 2014, and resulted in the issue and allotment of a total of 7,975,857 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 21 November 2014.

On 27 October 2015, at the end of the second voluntary conversion period for holders of mandatorily convertible subordinated bonds issue III/2013, at a meeting of the Executive Committee on 5 November 2015, the Committee agreed to partially implement, for a nominal amount of €131,339.875, the resolution to increase capital adopted by the Board of Directors on 30 September 2013 in order to meet the voluntary conversion of 2,018,480 bonds under said issue. The increase in capital was filed with the Barcelona Mercantile Registry on 19 November 2015, and resulted in the issue and allotment of a total of 1,050,719 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 26 November 2015.

On 28 October 2015 the second necessary partial conversion event took place in relation to the Series IV/2013 Banco Sabadell Mandatorily Convertible Subordinated Bond issue, and accordingly 25% of the nominal amount of the 70,720,450 IV/2013 Bonds were converted through a reduction of 25% in their initial nominal value, equivalent to a total of 9,261,430 Banco Sabadell shares, for a nominal amount of €1,157,678.75. To complete the necessary partial conversion of the IV/2013 Bonds, on 5 November 2015 the capital increase resolution adopted by the Board of Directors on 30 September 2013 was partially implemented by the Executive Committee, for a nominal value of €1,157,678.75. The capital increase was filed with the Barcelona Mercantile Registry on 19 November 2015, and resulted in the issue and allotment of a total of 9,261,430 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 26 November 2015.

The capital increases implemented as a result of the voluntary and mandatory partial conversions in 2015 and 2014 are as follows:

Issuance	Conversion/ maturity date	Reason for conversion	Bonds converted (*)	Shares issued	Capital increase at par value (€000)	Date of admission to quotation
OSNC III/2013	28/10/15	Voluntary conversion	2,018,480	1,050,719	131	26/11/15
OSNC IV/2013	28/10/15	Partial mandatory conversion	-	9,261,430	1,158	26/11/15
Total 2015 (**)					**1,289**	
OSNC III/2013	28/10/14	Voluntary conversion	6,698,074	3,035,404	379	21/11/14
OSNC IV/2013	28/10/14	Partial mandatory conversion	-	7,975,857	997	21/11/14
Total 2014 (**)					**1,376**	

(*) In the OSNC IV/2013 issue 25% of the nominal value of the 70,720,450 bonds was converted through a 25% reduction in their nominal value.
(**) See Statement of changes in equity for 2015 and 2014.

Note 23 – Other financial liabilities

The balance in Other financial liabilities on the consolidated balance sheet at 31 December 2015 and 2014 is analysed below.

Thousand euro

	2015	2014
By heading:		
Financial liabilities at amortised cost	2,422,181	2,673,314
Total	**2,422,181**	**2,673,314**
By nature:		
Debentures payable	409,601	619,846
Guarantee deposits received	60,895	268,330
Clearing houses	313,492	313,046
Collection accounts	883,596	201,799
Other financial liabilities (*)	754,597	1,270,293
Total	**2,422,181**	**2,673,314**
By currency:		
In euro	2,298,309	2,554,923
In foreign currency	123,872	118,391
Total	**2,422,181**	**2,673,314**

(*) Includes trade payables

Set out below is the information concerning the average payment period for suppliers required under Additional Provision Three of Law 15/2010, taking into account the amendments introduced by Law 31/2014 of 3 December which amended the Spanish Companies Act in order to improve corporate governance:

Number of days

	2015
Average period of payment to suppliers	27.75
Ratio of paid operations	27.74
Ratio of pending payment operatios	39.34

Note 24 – Liabilities under insurance contracts

Liabilities under insurance contracts mainly include balances corresponding to Mediterráneo Vida, S.A.U. de Seguros y Reaseguros.

The main products offered by the group insurance companies are life insurance (risk of death), as well as life insurance (savings) and casualty insurance.

Within life insurance (risk), it is necessary to differentiate between unrestricted policies and those life policies offered to customers with a mortgage or consumer loan, in order to fully or partially cover the amount of the loan in the event that the contingency covered by the policy arises.

The purpose of the recurring life savings products is to guarantee a sum at the date indicated by customers in the policy, with an additional benefit in the event of death or disability in certain products over the period during which premiums are paid.

In unit-linked savings products, the amount receivable by the customer at the date set in the policy consists of the fund accumulated at that date, without being this sum guaranteed.

Casualty insurance products are aimed at private customers in which the principal risk is death or absolute disability due to an accident.

The balances for liabilities under insurance contracts at 31 December 2015 and 2014 are:

Thousand euro

	2015	2014
Unearned premiums and unexpired risks	1,785	2,281
Non-life insurance:		
Benefits	147	259
Life insurance:		
Mathematical reserves	1,873,147	1,923,161
Benefits	23,034	21,427
With-profits insurance and returned premiums	5,536	6,274
Life insurance in which the investment risk is borne by the policyholders	81,704	164,784
Implicit adjustments due to accounting mismatches	232,942	271,385
Total	**2,218,295**	**2,389,571**

The results generated by the group's insurance companies by type of product sold are as follows:

Thousand euro

	2015	2014
Life insurance	**23,082**	**22,576**
Life Risk	1,387	2,278
Life Saving	21,777	20,214
Unit Linked	(82)	84
Casualty Insurance	**529**	**380**
Non-technical account	**2,129**	**12,871**
Total	**25,740**	**35,827**

Given the volume that the insurance companies represent within the parameters of the group and the high concentration of business development in life savings products, sensitivity towards insurance risk and the concentrations of insurer risk are not significant for the group. In this respect, for the death and disability business an increase of 25% in claims would have an impact on results of €2 million.

Concerning objectives, policies and processes for managing risk associated with the insurance business:

- On a monthly basis, the group analyses the proper matching of flows of assets and liabilities from individual and group life products, as well as compliance with the requirements as to the limits set by current legislation and internal management policies relating to the quality, type and volume of financial investments.
- Most group insurance companies' investments relate to debt securities habe a weighted average rating of BBB+, and this level is expected to be maintained in the future in accordance with the maximum credit quality policy established internally. Regarding liquidity, 91.24% of total investments is positioned in liquid assets, this amount is considered sufficient to cover payment obligations in the short term.
- In relation to market risk, the group's insurance companies monitor on a monthly basis the performance of the market prices of their financial assets and any latent capital gains/losses in the investments managed.
- The group uses reinsurers to cede risks that exceed the limits established by the group's internal policies.

Note 25 – Provisions, assets and contingent liabilities

The composition of this epigraph on the consolidated balance sheet at 31 December 2015 and 2014 is as follows:

Thousand euro

	2015	2014
Provisions for pensions and similar obligations	115,018	122,441
Provisions for contingent exposures and commitments	113,679	131,861
Other provisions	117,528	140,913
Total	**346,225**	**395,215**

Details of changes in provisions during the years 2015 and 2014 are given in the following table:

Thousand euro

	Pensions and similar commitments	Risks and contingent commitments	Other provisions	Total
Balance at 31 December 2013	**147,657**	**304,349**	**212,240**	**664,246**
Provisions charged to income statement:	**20,760**	**(165,164)**	**(15,030)**	**(159,434)**
Personnel expenses	5,246	-	-	5,246
Interest and similar charges	3,732	-	-	3,732
Net transfers to provisions	11,782	(165,164)	(15,030)	(168,412)
Actuarial gains/(losses)	**(3,476)**	**-**	**-**	**(3,476)**
Exchange differences	**-**	**2,380**	**10**	**2,390**
Applications:	**(59,339)**	**(1,771)**	**(46,792)**	**(107,902)**
Contributions of the promoter	(935)	-	-	(935)
Pension payments	(35,305)	-	-	(35,305)
Other	(23,099)	(1,771)	(46,792)	(71,662)
Other movements	**16,839**	**(7,933)**	**(9,515)**	**(609)**
Balance at 31 December 2014	**122,441**	**131,861**	**140,913**	**395,215**
Scopeadditions/exclusions (*)	**-**	**-**	**47,090**	**47,090**
Provisions charged to income statement:	**13,041**	**(22,630)**	**(13,911)**	**(23,500)**
Personnel expenses	4,963	-	-	4,963
Interest and similar charges	2,059	-	-	2,059
Transfers to provisions	6,019	(22,630)	3,130	(13,481)
Reversals of provisions	-	-	(17,041)	(17,041)
Actuarial gains/(losses)	**(8,576)**	**-**	**-**	**(8,576)**
Exchange differences	**-**	**2,757**	**(1,440)**	**1,317**
Applications:	**(13,376)**	**-**	**(21,264)**	**(34,640)**
Contributions of the promoter	(1,029)	-	-	(1,029)
Pension payments	(27,085)	-	-	(27,085)
Other	14,738	-	(21,264)	(6,526)
Other movements	**1,488**	**1,691**	**(33,860)**	**(30,681)**
Balance at 31 December 2015	**115,018**	**113,679**	**117,528**	**346,225**

(*) See Note 2.

The heading Pension funds and similar commitments includes the amount of provisions for the coverage of post-employment remuneration, including commitments undertaken with early retirees and similar commitments.

The heading Provisions for contingent risks includes the amount of provisions for the coverage of contingent risks arising as a result of financial guarantees or other types of contract.

During the normal course of business, the Group is exposed to tax, legal and regulatory contingencies, among others. All significant contingencies are analysed on a regular basis, with the collaboration of external professionals when necessary, in order to determine the probability that the Group is faced with a disbursement situation. For those cases where this disbursement is considered likely, a provision is created corresponding to the amount of the best estimate of the current value of this disbursement, recorded under the heading Other provisions. At 31 December 2015, this heading mainly includes:

Provisions for tax contingencies of €52 million at 31 December 2015 which mainly include tax office inspection records of the tax administrative authority signed on a contested basis (Note 44) and recurred tax settlements.

- Operating losses from the sale of products to TSB customers of €19 million. TSB is protected from the incurred losses due to historic operations through a coverage provided by Lloyds Bank Plc, and an account pending payment of the equivalent amount is therefore recognised under the heading Other assets.

- Liabilities due to tax contingencies valued at €13 million.

The final disbursement amount, as well as the payment schedule, is uncertain as a result of inherent difficulties when estimating the factors used to determine the provision amount.

Pensions and similar commitments

The items giving rise to defined benefit pension liabilities recognised in the group balance sheet are as follows:

Thousand euro

	2015	2014	2013	2012	2011
Pension commitments	858,877	1,044,326	1,036,360	950,952	765,700
Assets recognised on balance sheet	-	-	696	-	-
Fair value of scheme assets	(744,256)	(922,165)	(889,575)	(752,281)	(602,190)
Net liability recognised on balance sheet	**114,621**	**122,161**	**147,481**	**198,671**	**163,510**

The yield on the Banco Sabadell pension scheme was 0.33% and the yield on the E.P.S.V. was –0.16% for 2015.

Movements in 2015 and 2014 in obligations due to pension commitments and the fair value of the scheme assets are as follows:

Thousand euro

	Obligations for pension commitments	Fair value of scheme assets
Balance at 31 December 2013	**1,036,360**	**889,575**
Scope additions/exclusions (*)	-	-
Interest costs	28,423	-
Interest income	-	24,691
Normal cost in year	5,246	-
Past service cost	11,748	-
Benefit payments	(75,038)	(39,733)
Settlements, reductions and terminations	(86,421)	(86,501)
Contributions made by the institution	-	935
Actuarial gains and losses due to changes in demographic assumptions	(12,370)	-
Actuarial gains and losses due to changes in financial assumptions	137,975	-
Actuarial gains and losses due to changes in experience assumptions	1,264	-
Yield on plan assets excluding interest income	-	136,058
Other movements	(2,861)	(2,860)
Balance at 31 December 2014	**1,044,326**	**922,165**
Interest costs	17,057	-
Interest income	-	14,998
Normal cost in year	4,963	-
Past service cost	6,019	-
Benefit payments	(64,051)	(36,966)
Settlements, reductions and terminations	(150,296)	(145,486)
Contributions made by the institution	-	(154)
Actuarial gains and losses due to changes in demographic assumptions	-	-
Actuarial gains and losses due to changes in financial assumptions	-	-
Actuarial gains and losses due to changes in experience assumptions	3,743	-
Yield on plan assets excluding interest income	-	(7,417)
Other movements	(2,884)	(2,884)
Balance at 31 December 2015	**858,877**	**744,256**

(*) see Note 2

The group's pension commitments at 31 December 2015 and 2014 based on financing vehicle, coverage and interest rate applied in their calculation, are set out below:

Thousand euro

	2015		
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**454,828**	
Insurance policies with related parties	Matched	50,320	1.75%
Insurance policies with unrelated parties	Matched	404,508	1.75%
Insurance policies		**377,657**	
Insurance policies with related parties	Matched	97,935	1.75%
Insurance policies with unrelated parties	Matched	279,722	1.75%
Internal funds	Not covered	**26,392**	1.75%
Total commitments		**858,877**	

Thousand euro

	2014		
Financing vehicle	**Coverage**	**Amount**	**Interest rate**
Pension plans		**616,178**	
Insurance policies with related parties	Matched	55,007	1.75%
Insurance policies with unrelated parties	Matched	561,171	1.75%
Insurance policies		**388,570**	
Insurance policies with related parties	Matched	102,458	1.75%
Insurance policies with unrelated parties	Matched	286,112	1.75%
Internal funds	Not covered	**39,578**	1.75%
Total commitments		**1,044,326**	

The amount of the commitments covered by matched insurance policies at 31 December 2015 stands at €832,485,000 (€1,004,748,000 at 31 December 2014) and therefore in 96.93% of its commitments (96.21% at 31 December 2014) there is no risk of survival (tables) or profitability (interest rate) for the group. Therefore, the evolution of interest rates throughout the year has not had an impact on the bank's financial situation.

Obligations covered by specific assets totalled €832,485,000 (including €2,158,000 related to commitments to early retirees) at 31 December 2015 and €1,004,748,000 (including €4,724,000 related to commitments to early retirees) at 31 December 2014.

The sensitivity analysis for each main actuarial assumption at 31 December 2015 and 31 December 2014 shows how the commitment and cost of the services in the current year would have been affected by reasonably possible changes at that date.

%	2015	2014
Sensitivity analysis	**% Change**	
Discount rate		
Discount rate -50 basis points:		
Assumption	1.25%	1.25%
Change in obligation	6.27%	6.87%
Change in cost of services in current year	9.50%	9.72%
Discount rate +50 basis points:		
Assumption	2.25%	2.25%
Change in obligation	(5.67%)	(6.18%)
Change in cost of services in current year	(8.38%)	(8.57%)
Salary increase rate		
Salary increase rate -50 basis points:		
Assumption	2.50%	2.50%
Change in obligation	(0.98%)	(0.78%)
Change in cost of services in current year	(3.75%)	(3.51%)
Salary increase rate +50 basis points:		
Assumption	3.50%	3.50%
Change in obligation	1.04%	0.82%
Change in cost of services in current year	3.81%	3.75%

Estimates of probability-weighted present values at 31 December 2015 of benefits payable over the next ten years are shown below:

Thousand euro	Years										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total
Probable pensions	20,621	17,824	14,863	11,752	9,391	8,736	8,298	7,997	7,759	7,512	**114,753**

The fair value of pension-linked assets reported in the Group balance sheet stood at €153,631,000 at 31 December 2015 and €162,713,000 at 31 December 2014.

The main categories of scheme assets as a proportion of total scheme assets were as follows:

%	2015	2014
Own equity instruments	0.02%	0.02%
Other equity instruments	0.00%	0.00%
Debt instruments	4.02%	0.97%
Investment funds	0.04%	0.03%
Deposits and current accounts	0.99%	0.13%
Other (insurance policies with unrelated parties)	94.93%	98.85%
Total	**100.00%**	**100.00%**

The fair value of scheme assets includes the following financial instruments issued by the bank:

Thousand euro

	2015	2014
Equity instruments	161	167
Debt instruments	-	-
Deposits and current accounts	-	1,184
Total	**161**	**1,351**

ADICAE issued a collective demand against 77 financial institutions, including Banco Sabadell, which is currently circumscribed by 24 institutions, due to various circumstances, to the invalidity of the clauses limiting interest rates, which 754 Banco Sabadell customers have adhered to.

From 24 June 2015, the procedure is due to be judged at court although the date has not been set yet.

In accordance with the Supreme Court's jurisprudence, Banco Sabadell considers the legal arguments in favour of the validity of the clauses are solid and well evidenced. In any case, the jury's sentence on market matters is susceptible to successive recourses pursuant to the applicable procedural legislation.

Note 26 – Shareholders' funds

Equity may be analysed as follows in the consolidated balance sheets at 31 December 2015 and 2014:

Thousand euro

	2015	2014
Capital	679,906	503,058
Share premium	7,935,665	5,710,626
Reserves	3,175,065	2,991,627
Other equity instruments	14,322	734,131
Less: Treasury shares	(238,454)	(87,376)
Profit for the year attributed to the parent company	708,441	371,677
Less: Dividends and remuneration	-	-
Total	**12,274,945**	**10,223,743**

Capital

Share capital at the year end

The bank's issued share capital at 31 December 2015 stood at €679,905,624 divided into 5,439,244,992 registered shares with a par value of €0.125 each (€503,057,576.75 divided into 4,024,460,614 registered shares with the same par value at 31 December 2014). All shares are fully paid and are numbered 1 through 5,439,244,992.

The bank's shares are quoted on the Madrid, Barcelona Bilbao and Valencia stock exchanges via the automatic quotation system managed by the Sociedad de Bolsas, S.A.

None of the other companies included in the consolidation group is quoted on a stock exchange.

The rights attaching to the equity instruments are those regulated by the Spanish Companies Act. At a General Shareholders Meeting, shareholders may cast votes in a number that reflects their proportional holding in share capital.

Changes in share capital in 2015

Thousand euro

	Number of shares	Capital
Balance at 31 December 2014	**4,024,460,614**	**503,058**
Conversion of mandatory convertible bonds I/2013_February 2015	438,043	55
Capital increase with preferential subscription rights_April 2015	1,085,510,925	135,689
Conversion of mandatory convertible bonds II/2013_May 2015	403,577	50
Capital increase due to Scrip Dividend_June 2015	76,543,124	9,568
Conversion of mandatory convertible bonds I/2013_July 2015	130,720,394	16,340
Conversion of mandatory convertible bonds III/2013 and IV/2013_November 2015	10,312,149	1,289
Conversion of mandatory convertible bonds II/2013_December 2015	110,856,166	13,857
Balance at 31 December 2015	**5,439,244,992**	**679,906**

Due to capital increase

The Board of Directors of Banco Sabadell, at its meeting held on 19 March 2015, under the framework of the operation of acquisition of the British credit institution TSB Banking Group plc, approved an increase of the share capital of Banco Sabadell, recognising the preferred subscription right of the current shareholders, through the issue and allotment of 1,085,510,925 new shares, each with a nominal value of €0.125, with an issue premium of €1.355 per share, to be offered in a Public Offering. The period for the subscription of the new shares took place between 28 March 2015 and 17 April 2015. During this period a total of 1,085,510,925 new shares were subscribed, representative of €135,688,865,625 at nominal value.

The relevant capital increase deed was registered at the Barcelona Mercantile Registry on 27 April 2015, and the issue and allotment of 1,085,510,925 ordinary shares, with a nominal value of €0.125, were admitted for trading on that same date.

At the Annual General Meeting of Banco Sabadell held on 28 May 2015, the shareholders agreed to increase the share capital of Banco Sabadell, with a charge to reserves, for their free allocation to the owners of the free allocation rights necessary to receive the new shares, under the framework of establishing a flexible shareholder remuneration system (scrip dividend).

On 28 May 2015, the Board of Directors agreed to implement the capital increase and raise share capital at a nominal amount of €10,827,993.88, through the issue and allotment of 86,623,951 new shares, with an incomplete allocation expected, setting the number of free assignation rights necessary for the allocation of a new share at 59.

On 25 June 2015, upon completion of the trading period of the free allocation rights, the bank waived the 542,878,835 free allocation rights acquired under the irrevocable purchase commitment it had undertaken, as well as 51,890,008 free allocation rights of its own, therefore waiving the new shares corresponding to these rights.

As a result, at the same meeting, the Board of Directors declared the incomplete allocation of the capital increase, thus assigning and disbursing only 76,543,124 new shares of the 86,623,951 initially planned. By reason of the foregoing, the aforesaid Board of Directors declared a capital share increase of Banco Sabadell of €9,567,890.50, through the issue and allotment of 76,543,124 new ordinary shares, each with a nominal value of €0.125, with no issue premium. These shares were allocated to the holders of free allocation rights in compliance with the terms of the Capital increase agreement, and disbursed in full through the allocation by the Board of Directors of the balance of the freely available reserves account of the bank in the amount of €9,567,890.50.

The relevant capital increase deed was registered at the Barcelona Mercantile Registry on 26 June 2015, and the issue and allotment of 76,543,124 ordinary shares, with a nominal value of €0.125, were admitted for trading on 30 June 2015.

The expenses associated with the capital increases in the period have amounted to €28,296,000 and are reflected in the item other reductions under the reserves heading on the statement of net equity.

Due to maturities and voluntary conversions of mandatorily convertible subordinated bonds

The capital increases carried out as a result of maturities and voluntary conversions of mandatorily convertible subordinated bonds in 2015 and 2014 are as follows (see other equity instruments below):

Mandatorily convertible subordinated bonds

Issuance	Conversion/ maturity date	Reason for conversion	Bonds converted	Shares issued	Capital increase at par value (€000)	Date of admission to quotation
OSNC I/2013	21/01/15	Voluntary conversion	1,691	438,043	55	19/02/15
OSNC II/2013	11/05/15	Voluntary conversion	289,335	403,577	50	27/05/15
OSNC I/2013	21/07/15	Necesary conversion	460,164	130,720,394	16,340	11/08/15
OSNC II/2013	11/11/15	Necesary conversion	78,056,849	110,856,166	13,857	10/12/15
Total 2015 (*)					**30,302**	
OSNC I/2013	21/01/14	Voluntary conversion	1,892	490,123	61	19/02/14
OSNC II/2013	11/05/14	Voluntary conversion	225,038	291,004	36	10/06/14
OSNC I/2013	21/07/14	Voluntary conversion	3,641	943,211	118	8/08/14
OSNC II/2013	11/11/14	Voluntary conversion	188,324	243,434	31	4/12/14
Total 2014 (*)					**247**	

(*) See Statement of changes in equity for 2015 and 2014, row on capital increase charged to reserves

Significant shareholdings in the bank's capital

As required by Article 23 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law (Law 24/1988 of 28 July), the following table gives 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 2015:

Company	Direct holding	Number of shares	Indirect holding
Itos Holding S.A.R.L. (*)	7.49%	407,399,200	Jaime Gilinski Bacal
Fintech Investment Ltd (*)	3.08%	167,759,777	Winthrop Securities Ltd.
BlackRock Investment Managers	3.01%	163,552,800	BlackRock, Inc

(*)The information provided is based on communications sent by shareholders to the CNMV or directly to the bank.
As required by Article 23 of Royal Decree 1362/2007 of 19 October, implementing the Securities Market Law (Law 24/1988 of 28 July), in relation to transparency requirements in relation to information about issuers whose securities are admitted to trading on an official secondary market or other regulated EU market, it is considered owner of a significant stake to shareholders having in his possession a ratio of at least 3% of the voting rights and 1% if resident in tax havens.

Share premium account

The balance in the share premium account at 31 December 2015 was €7,935,665,000 (€5,710,626,000 at 31 December 2014).

Movements in 2015 and 2014 were as follows:

Thousand euro

Balance at 31 December 2013	**5,760,506**
Capital increase	-
Conversion of subordinated bonds	6,905
Conversion of financial liabilities	23,002
Dividend payment	(78,891)
Capital increase expenses	(896)
Balance at 31 December 2014	**5,710,626**
Capital increase	1,470,867
Conversion of subordinated bonds	738,621
Conversion of financial liabilities	18,409
Dividend payment	(50,678)
Reclassification of capital increase expenses as reserves	47,691
Other	129
Balance at 31 December 2015	**7,935,665**

Reserves

The balance in Reserves breaks down as follows on the consolidated balance sheets at 31 December 2015 and 2014:

Thousand euro

	2015	2014
Restricted reserves:	**328,049**	**325,761**
Statutory legal	100,612	71,375
Reserves for treasury shares pledged as security	216,281	243,399
Canary Island investment reserve	8,041	7,872
Reserve for capital redenomination in euro	113	113
Capital redemption reserve	3,002	3,002
Unrestricted reserves	**2,694,720**	**2,565,154**
Reserves in companies accounted for by the equity method	**152,296**	**100,712**
Total	**3,175,065**	**2,991,627**

The contributions of consolidated companies to Group reserves are shown in Schedule I.

Other equity instruments

On 20 December 2012, the Board of Directors of Banco Sabadell took the decision to make a buyback offer to holders of mandatorily convertible subordinated bonds in Series I/2009 and Series I/2010 whereby their entire holdings would be repurchased for cash and the said cash simultaneously applied by those accepting the buyback offer to subscribe for newly issued mandatorily convertible subordinated bonds Series I/2013 and Series II/2013 respectively.

On 7 February 2013, 468,981 bonds in Series I/2013 were subscribed and paid for a total nominal value of €468,981,000 (for holders of bond Series I/2009) and 79,166,903 bonds in Series II/2013 were subscribed and paid for a total nominal value of €310,334,259.76 (for the holders of bond Series I/2010 that took up the Buyback Offer).

On 20 January 2014, at the end of the first voluntary conversion period for holders of Bonds Series I/2013, at a meeting of the Board of Directors on 23 January 2014, the Board partially implemented, for a nominal amount of

€61,265.375, the resolution to increase capital adopted by the Board on 20 December 2012 in order to meet the voluntary conversion of 1,892 bonds under said issue. The increase in capital was filed with the Barcelona Mercantile Registry on 13 February 2014, and resulted in the issue and allotment of a total of 490,123 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 19 February 2014.

On 9 May 2014, at the end of the first voluntary conversion period for holders of Bonds Series II/2013, at a meeting of the Executive Committee of Banco Sabadell on 15 May 2014, the Board partially implemented, for a nominal amount of €36,375.50, the resolution to increase capital adopted by the Board on 20 December 2012 in order to meet the voluntary conversion of 225,038 bonds under said issue. The increase in capital was filed with the Barcelona Mercantile Registry on 5 June 2014, and resulted in the issue and allotment of a total of 291,004 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 10 June 2014.

On 18 July 2014, at the end of the first voluntary conversion period for holders of Bonds Series I/2013, at a meeting of the Board of Directors on 24 July 2014, the Board partially implemented, for a nominal amount of €117,901.375, the resolution to increase capital adopted by the Board on 20 December 2012 in order to meet the voluntary conversion of 3,641 bonds under said issue. The increase in capital was filed with the Barcelona Mercantile Registry on 1 August 2014, and resulted in the issue and allotment of a total of 943,211 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 8 August 2014.

On 10 November 2014, at the end of the first voluntary conversion period for holders of bonds Series II/2013, at a meeting of the Board of Directors on 13 November 2014, the Board partially implemented, for a nominal amount of €30,429.25 the resolution to increase capital adopted by the Board on 20 December 2012 in order to meet the voluntary conversion of 188,234 bonds under said issue. The increase in capital was filed with the Barcelona Mercantile Registry on 28 November 2014, and resulted in the issue and allotment of a total of 243,434 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 4 December 2014.

On 20 January 2015, at the end of the fourth voluntary conversion period for holders of Bonds Series I/2013, at a meeting of the Executive Committee of Banco Sabadell on 22 January 2015, the Executive Committee partially implemented, for a nominal amount of €54,755.375, the resolution to increase capital adopted by the Board on 20 December 2012 in order to meet the voluntary conversion of 1,691 bonds under said issue. The increase in capital was filed with the Barcelona Mercantile Registry on 16 February 2015, and resulted in the issue and allotment of 438,041 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 19 February 2015.

On 8 May 2015, at the end of the fourth voluntary conversion period for holders of Bonds Series II/2013, at a meeting of the Executive Committee of Banco Sabadell on 14 May 2015, the Executive Committee partially implemented, for a nominal amount of €50,447.125, the resolution to increase capital adopted by the Board on 20 December 2012 in order to meet the voluntary conversion of 289,335 bonds under said issue. The increase in capital was filed with the Barcelona Mercantile Registry on 25 May 2015, and resulted in the issue and allotment of 403,577 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 27 May 2015.

On 21 July 2015, the final maturity of Bonds Series I/2013 was reached, resulting in the mandatory conversion of 460,164 bonds into 130,720,394 Banco Sabadell ordinary shares. As a result, and in order to carry out the conversion of the bonds, on 30 July 2015 the corresponding increase in capital of €16,340,049.25 was implemented. The increase in capital was filed with the Barcelona Mercantile Registry on 4 August 2015, and resulted in the issue and allotment of 130,720,394 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 11 August 2015.

On 11 November 2015, the final maturity of Bonds Series II/2013 was reached, resulting in the mandatory conversion of 78,056,849 bonds into 110,856,166 Banco Sabadell ordinary shares. As a result, and in order to carry out the conversion of the bonds, on 19 November 2015 the corresponding increase in capital of €13,857,020.75 was implemented. The increase in capital was filed with the Barcelona Mercantile Registry on 2 December 2015, and resulted in the issue and allotment of 110,856,166 new ordinary shares with a nominal value of €0.125 each; the new shares were admitted to trading on the Barcelona, Bilbao, Madrid and Valencia Stock Exchanges via the electronic trading system (*Mercado Continuo*) on 10 December 2015.

Maturity dates, remuneration and carrying values associated with the various issues of Mandatorily Convertible Subordinated Bonds and the payments with capital instruments recorded as capital instruments are as follows:

Thousand euro

				2015	2014
Issuance	**Maturity date**	**Remuneration**	**Note**	**Carrying amount**	
OSNC I/2013	21/07/15	EUR 3M + 5%		-	461,855
OSNC II/2013	11/11/15	10.20%		-	272,429
Subscribed by Group companies				-	(6,717)
Total mandatorily convertible subordinated bonds (*)				**-**	**727,567**
Payments based on equity instruments ("Incentive")			37	**14,322**	**6,564**
Total other equity instruments				**14,322**	**734,131**

(*) see movements of changes in equity, in the row for capital and other capital instruments.

Payments corresponding to these mandatorily convertible bonds in 2015 totalled €53,669,000 (€62,022,000 in 2014), of which €4,865 corresponded to payments on obligations recorded as liabilities in reserves (€6,084,000 in 2014). These are included under the heading other deductions from the net equity statement.

Transactions in own equity instruments

The bank's holdings of shares in the parent company showed the following evolution during the year:

	No. of shares	**Nominal value** *(in thousand euro)*	**Average price** *(in euro)*	**% interest**
Balance at 31 December 2013	**30,607,898**	**3,825.99**	**1.88**	**0.76**
Purchases	204,387,083	25,548.38	2.26	5.08
Sales	194,164,641	24,270.58	2.31	4.82
Balance at 31 December 2014	**40,830,340**	**5,103.79**	**2.14**	**1.01**
Purchases	253,341,455	31,667.68	2.01	4.66
Sales	179,327,159 (*)	22,415.89	2.10	3.30
Balance at 31 December 2015	**114,844,636**	**14,355.58**	**1.99**	**2.11**

(*) includes submittal of 21,486,946 shares as complementary remuneration for shareholders (see Note 3).

Net gains and losses arising on transactions in the bank's own equity instruments have been included in reserves under Equity on the consolidated balance sheet, and they are shown in the net equity balance sheet, in the row corresponding to transactions with own equity instruments.

At 31 December 2015, TSB owns 4,497,443 Banco Sabadell shares, at a cost of €9,764 million, which are recorded as own equity instruments in the consolidated balance sheet.

At 31 December 2015, a total of 132,281,811 shares of the bank with a nominal value of €16,535,000 were pledged as security (110,385,204 shares with a nominal value of €13,798,000 at 31 December 2014).

The number of Banco de Sabadell, S.A. own equity instruments held by third parties but under management by Group companies at 31 December 2015 and 2014 was 20,294,304 and 10,695,490, respectively, with a nominal value of €2,537,000 and €4,849,000. Of these amounts, 20,294,304 and 10,691,977 were Banco Sabadell shares; the rest were mandatorily convertible subordinated bonds.

Note 27 – Valuation adjustments

Valuation adjustments for the Group at 31 December 2015 and 2014 are analysed below:

Thousand euro

	2015	2014
Available-for-sale financial assets	579,295	844,641
Debt securities	495,688	825,883
Other equity instruments	83,607	18,758
Cash flow hedges	16,412	237,552
Hedges for net business investments	17,927	-
Exchange differences	(23,690)	2,005
Entities accounted for by the equity method	16,510	17,964
Other valuation adjustments	(150,848)	(164,746)
Total	**455,606**	**937,416**

Other valuation adjustments mainly records the adjustment made by the group's insurance companies in order to correct the accounting asymmetries resulting from the different valuation of financial assets and the associated insurance commitments.

The income tax effects of valuation adjustments for the different items of recognised income and expense at 31 December 2015 and 2014 were:

Thousand euro

	2015			2014		
	Gross amount	Fiscal impact	Net	Gross amount	Fiscal impact	Net
Financial assets available for sale	(379,597)	113,880	(265,717)	880,790	(264,237)	616,553
Debt securities	(471,736)	141,522	(330,214)	961,886	(288,566)	673,320
Other capital instruments	92,139	(27,642)	64,497	(81,096)	24,329	(56,767)
Cash flow hedges	(315,914)	94,774	(221,140)	384,531	(115,359)	269,172
Net investment in business hedges	25,611	(7,684)	17,927	-	-	-
Exchange differences	(38,401)	11,521	(26,880)	24,405	(7,321)	17,084
Companies valued by the equity method	(1,454)	-	(1,454)	15,604	-	15,604
Other recognised income and expenses	19,855	(5,958)	13,897	(143,260)	42,977	(100,283)
Total	**(689,900)**	**206,533**	**(483,367)**	**1,162,070**	**(343,940)**	**818,130**

Note 28– Non-controlling interests

The companies included under this heading are as follows:

Thousand euro

	2015			2014		
	% Non-controlling interests	Amount	*Of which: Profit/(loss) attributed*	% Non-controlling interests	Amount	*Of which: Profit/(loss) attributed*
BancSabadell d'Andorra, S.A.	49.03%	36,163	*3,785*	49.03%	33,998	*5,168*
Hansa México S.A. de C.V. (*)	-	-	-	42.85%	3,303	*(12)*
Sabadell BS Select Fund of Hedge Funds SICAV (Luxembourg) (*)	-	-	-	47.89%	17,474	*154*
Rest	-	947	*19*	-	18	*(342)*
Total		**37,110**	***3,804***		**54,793**	***4,968***

(*) Sales or loss of controlling interests in 2015 (see Schedule I)

Movements in non-controlling interests in 2015 and 2014 were as follows:

Thousand euro

Balances at 31 December 2013	**58,243**
Valuation adjustments	1,528
Rest	(4,978)
Scope additions/exclusions	-
Percentage of holding and others	(9,946)
Profit/(loss) for the year	4,968
Balances at 31 December 2014	**54,793**
Valuation adjustments	(1,556)
Rest	(16,127)
Scope additions/exclusions	(20,777)
Percentage of holding and others	846
Profit/(loss) for the year	3,804
Balances at 31 December 2015	**37,110**

Dividends paid to the minority shareholders of the group companies in 2015 totalled €1,226,000 (BancSabadell d'Andorra, S.A.).

In 2014, Hansa México S.A. de C.V. is assigned to the Real Estate Asset Transformation in Spain business area and Hedge Funds SICAV (Luxembourg) is assigned to the banking business in Spain (Note 43).

BancSabadell d'Andorra, S.A. is assigned to a non-reported business segment, due to its materiality.

Note 29 – Contingent exposures

The breakdown of this item is as follows:

Thousand euro

	2015	2014
Financial guarantees	1,874,676	2,215,287
Irrevocable documentary credits	1,112,265	1,083,544
Other guarantees and sureties provided	5,369,226	5,833,729
Other contingent risks	-	-
Total	**8,356,167**	**9,132,560**

Doubtful contingent exposures

The movement in doubtful contingent exposures account was as follows:

Thousand euro

Balances at 31 December 2013	**461,224**
Additions	63,564
Disposals	(329,715)
Balances at 31 December 2014	**195,073**
Additions	15,206
Disposals	(120,452)
Balances at 31 December 2015	**89,827**

(*) see Note 2

The distribution of doubtful contingent exposures by geographical region at 31 December 2015 and 2014 was as follows:

Thousand euro

	2015	2014
Spain	89,406	194,652
Rest of European Union	396	396
Latin America	20	20
Rest of OECD	5	5
Total	**89,827**	**195,073**

Allowances for credit risk arising from doubtful contingent exposures were as follows:

Thousand euro

	2015	2014
Coverage determined individually:	**15,542**	**22,179**
Hedging of insolvency risk	15,542	22,179
Coverage determined collectively:	**30,978**	**44,003**
Hedging of insolvency risk	29,646	43,304
Allowances for country risk	1,332	699
IBNR coverage (*)	**67,159**	**65,679**
Total	**113,679**	**131,861**

(*) Collective value adjustments for losses incurred but not reported (see Note 1d).

Changes in these allowances, which are reported in provisions on the liability side of the balance sheet, are shown in Note 25.

Note 30 – Contingent commitments

The composition of this item at 31 December 2015 and 2014 was as follows:

Thousand euro

	2015	2014
Drawable by third parties	19,306,331	10,903,374
Credit institutions	652	631
Public institutions	615,956	635,693
Other resident sectors	10,567,226	9,388,563
Non-residents	8,122,497	878,487
Financial asset forward purchase commitments	426,102	2,950,723
Conventional financial asset purchase contracts	652,802	77,001
Other contingent commitments	745,379	838,540
Total	**21,130,614**	**14,769,638**

At 31 December 2015 the “drawable by third parties” item included mortgage-secured credit commitments amounting to €1,845,200,000 (€1,528,595,000 at 31 December 2014). Other commitments under this heading were secured in most cases by other types of guarantee in line with the group’s risk management policy.

The balance in Financial asset forward purchase commitments includes forward purchases of debt securities classified as assets available for sale. The time remaining to maturity in these operations at both 31 December 2015 and 31 December 2014 is less than 12 months.

Note 31 – 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:

Thousand euro

	2015	2014
Under group management:	**19,460,848**	**14,924,971**
Investment funds and companies	15,458,944	12,006,900
Asset management	4,001,904	2,918,071
Investment funds sold but not managed	**5,968,308**	**3,698,712**
Pension funds (*)	**4,305,121**	**4,334,615**
Insurance (*)	**7,646,801**	**7,420,511**
Financial instruments deposited by third parties	**58,394,937**	**49,276,451**
Total	**95,776,015**	**79,655,260**

(*) The balance in pension funds and insurance relates to those marketed by the group.

Note 32 – Interest, returns and assimilated charges

This chapter of the consolidated profit and loss statement includes the interests accrued over the year by all financial assets and financial liabilities whose return, implicit or explicit, is obtained by applying the effective interest rate method, regardless of whether they are valued at fair value, and the product rectifications as a result of accounting hedges. Interest is recorded at its gross amount, without deduction of the tax withholdings made at their source, where applicable.

The largest part of the interest and assimilated returns has been generated by financial assets of the group, valued either at amortised cost, or at fair value with changes in net equity.

The quarterly net interest income since 2014 and the average income and costs from the various components that make up the total investment and resources break down as follows:

Thousand euro

	2015												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Average yield of the investment	**166,113,468**	**2.63**	**1,077,248**	**165,959,873**	**2.54**	**1,050,338**	**204,223,215**	**2.63**	**1,352,633**	**209,189,206**	**2.58**	**1,362,137**	**4,842,356**
Cash, central banks and credit institutions	4,506,907	0.69	7,620	4,239,111	0.72	7,608	10,017,261	0.58	14,711	10,593,706	0.46	12,265	**42,204**
Loans and advances to custome	105,699,264	3.32	866,029	106,085,332	3.20	845,109	135,423,423	3.29	1,122,412	137,816,428	3.28	1,140,285	**3,973,835**
Fixed-income portfolio (*)	26,659,263	2.94	193,159	26,000,342	2.87	186,025	28,002,837	2.73	192,541	28,859,636	2.64	191,805	**763,530**
Variable income portfolio	1,466,208	--	--	1,765,119	--	--	1,291,662	--	--	1,207,389	--	--	--
Tangible and intangible fixed ass	3,712,828	--	--	3,486,114	--	--	4,795,049	--	--	4,900,001	--	--	--
Other assets	24,068,998	0.18	10,440	24,383,855	0.19	11,596	24,692,983	0.37	22,969	25,812,046	0.27	17,782	**62,787**
Average cost of resources	**166,113,468**	**(1.06)**	**(434,171)**	**165,959,873**	**(0.95)**	**(394,437)**	**204,223,215**	**(0.80)**	**(411,317)**	**209,189,206**	**(0.76)**	**(399,601)**	**(1,639,526)**
Credit institutions	15,819,325	(1.06)	(41,192)	16,682,943	(0.91)	(37,966)	18,932,939	(0.74)	(35,120)	18,554,312	(0.56)	(26,341)	**(140,619)**
Customer deposits	92,350,893	(0.88)	(200,352)	93,214,329	(0.73)	(169,704)	126,974,770	(0.62)	(198,163)	127,755,652	(0.53)	(170,767)	**(738,986)**
Capital market	25,895,734	(2.71)	(173,287)	25,814,242	(2.56)	(164,870)	25,989,440	(2.35)	(153,697)	29,439,078	(2.27)	(168,539)	**(660,393)**
Assignments fixed income portfo	10,118,263	(0.42)	(10,564)	8,425,452	(0.43)	(9,016)	9,767,542	(0.28)	(6,936)	10,179,453	(0.59)	(15,052)	**(41,567)**
Other liabilities	10,323,239	(0.34)	(8,776)	9,485,553	(0.54)	(12,881)	10,312,976	(0.67)	(17,401)	10,468,171	(0.72)	(18,902)	**(57,961)**
Own funds	11,606,014	--	--	12,337,354	--	--	12,245,548	--	--	12,792,540	--	--	--
Net interest income			**643,077**			**655,901**			**941,316**			**962,536**	3,202,830
Total ATAs			**166,113,468**			**165,959,873**			**204,223,215**			**209,189,206**	**--**
Ratio (margin/ATA)			**1.57**			**1.59**			**1.83**			**1.83**	**--**

(*) Includes €6,799,000 corresponding to interests from financial assets recorded at fair value with changes in profit and loss (trading portfolio).

Thousand euro

	2014												
	1st quarter			2nd quarter			3rd quarter			4th quarter			TOTAL
	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	Average balance	Rate %	Profit/(loss)	
Average yield of the investment	**167,190,254**	**2.81**	**1,156,686**	**161,119,552**	**2.84**	**1,140,834**	**162,499,242**	**2.75**	**1,125,732**	**162,740,694**	**2.66**	**1,090,245**	**4,513,497**
Cash, central banks and credit institutions	4,277,014	1.10	11,605	3,998,214	1.06	10,539	4,278,672	0.91	9,791	4,480,122	0.72	8,164	**40,099**
Loans and advances to custome	108,442,873	3.50	936,272	106,316,927	3.47	920,825	105,962,409	3.39	904,230	105,085,900	3.32	879,643	**3,640,970**
Fixed-income portfolio (*)	24,136,993	3.41	202,734	21,208,649	3.84	203,235	22,276,597	3.65	204,884	23,207,907	3.35	195,999	**806,852**
Variable income portfolio	834,668	--	--	1,395,773	--	--	1,401,733	--	--	1,659,535	--	--	--
Tangible and intangible fixed as	3,904,974	--	--	3,922,139	--	--	3,802,468	--	--	3,422,926	--	--	--
Other assets	25,593,732	0.10	6,075	24,277,850	0.10	6,235	24,777,363	0.11	6,827	24,884,304	0.10	6,439	**25,576**
Average cost of resources	**167,190,254**	**(1.52)**	**(626,644)**	**161,119,552**	**(1.48)**	**(594,889)**	**162,499,242**	**(1.35)**	**(551,672)**	**162,740,694**	**(1.17)**	**(480,586)**	**(2,253,791)**
Credit institutions	16,165,139	(1.40)	(55,769)	13,552,136	(1.52)	(51,463)	10,565,998	(1.71)	(45,646)	12,720,001	(1.29)	(41,429)	**(194,307)**
Customer deposits	92,164,157	(1.44)	(327,850)	92,504,475	(1.25)	(289,269)	94,121,172	(1.10)	(261,851)	93,502,083	(0.97)	(228,219)	**(1,107,189)**
Capital market	27,506,366	(3.54)	(239,842)	27,238,731	(3.51)	(238,425)	26,563,127	(3.41)	(228,133)	26,314,842	(3.05)	(202,105)	**(908,505)**
Assignments fixed income portf	9,319,950	(0.68)	(15,732)	6,666,753	(0.71)	(11,863)	9,824,642	(0.47)	(11,525)	8,573,936	(0.47)	(10,059)	**(49,179)**
Other liabilities	11,838,144	0.43	12,549	10,296,456	(0.15)	(3,869)	10,384,566	(0.17)	(4,517)	10,639,953	0.05	1,226	**5,389**
Own funds	10,196,498	--	--	10,861,001	--	--	11,039,737	--	--	10,989,879	--	--	--
Net interest income			**530,042**			**545,945**			**574,060**			**609,659**	**2,259,706**
Total ATAs			**167,190,254**			**161,119,552**			**162,499,242**			**162,740,694**	**--**
Ratio (margin/ATA)			**1.29**			**1.36**			**1.40**			**1.49**	**--**

(*) Includes €7,072,000 corresponding to interests from financial assets recorded at fair value with changes in profit and loss (trading portfolio).

In 2015, the net interest income from total assets and in the income from customers have continued to improve, due to various factors, the most notable of which are the increase in income from customers (due to reduced financing costs of customer deposits), the reduction in costs on the capital market, the reduction in the level of problem assets and the improvement in the profitability as a result of the acquisition of TSB.

This continuous improvement can be seen in both the annual and quarterly evolutions. In cumulative average annual terms, net interest income as a proportion of average total assets stood at 1.72% (1.61% excluding TSB), an improvement of 34 basis points compared with the previous year (1.38% in 2014). In terms of the quarterly changes in income, the net interest income as a proportion of average total assets in the fourth quarter 2015 stood at 1.83% (1.65% excluding TSB). Net interest income in the fourth quarter 2014 stood at 1.49%.

The following table shows, for investment and deposit positions relating to network operations (not including subsidiary operations), the contractual spread on transactions arranged by quarter in 2015 and 2014 (new businesses) and the resulting final portfolio at the end of each year (stock):

Basis point spread	**Additions (quarterly average)**				**Stock**			
	2015				2015			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Credit	243	275	247	271	293	276	263	272
Loans	236	247	282	279	245	239	234	230
Home mortgage loans	197	179	181	182	97	99	100	101
Leasing	322	304	279	270	198	203	206	210
Contract-hire	557	514	574	528	598	570	562	568
Discounting	364	332	315	310	386	349	344	338
Confirming	332	296	284	273	331	296	280	260
Forfaiting	579	573	586	463	609	588	656	535
Loans and receivables	**293**	**282**	**278**	**272**	**181**	**178**	**176**	**175**
1-month time deposit	33	32	33	34	34	30	34	35
3-month time deposit	38	39	38	48	38	37	37	49
6-month time deposit	26	19	26	31	41	24	23	27
12-month time deposit	45	40	30	34	54	47	41	39
+12-month time deposit	36	30	34	39	118	106	92	71
Time deposits	**37**	**34**	**32**	**37**	**93**	**79**	**66**	**54**

Corresponds to Business in Spain (branch network operations)

Basis point spread	Additions (quarterly average)				Stock			
	2014				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Credit	353	379	347	284	386	362	353	320
Loans	349	287	253	266	277	270	264	255
Home mortgage loans	241	225	217	211	91	92	93	96
Leasing	343	312	352	324	168	178	184	191
Contract-hire	738	726	711	563	552	581	599	588
Discounting	438	410	412	383	464	437	442	405
Confirming	378	360	355	341	374	366	358	335
Forfaiting	531	545	499	514	590	585	584	566
Loans and receivables	**377**	**349**	**335**	**314**	**186**	**187**	**186**	**184**
1-month time deposit	80	57	50	37	80	59	44	34
3-month time deposit	79	57	43	42	80	57	42	42
6-month time deposit	75	69	64	48	105	71	67	54
12-month time deposit	70	64	58	45	121	91	72	59
+12-month time deposit	99	73	61	41	172	145	134	126
Time deposits	**90**	**67**	**57**	**43**	**158**	**128**	**114**	**103**

Corresponds to Business in Spain (branch network operations)

With respect to the existing home mortgages portfolio at 31 December 2015, the breakdown by period in which the interest rate applied in each transaction will be revised as follows:

Thousand euro

Mortgage repricing schedule	1Q 16	2Q 16	3Q 16	4Q 16	Total
Home mortgages	9,583,330	9,716,460	7,316,171	8,989,767	**35,605,728**

Corresponds to Business in Spain - branch network operations

New deposits to 31 December 2015 and 2014 and a breakdown by maturity are as follows:

€million

	Additions			
Deposits by maturity	2015			
	Q1	Q2	Q3	Q4
To 3M	2,866	3,013	2,877	2,908
3 to 6M	951	917	758	908
6 to 12M	3,212	4,612	4,051	4,556
12 to 18M	844	1,008	753	754
More than 18M	2,401	2,122	2,407	4,169
Total deposits	**10,274**	**11,672**	**10,846**	**13,295**
%				
To 3M	27.9	25.8	26.5	21.9
3 to 6M	9.3	7.9	7.0	6.8
6 to 12M	31.3	39.5	37.4	34.3
12 to 18M	8.2	8.6	6.9	5.7
More than 18M	23.4	18.2	22.2	31.4
Total deposits	**100**	**100**	**100**	**100**

Corresponds to Business in Spain - Branch network operations

€million

Deposits by maturity	Additions			
	2014			
	Q1	Q2	Q3	Q4
To 3M	4,187	4,374	3,651	3,046
3 to 6M	1,032	2,255	1,754	2,005
6 to 12M	968	3,006	3,227	3,804
12 to 18M	2,845	1,820	1,406	829
More than 18M	5,582	4,345	3,114	2,494
Total deposits	**14,615**	**15,800**	**13,152**	**12,178**

%

To 3M	28.7	27.7	27.8	25.0
3 to 6M	7.1	14.3	13.3	16.5
6 to 12M	6.6	19.0	24.5	31.2
12 to 18M	19.5	11.5	10.7	6.8
More than 18M	38.2	27.5	23.7	20.5
Total deposits	**100**	**100**	**100**	**100**

Corresponds to Business in Spain - Branch network operations

Note 33 – Fee and commission income/expenses

Fees received and paid on financial operations and the provisions of services are as follows:

Thousand euro

	2015	2014
Fees derived from risk operations	**272,634**	**219,250**
Asset opreations	169,708	115,982
Guarantees	104,017	105,124
Assigned to other entities	(1,091)	(1,856)
Service fees	**481,901**	**451,443**
Cards	191,873	146,273
Payment orders	48,287	45,992
Securities	84,868	79,795
Current accounts	91,698	85,875
Rest	65,175	93,508
Investment fund, pension and insurance management fees	**248,809**	**190,198**
Investment funds	155,634	123,163
Marketing of pension funds and insurance	93,175	67,035
Total	**1,003,344**	**860,891**
Memorandum item		
Fees received	1,166,677	970,588
Fees paid	(163,333)	(109,697)
Net fees	**1,003,344**	**860,891**

Note 34 – Net gains/(losses) on financial assets and liabilities

The composition of this item of the consolidated income statement for the years to 31 December 2015 and 2014 is as follows:

Thousand euro

	2015	2014
By heading:		
Held for trading	150,440	42,968
Financial instruments not measured at fair value through profit or loss	1,052,288	1,721,229
Other	5,433	(593)
Total	**1,208,161**	**1,763,604**
By type of financial instrument:		
Net gain/(loss) on debt securities	1,051,570	1,749,823
Net gain/(loss) other equity instruments	29,983	25,657
Net gain/(loss) on financial derivatives	149,562	3,435
Net gain/(loss) other items (*)	(22,954)	(15,311)
Total	**1,208,161**	**1,763,604**

(*) Mainly includes the result of the sale of various credit portfolios sold during the year (See Note 11)

During the year 2015 the group sold certain debt securities from its portfolio of available-for-sale financial assets, generating profits of €1,045,492,000 at 31 December 2015 (€1,860,724,000 at 31 December 2014). This included profits of €1,020,466,000 (€1,842,384,000 in 2014) on disposals of public sector debt securities.

Note 35 – Other operating income

The composition of this item of the consolidated income statement at 31 December 2015 and 2014 is as follows:

Thousand euro

	2015	2014
Income from insurance and reinsurance contracts issued	174,226	256,332
Sales and income from non-financial services	61,507	30,910
Rest of other operating income	155,211	150,469
Revenues from rentals of property investments	95,856	80,347
Other	59,355	70,122
Total	**390,944**	**437,711**

Income from insurance and reinsurance contracts written include the amount of accrued premiums relating to the insurance companies Mediterráneo Vida, S.A.U. de Seguros y Reaseguros (in which the group holds an indirect interest through Mediterráneo Sabadell, S.L.) and Assegurances Segur Vida, S.A. (in which the group holds an indirect interest through BancSabadell d'Andorra, S.A.). In 2014 it also included Banco Gallego Vida y Pensiones, S.A. de Seguros y Reaseguros, which merged with Mediterráneo Vida, S.A.U. de Seguros y Reaseguros in 2015.

Sales and income for non-financial services consisted, for the most part, of income generated by the management of real estate asset portfolios of other entities (Sareb).

The figure for Other income consisted basically of income received by the group companies engaging in non-financial activities.

Note 36 – Other operating expenses

The composition of this item of the consolidated income statement for the years to 31 December 2015 and 2014 is as follows:

Thousand euro

	2015	2014
Expenses on insurance and reinsurance contracts issued	(218,431)	(306,699)
Difference between opening and closing inventories	-	(4,186)
Rest of other operating expenses	(298,111)	(318,786)
Contribution to deposit guarantee funds	(85,997)	(158,354)
Contribution to settlement fund	(43,510)	-
Other items	(168,604)	(160,432)
Total	**(516,542)**	**(629,671)**

Expenses under insurance and reinsurance contracts written include the amount of accrued premiums relating to the insurance companies of the group.

The net balance of income and expenses from insurance and reinsurance issued is negative because it does not include net financial income associated with the insurance business which is recorded under Interest and similar income in the income statement for the year, in the amount of €88,424,000 in 2015 (€93,948,000 in 2014). Note 24 on liabilities under insurance contracts sets out the profits generated by the insurance business, broken down by product type.

The expense recorded under the heading Contribution to deposit guarantee funds corresponds to the contributions made by Banco Sabadell (€82,968,000 and €155,746,000 in 2015 and 2014, respectively). It also includes the expense recorded by Sabadell United Bank, N.A. (contribution to the Deposit Guarantee Fund established by the Federal Deposits Insurance Corporation of the United States of America, accrued and paid on the last day of each quarter), in the amount of €3,029,000 in 2015 and €2,607,000 in 2014.

Banco Sabadell has also made a contribution in 2015 to the national resolution fund in the amount of €43,510,000.

The Other expenses heading includes expenses corresponding to Tax on Deposits to Credit Institutions, amounting to €27,450,000 in 2015 (€31,000,000 in 2014). The other items included in this heading basically correspond to non-financial activities.

Note 37 – Administration costs

This heading on the consolidated profit and loss statement includes expenses incurred by the group in respect of personnel and other general administrative expenses.

Personnel expenses

The personnel expenses charged to the consolidated income statement for the years ended at 31 December 2015 and 2014 are as follows:

Thousand euro

	2015	2014
Salaries and bonuses, serving employees	(1,075,803)	(864,788)
Social Security contributions	(220,457)	(203,686)
Appropriations to pension schemes (*)	(54,735)	(31,750)
Other personnel expenses	(106,346)	(102,380)
Total	**(1,457,341)**	**(1,202,604)**

(*) Of which €49,772,000 relates to defined contributions (€26,504,000 in 2014). Of these, €22,111,000 correspond to TSB in the second quarter of 2015.

The average number of employees of all group companies in 2015 was 21,879, of whom 10,199 were men and 11,680 were women (17,760 in 2014, of whom 8,874 were men and 8.886 were women).

At 31 December 2015 and 2014 the distribution of employees by gender and category is as follows:

Number of employees

	2015			2014		
	Men	Women	Total	Men	Women	Total
Management personnel	490	137	627	387	78	465
Technical personnel	9,375	9,560	18,935	7,390	7,009	14,399
Administrative personnel	1,714	4,814	6,528	971	1,694	2,665
Total	**11,579**	**14,511**	**26,090**	**8,748**	**8,781**	**17,529**

Of the total number of people employed at 31 December 2015, 254 were recognised as having some form of disability (156 at 31 December 2014).

The increase in employees at the group level is due to the incorporation of employees from TSB.

Non-recurring personnel expenses at 31 December 2015 amount to €35,528,000 (€33,309,000 at 31 December 2014).

Deferred payment system for variable remuneration accrued in previous years

- At the Annual General Meeting held on 26 March 2013, the shareholders approved the payment system for the variable remuneration accrued during 2012 to the Executive Directors and a group of 24 additional directors, whose remuneration is supervised by the bank's Appointments and Remuneration Committee, through the delivery of stock options of Banco de Sabadell, S.A: ("SREO 2012"). The Executive Directors may choose to receive up to 100% of their variable remuneration in options, and the remainder up to 50%.

Each option grants the holder the right to receive, in cash, after a maximum of three years, the difference between the Final Value of the Banco Sabadell shares at that date and the Exercise Price of the Option. The exercise date is 29 March 2016.

The SARs have an exercise price of €1.712, with the settlement amount being the difference, if positive, between the quoted share price at the end of the scheme and the exercise price. The options sold were recorded in the Financial assets and liabilities held for trading – Liability trading derivatives, and, at 31 December 2015, the recorded amount stands at €2.3 million (€7.4 million at 2014 year-end).

The hedging arrangement for SREO 2012 was determined through the conclusion of the relevant counterparty agreement, based on general market rules. The premium paid when arranging the hedge was €3.2 million and did not entail any cost increase for the bank with respect to the option to receive the variable remuneration in effect up to the date of implementation of SREO 2012. This premium was recorded as a trading derivative.

At the General Meeting held on 27 March 2014, the shareholders approved the payment system for the approved amounts of variable remuneration accrued during 2013 to the bank's Executive Directors through the delivery of the equivalent value in stock options in Banco de Sabadell, S.A. ("the System").

Each option grants the holder the right to receive, in cash, after a maximum of three years, the difference between the Final Value of the Banco Sabadell shares at the end of said period and the Exercise Price of the option under the System. The exercise date is 29 March 2017.

The SARs have an exercise price of €2.183, with the settlement amount being the difference, if positive, between the quoted share price at the end of the scheme and the exercise price.

The hedging mechanism for the System was determined through the conclusion of the relevant counterparty agreement, based on general market rules. The premium paid when arranging the hedge was €2.4 million and did not entail any cost increase for the bank with respect to the option to receive the variable remuneration in effect up to the date of implementation of the system. This premium was recorded as a trading derivative. The options that were sold were recorded in the Financial assets and liabilities held for trading – trading derivatives heading and at 31 December 2015 the recorded amount amounted to €0.4 million (€1.9 million at 2014 year-end).

Long-term complementary incentives system based on shares

- At the General Meeting held on 27 March 2014, the shareholders approved a long-term complementary incentive based on the increase in value of Banco de Sabadell, S.A. shares for executive directors, five member of senior management and 419 Group managers ("the Incentive").

The Incentive consists of the allotment of a certain number of rights to the beneficiaries which include a right to receive the value increment of the same number of Banco de Sabadell, S.A. shares over a three-year period, taking as a reference the share price, to be paid in the form of bank shares. The termination date is 31 March 2017. The exercise price is €1.896 and the maximum number of rights to shares covered by the Incentive will be 39,242,000.

The fair value of services received has been valued based on the fair value of committed capital instruments, i.e. options on bank shares, as indicated in Note 6. The valuation technique used has been the Monte Carlo simulations and the valuation method employed has been the Black-Scholes method.

A necessary condition for executing the rights will be that the beneficiary exceeds the minimum compliance level for the personal target called "Professional Efficiency Appraisal" set by the bank's Appointments and Remuneration Committee.

Rights	
Balance at 28 March 2014	-
Granted	37,837,000
Cancelled	(308,000)
Balance at 31 December 2014	**37,529,000**
Granted (*)	3,123,730
Cancelled	(580,536)
Balance at 31 December 2015	**40,072,194**

(*) Derived from the implemented capital increase.

- TSB Banking Group employees have a complementary incentive linked to a target fulfilment plan between 2016 and 2020, whose remuneration is paid in Banco Sabadell, S.A. shares and in cash.

In terms of personnel expenses associated with share-based incentive schemes (see Note 1o), their expenses in 2015 and 2014 totalled €9 and €6 million, respectively; the counterparty is reflected in net equity (see Note 26).

Other general administrative expenses

This heading includes all other administrative expenses incurred during the year:

Thousand euro	2015	2014
Property, plant and equipment	(211,020)	(152,826)
IT equipment	(102,157)	(92,263)
Communications	(63,674)	(35,190)
Avertising and publicity	(87,497)	(38,765)
Contributions and taxes	(101,134)	(99,383)
Other expenses	(263,692)	(152,287)
of which:		
Transfer of funds and supervision services	*(19,267)*	*(17,510)*
Technical reports	*(86,170)*	*(14,173)*
Subcontracted services	*(72,308)*	*(50,335)*
Total	**(829,174)**	**(570,714)**

Fees from Auditing Institutions

The fees received by PricewaterhouseCoopers Auditores, S.L. in 2015 for auditing services and other auditing-related services rendered in Spain amount to €1,456,000 and €341,000, respectively (€1,438,000 and €944,000 in 2014). Auditing services rendered by other companies in the PwC network in relation to foreign branches and subsidiaries totalled €2,296,000 in 2015 (€1,101,000 in 2014).

Fees received by other auditors in 2015 for auditing and other audit-related services rendered in Spain amounted to €121,000 and €0,000, respectively (€130,000 and €0 in 2014). Fees for the audit of branches and subsidiaries abroad amounted to €24,000 in 2015 (€22,000 in 2014).

Fees received by other companies in the PwC network for tax advisory services and other services provided in 2015 amount to €116,000 and €1,232,000. Fees for these services in 2014 totalled €170,000 and €981,000, respectively.

Other information

Non-recurrent general expenses at 31 December 2015 amount to €8,773,000 (€6,865,000 at 31 December 2014).

The cost/income ratio (personnel and general expenses/gross income) at 2015 year-end stood at 50.45% (46.16% excluding TSB), a notable improvement over the cost/income ratio at the end of 2014, which stood at 53.14%. When calculating these ratios the results of financial operations and recurring net exchange differences were considered for both years, amounting to €400 million per year.

Note 38 – Impairment losses on financial assets (net)

The composition of this item of the consolidated income statement at 31 December 2015 and 2014 is as follows:

Thousand euro

	Note	2015	2014
Loans and receivables (*)	11	(1,396,177)	(1,763,848)
Other financial instruments not measured at fair value through profit or loss		(132,390)	(15,710)
Available-for-sale financial assets		(132,390)	(15,710)
Debt securities	8	1,719	5,556
Other equity instruments	9	(134,109)	(21,266)
Total		**(1,528,567)**	**(1,779,558)**

(*) The sum of these figures equals the sum of the allowances/reversals charged or credited to the income statement in respect of value adjustments made to cover credit risk (Note 11), amortisations charged to the income statement in respect of derecognised financial assets and the recovery of write-offs (Note 11).

Note 39 – Impairment losses on other assets

Impairment losses for remaining assets (net) for the years to 31 December 2015 and 2014 break down as follows:

Thousand euro

	Note	2015	2014
Goodwill and other intangibles	17	(1)	-
Tangible assets	16	(158,626)	(88,161)
For own use		(3,011)	11,418
Investment property		(155,615)	(99,579)
Investments	15	(25,694)	(36,821)
Inventories	18	(459,623)	(326,580)
Total		**(643,944)**	**(451,562)**

The total investment property impairment provision for 2015 was calculated based on Level 2 valuations (Note 6). The fair value of impaired assets amounts to €2,341,905,000.

No impairments in Shareholdings have been calculated based on Level 2 and 3 valuations (Note 6.). The fair value of impaired assets amounts to €20,847,000.
Under impairments in Shareholdings, €59.2 million correspond to the impairment of the shareholding in Metrovacesa (Recorded prior to the sale of this shareholding) and €30.2 million correspond to the impairment of the shareholding in Ribera Salud, S.A.

Of the total inventory impairment provision for 2015, €168,492,000 was calculated based on Level 2 valuations and €291,131,000 based on Level 3 valuations. The fair value of impaired assets amounts to €3,655,548,000.

Note 40 – Gains/(losses) from disposals of assets not classified as non-current assets held for sale

The composition of this item on the consolidated income statement for the years ended 31 December 2015 and 2014 is as follows:

Thousand euro

	2015	2014
Gains	**69,202**	**267,909**
On sales of tangible assets	29,395	8,410
On investment properties	14,578	-
On sales of equity investments (*)	18,983	21,387
Other	6,246	238,112
Losses	**(86,162)**	**(30,961)**
On sales of tangible assets	(35,647)	(9,646)
On investment properties	-	-
On sales of equity investments (*)	(50,070)	(9,976)
Other	(445)	(11,339)
Total	**(16,960)**	**236,948**

(*) The net impact is €31,087,000. See details in Schedule I - Companies no longer consolidated in 2015.

The amount corresponding to gains from sales of tangible assets is included in returns obtained from the sale of a building located on Príncipe de Vergara in Madrid at a cost of €21.2 million, and in the amount corresponding to losses from sales mainly includes returns from the sale of offices which had already closed.

Gains/(losses) for 2014 include principally the arrangement by Mediterráneo Vida, Sociedad Anónima de Seguros y Reaseguros of a reinsurance contract on its individual life insurance (risk) portfolio and the sale by Banco Sabadell of its debt collection management business. See Note 2.

Note 41 – Negative goodwill on business combinations

The negative consolidation difference for 2015 was mainly generated by the business combinations carried out with TSB, as explained in Note 2.

Note 42 – Gains/(losses) from non-current assets held for sale not classified as discontinued operations

This heading breaks down as follows at 31 December 2015 and 2014:

Thousand euro

	Note	2015	2014
Net gains on property sales		(79,607)	(174,373)
Impairment of non-current assets held for sale	14	(101,261)	(264,260)
Gain/(loss) on sale of equity instruments classified as non-current assets held for sale		-	-
Total		**(180,868)**	**(438,633)**

The impairment of non-current assets held for sale does not include income derived from the increase in the fair value less costs of sale.

The total non-current assets held for sale impairment provision in 2015 was calculated based on Level 2 valuations (Note 6). The fair value of impaired assets amounts to €2,521,979,000.

Note 43 – Segment reporting

Segmentation criteria

The business units described below are based on the group's organisational structure in effect since 1 July 2015.

Segment reporting is organised primarily according to geography, and secondarily according to their target customers.

Segmentation by geography and business unit

Concerning the 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 analytical accounting for income and expense where particular business lines are allocated to one or more legal entities. The income and expense for each customer can thus be assigned according to the business to which they have been allocated.

Each business division is treated as a free-standing operation. Where services are provided by one division to another (distribution, services, systems, etc.) inter-unit commissioning 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 the indirect costs attributable to Central Services divisions.

Capital is allocated in such a way that each business has the equivalent of the minimum regulatory capital requirement to cover its risk exposure. This minimum regulatory requirement depends on the body responsible for supervising each business area.

Key data for each business division are shown in the tables that follow:

a) By business unit

Details of profit before tax and other financial data for each business unit for the year 2015 are shown in the table below, along with a reconciliation of the totals shown in the table with those shown in the consolidated group accounts:

	2015			
Thousand euro	Banking Business in Spain	Asset transformation	Banking business in UK (*)	Banking business in America
Net interest income	**2,479,316**	**(44,772)**	**539,620**	**216,096**
Net fees and comissions	878,499	(1,584)	78,829	26,460
Other income	1,161,305	107,853	(3,721)	2,209
Gross income	**4,519,120**	**61,497**	**614,728**	**244,765**
Operating expenses	(1,821,970)	(143,180)	(493,566)	(142,338)
Of which: personnel expenses	*(1,078,081)*	*(50,491)*	*(238,036)*	*(83,636)*
Provisions (net)	18,350	(71)	-	2,938
losses due to asset impairment	(1,571,893)	(508,448)	(59,500)	(29,152)
Other profit/(loss)	283,689	(254,005)	-	4,769
Profit/(loss) before taxes by segment	**1,427,296**	**(844,207)**	**61,662**	**80,982**
Ratios (%)				
ROE	14.1%	(20.0%)	5.3%	14.5%
Cost/income ratio	42.5%	-	77.9%	54.1%
Other data				
Personnel	16,260	712	8,224	764
Spanish and foreign branches	2,224	-	614	28

Reconcilation of profit/(loss) before taxes	**Consolidated**
Total business units	725,733
(+/-) Other results (**)	19,028
Profit/(loss) before taxes	**744,761**

(*) Only includes TSB Banking Group PLC and 6 months of results. Exchange rate applied on balance sheet: GBP 0.7340, on income statement: GBP 0.7201 (average of the last six months).

(**) Relates to results from undisclosed geographies.

Thousand euro	2014 Banking Business in Spain	Asset transformation	Banking business in UK (*)	Banking business in America
Net interest income	**2,115,031**	**(11,192)**	**-**	**148,082**
Net fees and comissions	816,664	(659)	-	25,722
Other income	1,656,713	15,228	-	3,179
Gross income	**4,588,408**	**3,377**	**-**	**176,983**
Operating expenses	(1,789,503)	(135,824)	-	(111,365)
Of which: personnel expenses	*(1,092,718)*	*(39,246)*	-	*(64,041)*
Provisions (net)	169,522	(1,847)	-	3,485
losses due to asset impairment	(1,797,973)	(407,293)	-	(22,995)
Other profit/(loss)	251,626	(455,884)	-	2,525
Profit/(loss) before taxes by segment	**1,422,079**	**(997,472)**	**-**	**48,632**
Ratios (%)				
ROE	13.1%	(39.3%)	-	10.8%
Cost/income ratio	48.6%	-	-	58.0%
Other data				
Personnel	16,046	668	-	692
Spanish and foreign branches	2,285	-	-	28

Reconcilation of profit/(loss) before taxes	Consolidated
Total business units	473,239
(+/-) Other results (**)	13,154
Profit/(loss) before taxes	**486,393**

(*) Only includes TSB Banking Group PLC.
(**) Relates to results from undisclosed geographies.

Average total assets for the group as a whole at 31 December 2015 were €186,538,365,000, compared with €163,372,812,000 on the same day in 2014.

The types of products and services from which ordinary income is derived are described below for each business unit:

- Banking business in Spain includes the following business units for customers:

    - Commercial Banking offers products for both investors and savers. Products for investment include mortgage loans and credit facilities. The product range for savers includes demand and term deposit accounts, mutual funds and pension plans.

      Other business areas worthy of mention are insurance products and payment media such as credit card and transfers.

    - Corporate Banking has a comprehensive offering of specialised financing services and solutions, ranging from transaction banking to more sophisticated, tailor-made solutions in such areas as financing, treasury services and corporate finance.

    - Markets and Private Banking provides and designs products and services with high added value, in order to achieve good profitability for the customer, increase and diversify the customer base and ensure the consistency of investment processes by means of a rigorous analysis and a recognised high quality management, while taking the customer relationship model to the multichannel level.

- Asset Transformation: comprehensively manages the group's non-performing exposure and real estate exposure . It also establishes and implements the strategy for real estate subsidiaries, among which Solvia is particularly notable. In terms of non-performing exposure and real estate exposure, the unit focuses on developing the asset transformation strategy and integrating a global view of the group's balance sheet of real estate assets in order to maximise their value.

- Business banking United Kingdom: only includes TSB Banking Group PLC and 6 months of results. The TSB franchise includes retail business that is carried out in the United Kingdom and which includes current and savings accounts, personal loans, cards and mortgages.

- Business banking America: offers all types of banking and financial services, from the more complex and specialised services for large enterprises, such as *Project finance* operations, to products for individuals, offering all the products and services that professionals and companies of any size may need.

The ordinary income generated by each business unit in 2015 and 2014 was as follows:

Thousand euro

	Consolidated					
	Ordinary income from customers		Ordinary income between segments		Total ordinary income	
SEGMENTS	**31/12/15**	**31/12/14**	**31/12/15**	**31/12/14**	**31/12/15**	**31/12/14**
Banking business in Spain	4,629,242	4,886,375	245,005	337,621	4,874,247	5,223,996
Asset Transformation	377,195	456,160	27,168	25,225	404,363	481,385
Banking business in UK	798,311	-	-	-	798,311	-
Banking business in America	310,976	206,505	-	-	310,976	206,505
(-) Ajustments and eliminations of ordinary income between segments	-	-	(276,617)	(365,577)	(276,617)	(365,577)
Total	**6,115,724**	**5,549,040**	**(4,444)**	**(2,731)**	**6,111,280**	**5,546,309**

The following table shows the proportion of the total income in 2015 and 2014 of balances, net interest income, and net fees and commissions:

%

	2015				
	Segmentation of net interest income and net fees and commissions				
	Loans and advances to customers		Customer deposits		Income from services (*)
	% of average balance	% yield to total	% of average balance	% of cost to total	% of total balance
SEGMENTS					
Banking business in Spain	66.0%	73.3%	64.1%	76.4%	83.9%
Asset Transformation	5.5%	3.6%	0.2%	0.1%	0.4%
Banking business in the UK	23.7%	16.4%	31.1%	16.7%	12.3%
Banking business in America	4.8%	6.7%	4.6%	6.8%	3.3%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

(*) % per segment of total fees.

%

	2014				
	Segmentation of net interest income and net fees and commissions				
	Loans and advances to customers		Customer deposits		Income from services (*)
	% of average balance	% yield to total	% of average balance	% of cost to total	% of total balance
SEGMENTS					
Banking business in Spain	83.0%	87.4%	94.4%	97.1%	96.1%
Asset Transformation	12.2%	7.9%	0.5%	0.2%	0.6%
Banking business in the UK	-	-	-	-	-
Banking business in America	4.8%	4.6%	5.1%	2.7%	3.2%
Total	**100%**	**100%**	**100%**	**100%**	**100%**

(*) % per segment of total fees.

Section 2 of the Directors' Report contains a more detailed analysis of each of these lines of business.

Note 44 – Tax situation (corporate income tax)

Consolidated tax group

Banco de Sabadell, S.A. is the parent company of a tax consolidation group for corporate income tax purposes, comprising all the Spanish companies in which Banco de Sabadell, S.A. holds an interest that meets the requirements of the Spanish Corporate Income Tax Act (see Schedule I).

The remaining Spanish companies in the accounting group pay income tax individually.

Companies in the accounting group that are not resident in Spain for tax purposes are taxed in accordance with the tax regulations applicable to them.

Reconciliations

The reconciliation of the difference between consolidated accounting results and Corporation Tax taxable income is as follows:

Thousand euro

	2015	2014
Profit/(loss) before taxes	744,761	486,393
Increases in tax base	2,161,120	1,128,325
From profits	2,161,120	1,128,325
From equity	-	-
Decreases in tax base	(951,151)	(1,335,133)
From profits	(866,445)	(1,001,810)
From equity	(84,706)	(333,322)
Taxable base	**1,954,730**	**279,586**
Tax payable (30%)	**586,419**	**83,876**
Deductions for double taxation, training and other	(1,452)	(21,855)
Tax payable	**584,967**	**62,021**
Due to temporary differences (net)	(499,886)	51,347
Adjustments for tax credits		(11,222)
Other adjustments (net)	(52,565)	7,602
Corporate income tax	**32,516**	**109,748**

€45.3 million (GBP 32 million) are included under "other adjustments", corresponding to the effect of the change seen in tax regulations of the United Kingdom affecting TSB Bank PLC. The legislative change introduces a surcharge of 8%, effective as of 1 January 2016, and applicable to the tax bases exceeding GBP 25 million per year, and also reduces the main tax rate from 20% to 19% as of 1 April 2017, and to 18% as of 1 April 2020.

The reconciliation between the group corporate income tax expense calculated by applying the general tax rate and the expense recorded for corporate income tax on the consolidated income statements is as follows:

Thousand euro

	2015	2014
Profit/(loss) before taxes	744,761	486,393
Domestic tax rate (30%)	223,428	145,918
Untaxed income (negative consolidation difference)	(79,807)	-
Effect of different tax rates (foreign companies) (*) (**)	(49,588)	4,570
Capital reserve/Generated deductions/Non-deductible expenses	(8,786)	3,276
Income subject to lower tax rates (dividends and international source income)	(426)	(14,506)
Income associates and jointly-controlled entities	(14,639)	(30)
Rest	(37,668)	(29,480)
Corporate income tax expense	**32,516**	**109,748**
Effective tax rate	*4%*	*23%*

(*) Calculated using the difference between the tax rate for the Group in Spain (30%) and the one applied to the Group results in each jurisdiction.

(**) includes €43.5 million due to a change in UK tax regulations as explained previously.

Taxable income – increases and deductions

The increases and deductions in taxable income are analysed in the following table on the basis of whether they arose from temporary or permanent differences.

Thousand euro

	2015	2014
Permanent difference	23,311	34,151
Temporary difference arising during the year	1,701,251	836,263
Temporary difference arising in prior years	436,558	257,911
Increases	**2,161,120**	**1,128,325**
Permanent difference	(479,627)	(69,801)
Temporary difference arising during the year	-	(2,590)
Temporary difference arising in prior years	(471,524)	(1,262,741)
Decreases	**(951,151)**	**(1,335,133)**

Deferred tax assets and liabilities

Under current tax and accounting regulations certain temporary differences can be taken into account when quantifying the relevant corporate income tax expense.

Royal Decree-Law 14/2013 of 29 November on urgent measures to adapt Spanish legislation to the European Union regulations on bank supervision and solvency has caused an amendment to the Spanish Corporate Income Tax Act in the following terms:

- Effective for tax periods beginning on or after 1 January 2011, allowances for impairment of loans and other assets arising from the possible insolvency of debtors not related to the taxpayer and those pertaining to apportionments or contributions to social welfare systems and, where appropriate, early retirement (“monetisable deferred tax assets”) which might have generated deferred tax assets are to be included in the tax base in accordance with the provisions of the Corporate Income Tax act, subject to the limit of the positive taxable base prior to their inclusion and the offsetting of tax losses. The application of this rule meant, for the group, a decrease in tax credit for tax loss carryforwards as well as an increase in deferred tax assets related to loan impairment, real estate asset impairment and expenses related to pension obligations recorded at 31 December 2012.

- The monetisable deferred tax assets will become an enforceable claim against the tax authorities in cases where the taxpayer incurs accounting losses or the entity is liquidated or judicially declared insolvent.

Subsequently, on 28 November 2014, Law 27/2014 on Corporate Income Tax was enacted and is effective for tax periods beginning on or after 1 January 2015, except for final provisions four to seven, which entered into force on 29 November 2014.

The main amendments to Law 27/2014 were:

- Tax-loss carryforwards pending offset at 1 January 2016 may be offset in the following tax periods without any time limit.

- The general tax rate has been reduced from 30% to 25%. However, the Law provides that the 30% tax rate is to be maintained for Financial Institutions and their tax consolidation groups.

- Limitation on the inclusion of monetisable deferred tax assets in the tax base and offsetting of tax losses at 25% for 2014 and 2015, 60% for 2016 and 70% for 2017 and subsequent periods.

The origins of deferred tax assets and liabilities recorded on the balance sheet at 31 December 2015 and 2014 are as follows:

Thousand euro

Deferred tax assets	2015	2014
Monetisable	**5,521,558**	**5,283,682**
Due to credit impairment	3,555,130	3,676,767
Due to real-estate asset impairment	1,836,497	1,478,592
Due to pension schemes	129,931	128,323
Non-monetisable	**618,348**	**313,712**
Due to merger funds	141,965	144,549
Due to impairment of foreign credit	77,236	-
Due to other non-deductible provisions	13,139	27,269
Due to impairment of equity and debt instruments	136,787	63,161
Other	249,221	78,733
Tax credits for losses carried forward	**430,598**	**530,601**
Deductions not applied	**6,008**	**16,168**
Total	**6,576,512**	**6,144,163**

Deferred tax liabilities	2015	2014
Property restatements	74,081	91,701
Adjustments to value of wholesale debt issuances arising on business combinations	104,177	141,737
Other financial asset value adjustments	244,048	434,698
Other	69,837	145,625
Total	**492,143**	**813,761**

The breakdown of deferred tax assets and liabilities by country is as follows:

Thousand euro

Country	Deferred tax assets	Deferred tax liabilities
Spain	6,314,494	487,073
UK	168,683	107
USA	79,374	4,564
Mexico	13,371	244
Others	590	155
Total	**6,576,512**	**492,143**

On the basis of the projections included in the group's business plan ("Plan Triple") for 2014 to 2016 and future projections beyond that date made using parameters which are similar to those applied in the plan, the group expects to recover the non-monetisable deferred assets and the credits for loss carryforwards (currently not subject to any time limit) within a maximum of 5 years.

Other information

The Banco Sabadell group obtained income qualifying for the reinvestment deduction regulated by Article 42 of the revised Corporate Income Tax Act, which was invested in the years indicated below:

Thousand euro

Year in which qualifying income was generated	Amount of income	Year of reinvestment
2007 to 2010	536,260	2010
2011	6,318	2011
2013	5,640	2012
2013	30,008	2013
2014	43,759	2014

Information on mergers carried out in previous years has been included in the consolidated annual accounts of the years in which each merger took place.

Capitalisation reserve and reserve for investments in the Canary Islands

Law 27/2014, of 27 November 2014, on Company Tax, recognises for the tax years started as of 1 January 2015, the right to apply a reduction in the consolidated tax base of 10% of the increase in the own funds of the tax group, subject to the fulfilment the following requirements:

- That the amount of the increase in own funds of the tax group be maintained over a period of 5 years from the closing of the tax period to which the reduction corresponds, with the exception of the existence of accounting losses.
- That a reserve be set up in the amount of the reduction, which must be shown on the balance sheet completely separate and under an appropriate heading, and shall be unavailable during the term established in the preceding section. The reserve may be set up by any of the entities of the tax group (Note 3).
- The amount of the aforementioned increase in own funds is mainly determined by the positive difference between: (a) The own funds of the tax group existing at the end of the year, not including results, and (b) the own funds of the tax group existing at the beginning of the year, not including the results of the previous year.

Considering that the increase in the own funds of the tax group has been estimated at 31 December 2015 at €366 million, the reduction that would be applicable to the consolidated tax base would amount to €36 million.

As explained in Note 3 of these consolidated annual accounts, the Annual General Meeting held on 28 May 2015 approved a reserve for investments in the Canary Islands of €169,000. This reserve was fully materialised in 2014 by means of investments carried out in that same year in various items of plant and equipment classified as installations.

Years open to inspection

During 2014 the inspection proceedings undertaken by the Spanish Tax Administration against Banco de Sabadell, S.A. in relation to corporate income tax from 2006 to 2010, Value Added Tax from 07/2008 to 12/2010, Withholdings and payments on account of tax on investment income from 07/2008 to 12/2010 and Withholdings and payments on account of tax on earned income from employment or professional activities from 07/2008 to 12/2010 were completed, as were the inspection proceedings by the Guipúzcoa Regional Tax Inspectorate against Banco de Sabadell, S.A. as the successor entity of Banco Guipuzcoano, S.A. The results of these inspections have not caused any significant impact on the income statement of Banco de Sabadell, S.A. at 31 December 2014.

The inspections by the Tax Administration led to assessment being raised for a total tax liability of €33,091,000, which were contested in their entirety by the bank and the acquired and subsequently merged entities. The group has, in any event, made suitable provisions for any contingencies that could 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, the possibility of such liabilities arising is remote, and if they did arise the resulting tax charge would not be such as to have any significant impact on the Annual Accounts.

The review of all taxes not verified and not legally prescribed is still pending for all companies that form part of the group.

Note 45 – Related party transactions

No significant transaction took place with any shareholder during the years 2015 and 2014, except as described below; those transactions that did take place were in the normal course of businesses and on an arm's length basis.

According to a significant event issued to the Comisión Nacional del Mercado de Valores (Spanish Securities and Stock Exchange Commission) on 1 October 2015, Banco Sabadell acquired 8,238,084 shares of the Colombian bank Banco GNB Sudameris, S.A., representing 4.99% of its share capital, for a price of USD 50,000,000. A major shareholder of Banco GNB Sudameris is Gilex Holding, B.V., a subsidiary of Starmites Corporation, S.A.R.L., a company owned by Mr Jaime Gilinski Bacal, who is a significant shareholder in Banco Sabadell.

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 conducted at market prices or on the terms normally applicable to employees.

The group is not aware of any transaction, other than on an arm's length basis, involving any person or entity connected in any way to a director or to Senior Management.

The most significant balances recorded by the group in its dealings with related parties, and the effect on the income statement of transactions entered into with them, are shown in the following table:

Thousand euro

	2015					2014
	Entities that are jointly contolled or have a significant influence on Banco Sabadell	Associates	Key personnel	Other related parties (*)	TOTAL	TOTAL
Assets:						
Loans and advances to customers and other financial assets	-	138,005	19,489	1,221,614	**1,379,108**	**1,840,338**
Liabilities:						
Customer deposits and other financial assets	55	843,023	8,725	482,846	**1,334,649**	**2,151,325**
Memorandum accounts:						
Contingent exposures	-	8,219	-	235,164	**243,383**	**301,518**
Contingent commitments	-	1,442	3,570	160,178	**165,190**	**192,751**
Income statement:						
Interest and similar income	-	2,433	180	17,321	**19,934**	**57,674**
Interest and similar charges	-	(26,077)	(102)	(1,737)	**(27,916)**	**(78,356)**
Return on equity instruments	-	49	-	-	**49**	**3,688**
Net fees	-	31,954	34	3,252	**35,240**	**46,095**
Other operating income	-	1,765	-	27,392	**29,157**	**1,785**

(*) Includes employee pension schemes.

Note 46 – Remuneration paid to members of the Board of Directors and Senior Management

The following table shows, for the years ended 31 December 2015 and 2014, the amount paid to directors in fees and in contributions to meet directors' pension commitments for services rendered by them in that capacity:

Thousand euro

	Remuneration		Pension commitments		Total	
	2015	2014	2015	2014	2015	2014
José Oliu Creus (*)	214	214	32	32	246	246
José Manuel Lara Bosch (1)	4	131	-	-	4	131
José Javier Echenique Landiribar (2)	184	137	-	-	184	137
Jaime Guardiola Romojaro (*)	92	92	-	-	92	92
Aurora Catá Sala (3)	83	-	-	-	83	-
Héctor María Colonques Moreno	119	123	16	16	135	139
Sol Daurella Comadrán (4)	-	75	-	-	-	75
Joaquín Folch-Rusiñol Corachán	102	100	16	16	118	116
M. Teresa Garcia-Milà Lloveras	130	105	-	-	130	105
José Manuel Lara García (5)	48	-	-	-	48	-
Joan Llonch Andreu	130	138	16	16	146	154
David Martínez Guzmán (6)	83	59	-	-	83	59
José Manuel Martínez Martínez	148	127	-	-	148	127
José Ramón Martínez Sufrategui	107	96	-	-	107	96
António Vítor Martins Monteiro	87	83	-	-	87	83
José Luis Negro Rodríguez (*)	92	92	16	16	108	108
José Permanyer Cunillera (7)	67	107	-	16	67	123
David Vegara Figueras (8)	88	-	-	-	88	-
Total	**1,778**	**1,679**	**96**	**112**	**1,874**	**1,791**

(*) Executive directors.

(1) Appointed First Deputy Chairman by the Board of Directors on 30 September 2013 and removed on 31 January 2015 due to their decease.

(2) Appointed independent coordinating Board Member by the Board of Directors on 23 April 2015

(3) Appointed independent Board Member by the Board of Directors on 29 January 2015. At the Annual General Meeting held on 28 May 2015, the shareholders ratified the Board of Directors' co-opted appointment and approved the appointment as a member of the Board of Directors.

(4) Resigned from position of director with effect from the end of the Board meeting on 20 November 2014.

(5) Appointed independent Board Member by the Board of Directors on 19 March 2015. At the Annual General Meeting held on 28 May 2015, the shareholders ratified the Board of Directors' co-opted appointment and approved the appointment as a member of the Board of Directors.

(6) Appointed to the Board during Annual General Meeting held on 27 March 2014.

(7) Resigned frrom position of Board member on 23 April 2015 with effect from the Annual General Meeting held on 28 May 2015.

(8) Appointed to the Board by the Board of Directors at the Annual General Meeting held on 28 May 2015.

Other than the items mentioned above, the members of the Board of Directors have received €71,000 as fixed remuneration in 2015 (€148,000 in 2014) by reason of their belonging to boards of directors in Banco Sabadell group companies or to advisory boards (these amounts are included in the annual report on directors' remuneration).

Contributions for life assurance premiums covering contingent pension commitments in respect of pension rights accruing in 2015 amounted to €3,780,000 (€3,362,000 in 2014), of which €96,000 is detailed in the table above and €3,684,000 pertains to directors for the performance of executive functions.

Emoluments paid to directors for performing executive functions during 2015 totalled €6,021,000 (€5,847,000 in 2014).

Loan and guarantee risks undertaken by the bank and consolidated companies for the directors of the parent company totalled €14,155,000 at 31 December 2015, of which €11,657,000 comprised loans and €2,498,000 related to guarantees and documentary credit (€13,358,000 in 2014, consisting of €10,715,000 in loans and €2,643,000 in guarantees and documentary credit). The average interest rate charged was 0.91% (1.13% in 2014). Balances of liabilities in 2015 totalled €8,047,000 (€9,436,000 in 2014).

Senior Management remuneration accrued during 2015 amounted to €6,941,000. Under the applicable regulations, said amount includes the remuneration of the seven members of the Senior Management plus the Internal Audit Director.

Risks undertaken by the bank and consolidated companies for the senior management (other than executive directors, for whom details are provided above) totalled €8,904,000 at 31 December 2015 (€15,102,000 in 2014), comprising €7,832,000 in loans and €1,072,000 in guarantees and documentary credit (and in 2014, of which €13,776,000 relates to loans and €1,326,000 to guarantees and documentary credit). Balances of liabilities totalled €678,000 (€494,000 in 2014).

Share appreciation rights granted to Executive Directors and the Internal Audit Director under the new 2015 remunerations incentive plan (Note 37) resulted in personnel expenses of €2.2 million during the year .

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 Annual Report on Corporate Governance, which forms part of the Directors' Report.

The directors and managers mentioned above are specified below with their positions in the bank at 31 December 2015:

Executive Directors	
José Oliu Creus	Chairman
Jaime Guardiola Romojaro	Managing Director
José Luis Negro Rodríguez	Director and General Manager
Senior Management	
María José García Beato	Deputy Secretary to the Board - General Secretary
Tomás Varela Muiña	General Manager
Miquel Montes Güell	General Manager
Carlos Ventura Santamans	General Manager
Fernando Pérez-Hickman Muñoz	General Manager
Ramón de la Riva Reina	Assistant General Manager
Enric Rovira Masachs	Assistant General Manager

Other information about the Board of Directors

In accordance with Article 229 of Law 31/2014 of 3 December which amended the Spanish Companies Act in order to improve corporate governance and strengthen transparency in business corporations, the directors have notified the entity that, during 2015, they and persons related to them, as defined in Article 231 of the Spanish Companies Act:

a. Have not carried out transactions with the Entity, without taking into account ordinary operations performed in standard conditions for customers and of little relevance, these being understood as those the reporting of which is not necessary to express a true and fair view of the entity's equity, financial situation and results.

b. Have not used the Entity's name or invoked their status as director to unduly influence the course of private transactions.

c. Have not used corporate assets, including the entity's confidential information, for private purposes.

d. Have not taken advantage of the Entity's business opportunities.

e. Have not obtained benefits or remuneration from third parties other than the Entity and its group associated with the fulfilment of their positions, except in cases of items in which mere courtesy is involved.

f. Have not carried out activities for their own or a third party's account involving effective competition with the Company, whether on an occasional or potential basis, or which might otherwise place them in permanent conflict with the Company's interests

Note 47 – Other information

Environmental disclosures

All global 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 minimise 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 environment-related contingencies, it was not thought necessary to make any provision for risks or expenses of this nature.

Section 3 of the Directors' Report provides more details of the Bank's environmental policies and actions.

Customer Service Department

The Customer Service Department is located on the control line of the organisational structure of Banco Sabadell group and its director, who is appointed by the Board of Directors, reports to the General Secretariat of the Bank. Its functions are to handle and resolve complaints and claims by customers and users of the group's financial services, when these relate to their interests and legally recognised rights arising from contracts, transparency and customer protection rules or good banking practices.

Cases handled

During 2015, the Customer Service Department received 21,517 complaints and claims (25,156 in 2014), of which 19,773 (24,061 in 2014) were accepted, in accordance with the provisions of Finance Ministry Order 734/2004 of 11 March. The number of cases handled, however, was 19,650 (26,085 in 2014) due to the resolution of issues pending from the previous year (558 cases, against 681 in 2015). By type, 14.7% were complaints (11.1% in 2014) and 85.3% were claims (88.9% in 2014).

Of the total complaints and claims examined by the Customer Service Department, 51.9% resulted in a decision that was favourable to the customer or user (42.1% in 2014), 3.9% were settled by agreement with the customer or user (8.4% in 2014) in 1.6% of cases the customer withdrew the claim (0.9% in 2014) and 38% were resolved in favour of the institution (39.2% in 2014). At 31 December 3.3% of cases had yet to be ruled on by the regulatory bodies and the Customer and Stakeholder Ombudsman. Finally, the Customer Service Department declared itself not to be competent in 1.3% of the cases.

In addition to its main activity, the Customer Service Department also provides assistance and information to customers and users on matters that do not take the form of complaints or claims, in accordance with Finance Ministry Order 734/2004 of 11 March, and the Regulations for the Protection of Customers and Financial users of the Banco Sabadell group. In this respect, the Department has handled 408 requests for assistance and information during 2015, compared to 769 in 2014.

The average response time to complaints and claims was as follows: 12,011 cases were resolved within 15 days (15,849 cases in 2014), 5,046 cases were resolved between 15 and 30 days (5,338 cases in 2014) and 2,593 cases were resolved in a period of over 30 days (4,848 cases in 2014). This compares with the maximum 60-day response time stipulated by the Finance Ministry Order and the Bank's Regulations for the Protection of Customers and Financial Users.

Customer and Stakeholder Ombudsman

In the group, the role of Customer and Stakeholder Ombudsman is assumed by Mr José Luís Gómez-Dégano y Ceballos-Zúniga. The Ombudsman is responsible for resolving the complaints brought by the customers and users of the Banco Sabadell group, both in the first and second instances, and for settling issues that are passed on to him by the Customer Service Department.

The Customer and Stakeholder Ombudsman received 1,284 complaints and claims in 2015 (1,651 in 2014), of which 1,273 were accepted. During the year the Ombudsman has processed and resolved 1,150 claims (1,752 in 2014), as certain matters had remained unresolved from the previous year. At 31 December 2015, 132 claims remained to be resolved by the Ombudsman (140 in 2014). In 38 cases, the Customer Service Department had yet to present the relevant allegations.

Of the total complaints and claims resolved by the Ombudsman, 32.4% were resolved in favour of the bank (41.7% in 2014) and 2.2% in favour of the customer (22.7% in 2014). Of the remaining cases to be processed and resolved, the bank agreed to customer petitions in 43.7% of the cases (10.7% in 2014). In 17.1% of the cases (16.8% in 2014) the Ombudsman did not act due to a lack of competence (without prejudice to the claimants' option to pursue their claims elsewhere). 0.5% of the cases were settled by agreement with the client or user (7.4% in 2014) and in 4.0% of the cases the customer withdrew the complaint (0.5% in 2014).

Bank of Spain, CNMV and Directorate General for Insurance and Pension Plans

Under current legislation, customers and users can submit their grievances and complaints to the Market Conduct and Complaints Department of the Bank of Spain, the CNMV (Spanish Securities Commission) and the Directorate General for Insurance and Pension Plans. In any event, it is a prerequisite that the parties concerned first address their complaints to the banking institution concerned in order to resolve the conflict.

Note 48 – Post-balance sheet events

Since 31 December 2015 there have been no events worthy of mention.

Schedule I – Banco Sabadell group companies

Banco Sabadell Group fully consolidated companies at 31 December 2015

Thousand euro

Company name	Principal business	Registered office	Percentage shareholding		Consolidated taxation	Company data (1)					Net investment by group	Contribution to reserves or losses in consolidated companies	Contribution to consolidated group results	Balance sheet date
			Direct	Indirect		Capital	Reserves	Results (2)	Dividends paid	Total assets				
Activos Valencia I, S.A.U. (in liquidation)	Real estate	Valencia	0.00	100.00	No	10,000	19,812	(57,752)	-	2,211	168,777	(43,544)	(57,752)	12/15
Alfonso XII, 16 Inversiones, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	No	11,400	(24,502)	(503)	-	8,930	15,939	(15,682)	(503)	12/15
Arrendamiento De Bienes Inmobiliarios Del Mediterráneo, S.L.	Real estate	Alicante	100.00	0.00	Yes	100	12,429	(164)	-	12,431	20,038	(9,026)	(164)	12/15
Assegurances Segur Vida, S.A.U.	Other regulated companies	Andorra	0.00	50.97	No	602	372	68	63	71,541	602	189	68	12/15
Aurica Capital Desarrollo, S.G.E.I.C., S.A.Unipersonal (1)	Collective investment institutions management	Barcelona	100.00	0.00	Yes	601	332	(240)	-	919	1,446	(513)	(240)	12/15
Aurica Xxi, S.C.R. De R.S., S.A.U.	Other regulated companies	Barcelona	100.00	0.00	Yes	14,200	36,180	(5,412)	-	48,554	17,492	33,286	(5,412)	12/15
Ballerton Servicios, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	0.00	100.00	Yes	50	24,334	100	-	24,486	3,140	(111)	100	12/15
Banco Atlantico (Bahamas) Bank & Trust Ltd.	Credit institution	Bahamas	99.99	0.01	No	1,837	876	(6)	-	3,455	2,439	704	(6)	06/15
Banco De Sabadell, S.A.	Credit institution	Sabadell	0.00	0.00	Yes	679,906	11,742,689	402,449	-	163,629,701	-	8,410,409	402,449	12/15
Banco Sabadell, S.A., Institución De Banca Múltiple (2)	Credit institution	Mexico	99.99	0.01	No	52,922	-	(6,202)	-	52,754	57,110	-	(6,202)	12/15
Bancsabadell D'Andorra, S.A.	Credit institution	Andorra	50.97	0.00	No	30,069	35,259	7,431	1,275	662,313	15,326	17,990	7,431	12/15
BanSabadell Consulting, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	100.00	0.00	Yes	3	127	125	-	718	3	127	125	12/15
Bansabadell Factura, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	100.00	0.00	Yes	100	(2,969)	256	-	1,007	299	(3,168)	256	12/15
Bansabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell	100.00	0.00	Yes	24,040	26,216	1,156	-	682,546	24,040	26,216	1,156	12/15
Bansabadell Holding, S.L.U.	SPE	Sant Cugat del Vallès	100.00	0.00	Yes	330,340	(388,318)	(46,815)	-	236,674	239,544	(329,131)	(46,815)	12/15
Bansabadell Inversió Desenvolupament, S.A.U	SPE	Barcelona	100.00	0.00	Yes	16,975	63,905	27,209	-	207,062	108,474	(5,171)	27,209	12/15
Bansabadell Inversión, S.A.U., S.G.I.I.C	Other regulated companies	Sant Cugat del Vallès	100.00	0.00	Yes	601	122,273	26,272	-	235,480	607	122,263	26,272	12/15
Bansabadell Mediación, Operador De Banca-Seguros Vinculado Del Grupo Banco Sabadell, S.A.	Other regulated companies	Barcelona	0.00	100.00	Yes	301	11,973	24,252	20,770	60,356	524	10,288	24,252	12/15
Bansabadell Renting, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	100.00	0.00	Yes	2,000	8,732	10,146	7,742	312,831	3,861	7,600	10,146	12/15
Bansabadell Securities Services, S.L.U	Other investees with their own business	Sabadell	100.00	0.00	Yes	2,500	14,066	10,260	-	29,372	2,500	13,838	10,260	12/15
Bitarte, S.A.	Other investees with their own business	San Sebastián	99.99	0.01	No	6,506	3,202	65	-	9,907	9,272	(3,473)	65	12/15
Bstartup 10, S.L.U.	SPE	Sant Cugat del Vallès	0.00	100.00	Yes	1,000	(511)	(579)	-	982	1,000	(839)	(579)	12/15
Business Services For Information Systems, S.A.	Other investees with their own business	Sabadell	81.00	0.00	Yes	240	34,410	9,528	-	513,232	3,687	30,723	9,528	12/15
Business Services For Operational Support, S.A.U.	Services	Sant Cugat del Vallès	100.00	0.00	Yes	60	1,802	359	-	5,202	60	1,793	359	12/15
Cam Capital, S.A.U.	Other regulated companies	Alicante	100.00	0.00	Yes	61	297	(31)	264	326	1,217	278	(31)	12/15
Cam Global Finance, S.A.U.	Other regulated companies	Alicante	100.00	0.00	Yes	61	64	15	-	207,727	2,059	52	15	12/15
Cam International Issues, S.A.U.	Other regulated companies	Alicante	100.00	0.00	Yes	61	337	98	156	146,903	114,079	(33,673)	98	12/15
Caminsa Urbanismo, S.A.U.	Real estate	Alicante	0.00	100.00	Yes	2,000	(1,590)	(16)	-	1,398	800	(617)	(16)	12/15

Banco Sabadell Group fully consolidated companies at 31 December 2015

Thousand euro

Company name	Principal business	Registered office	Percentage shareholding Direct	Percentage shareholding Indirect	Consolidated taxation	Company data (1) Capital	Reserves	Results (2)	Dividends paid	Total assets	Net investment by group	Contribution to reserves or losses in consolidated companies	Contribution to consolidated group results	Balance sheet date
Cantabria Generación, S.L.	Services	Santander	100.00	0.00	No	60	(902)	(100)	-	2,378	3,404	2,382		11/15
Cape Holdings No.1 Limited	Fund	London	0.00	100.00	No	-	-	-	-	-	-	-	-	12/15
Compañía De Cogeneración Del Caribe Dominicana, S.A.	Services	Dominican Republic	0.00	100.00	No	7,348	(6,583)	-	-	783	-	112	-	12/15
Delta Swing, S.A.U.	Services	Barcelona	0.00	100.00	No	981	(2,709)	(151)	-	40	-	(1,832)	(151)	12/15
Desarrollo Y Ejecución Urbanística Del Mediterráneo, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	Yes	15,533	(9,311)	(199)	-	9,491	15,279	(9,311)	(199)	12/15
Desarrollos Y Participaciones Inmobiliarias 2006, S.L.U.	Real estate	Alicante	0.00	100.00	No	1,942	(58,358)	(11,105)	-	31,955	1,919	(51,451)	(11,105)	12/15
Duncan de Inversiones SICAV, S.A.	Collective investment, funds	Barcelona	87.35	0.00	No	7,842	1,221	(43)	-	2,837	2,560	-	(43)	12/15
Duncan Holdings 2015-1 Limited	Fund	London	0.00	100.00		-	-	-	-	-	-	-	-	12/15
Easo Bolsa, S.A.	Other investees with their own business	San Sebastián	100.00	0.00	No	15,150	25,070	(1,108)	-	39,112	38,317	3,527	(1,108)	12/15
Ederra, S.A.	Real estate	San Sebastián	97.85	0.00	No	2,036	24,037	220	-	27,342	36,062	(10,549)	220	12/15
Eólica De Cuesta Roya, S.L.	Services	Zaragoza	50.97	0.00	No	3	(15)	-	-	2	2	10		11/15
Eólica De Valdejalón, S.L.	Services	Zaragoza	50.97	0.00	No	3	(19)	(1)	-	2	2	14		11/15
Épila Renovables, S.L.	Services	Zaragoza	51.00	0.00	No	8	(97)	(7)	-	203	74	(24)		11/15
Europa Invest, S.A.	Other regulated companies	Luxembourg	22.00	78.00	No	125	321	70	-	588	336	121	70	12/15
Europea Pall Mall Ltd.	Real estate	London	100.00	0.00	No	21,087	(1,323)	32	-	20,361	20,843	(1,792)	32	12/15
Exel Broker Seguros, S.A.	Other regulated companies	San Sebastián	99.40	0.60	No	100	748	1,233	963	4,094	3,940	(1,182)	1,233	12/15
Fomento De La Coruña, S.A.U.	Real estate	Sant Cugat del Vallès	0.00	100.00	No	100	(103)	(13)	-	27	9,612	(102)	(13)	12/15
Fonomed Gestión Telefónica Mediterráneo, S.A.	Other investees with their own business	Alicante	99.97	0.03	Yes	180	57	228	87	830	240	-	228	12/15
Gala Domus, S.A. (in liquidation)	Real estate	A Coruña	0.00	100.00	No	4,000	(29,003)	(128)	-	9,235	2,000	(19,836)	(128)	12/15
Galeban 21 Comercial, S.L.U.	SPE	Sant Cugat del Vallès	100.00	0.00	Yes	10,000	(4,587)	331	-	5,748	14,477	(9,054)	331	12/15
Galeban Control y Asesoramiento, S.L.U.	Services	A Coruña	100.00	0.00	Yes	8	(2)	7	-	86	80	13		11/15
Gazteluberri S.L.	Real estate	San Sebastián	0.00	100.00	No	53	(15,312)	(3,164)	-	11,838	23,891	(56,962)	(3,164)	12/15
Gest 21 Inmobiliaria, S.L.U	SPE	Sant Cugat del Vallès	100.00	0.00	Yes	7,810	(29)	(292)	-	13,460	80,516	(57,404)	(292)	12/15
Gest Galinver, S.L. (in liquidation)	Real estate	Sant Cugat del Vallès	0.00	100.00	Yes	6,580	(3,070)	(617)	-	2,906	7,155	(963)	(617)	12/15
Gestión De Proyectos Urbanísticos Del Mediterráneo, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	Yes	33,850	(15,341)	170	-	26,445	32,832	(15,341)	170	12/15
Gestión Financiera Del Mediterráneo, S.A.U.	SPE	Alicante	100.00	0.00	Yes	13,000	114,560	27,614	-	155,408	357,245	42,045	27,614	12/15
Guipuzcoano Promoción Empresarial, S.L.	SPE	San Sebastián	0.00	100.00	No	53	(70,574)	(5,911)	-	8,066	7,160	(85,355)	(5,911)	12/15
Guipuzcoano Valores, S.A.	Real estate	San Sebastián	99.99	0.01	No	4,514	3,949	(1,243)	-	7,353	10,833	(2,365)	(1,243)	12/15
Herrero Internacional Gestión, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	0.00	100.00	Yes	354	3,760	-	-	4,114	1,139	63	-	12/15
Hi Partners Holdco Gestión Activa, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	3	-	771	-	8,494	408	-		12/15
Hi Partners Holdco Value Added, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	6,506	-	4	-	8,138	6,503	-		12/15
Hip Francia 184, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	3	-	(27)	-	83	3	-		12/15
Hobalear, S.A.U.	Real estate	Barcelona	0.00	100.00	Yes	60	637	17	-	734	414	622	17	12/15
Hondarriberri, S.L.	SPE	San Sebastián	99.99	0.01	No	41	3,665	(7,278)	-	62,251	110,169	(56,060)	(7,278)	12/15
Hotel Atocha 49, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	6,500	-	24	-	6,223	3	-		12/15
Hotel Autovia Del Mediterraneo 165, S.L.U.	Real estate development	Barcelona	0.00	100.00	Yes	3	-	1	-	2	3	-		12/15
Hotel Avenida Rhode 28, S.L.U.	Real estate development	Barcelona	0.00	100.00	Yes	3	-	1	-	2	3	-		12/15
Hotel Calle De Los Molinos 10, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	-	1	-	2	3	-		12/15

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Thousand euro

Company name	Principal business	Registered office	Percentage shareholding: Direct	Percentage shareholding: Indirect	Consolidated taxation	Company data (1): Capital	Company data (1): Reserves	Company data (1): Results (2)	Company data (1): Dividends paid	Company data (1): Total assets	Net investment by group	Contribution to reserves or losses in consolidated companies	Contribution to consolidated group results	Balance sheet date
Hotel Calle Mayor 34, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	-	1	-	2	3	-		12/15
Hotel Carretera De Taull, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	-	1	-	2	3	-		12/15
Hotel Cavall Del Mar 25, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	-	1	-	2	3	-		12/15
Hotel Héroe De Sostoa 17, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	3	-	93	-	299	6,500	-		12/15
Hotel Investment Partnership, S.L. (3)	Real estate	Barcelona	100.00	0.00	Yes	22,309	-	3,376	-	66,832	45,010	-	(4,349)	12/15
Hotel Maria Tarrida 6, S.L.U	Real estate development	Barcelona	0.00	100.00	Yes	3	-	1	-	2	3	-		12/15
Hotel Mirador Del Valle, S.L.U.	Real estate	Barcelona	0.00	100.00	Yes	3	-	16	-	-	3	-		12/15
Interstate Property Holdings, Llc.	SPE	Miami	100.00	0.00	No	7,348	(16,162)	4,150	-	27,622	3,804	(16,004)	4,150	12/15
Inverán Gestión, S.L.	Real estate	Sant Cugat del Vallès	44.83	55.17	Yes	45,090	(53,400)	(1,773)	-	25,478	45,090	(33,910)	(1,773)	12/15
Inversiones Cotizadas Del Mediterráneo, S.L.	SPE	Alicante	100.00	0.00	Yes	308,000	192,435	10,488	-	509,936	589,523	(97,971)	10,488	12/15
Inversiones en Resorts Mediterráneos, S.L. (in liquidation)	Real estate	Murcia	0.00	55.06	No	299,090	(535,837)	233,681	-	881	175,124	-		12/15
Manston Invest, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	33,357	773	(5,462)	-	28,776	33,357	(2,685)	(5,462)	12/15
Mariñamendi, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	Yes	55,013	(89,011)	(1,900)	-	74,980	55,013	(91,595)	(1,900)	12/15
Mediterráneo Sabadell, S.L.	SPE	Alicante	50.00	50.00	Yes	85,000	104,641	312	723	190,076	623,393	(545,166)	312	12/15
Mediterráneo Vida, S.A.U. De Seguros Y Reaseguros	Other regulated companies	Alicante	0.00	100.00	Yes	102,044	72,193	24,276	1,901	2,482,599	127,827	(25,067)	24,276	12/15
Mirador Del Segura 21, S.L. (in liquidation)	Real estate	Sant Cugat del Vallès	0.00	100.00	No	4,637	(4,970)	203	-	1,059	4,526	(4,794)	203	12/15
Parque Eólico Jaufil, S.L.U.	Wind energy	Madrid	100.00	0.00	No	163	(3,750)	586	-	8,438	163	-		11/15
Parque Eólico Las Lomas De Lecrín, S.L.U.	Wind energy	Madrid	100.00	0.00	No	4,003	(14,858)	(998)	-	34,691	83	-		11/15
Parque Eólico Lecrín, S.L.U.	Wind energy	Granada	100.00	0.00	No	83	(1,449)	174	-	4,497	4,003	-		11/15
Parque Eólico Loma Del Capón, S.L.U.	Services	Barcelona	0.00	100.00	Yes	3,124	(1,240)	46	-	54,129	2,904	(177)	46	11/15
Parque Eólico Lomas De Manteca, S.L.U.	Wind energy	Madrid	100.00	0.00	No	163	(2,576)	567	-	8,803	163	-		11/15
Placements Immobiliers France, S.A.S.	Real estate	Paris	0.00	100.00	No	30,002	60,313	16,439	-	115,283	101,343	(3,303)	16,439	11/15
Procom Residencial Rivas, S.A.U.	Real estate	Alicante	0.00	100.00	No	12,500	(100,722)	(2,354)	-	22,576	5,625	(45,919)	(2,354)	12/15
Promociones E Inmuebles Blauverd Mediterráneo, S.L.U.	Real estate	Alicante	0.00	100.00	No	17,666	(76,398)	(3,698)	-	24,544	10,684	(42,137)	(3,698)	12/15
Promociones Y Financiaciones Herrero, S.A.	Other investees with their own business	Oviedo	100.00	0.00	Yes	3,456	269	-	-	3,724	24,185	7	-	12/15
Proteo Banking Software, S.L.U.	Other investees with their own business	Sant Cugat del Vallès	100.00	0.00	Yes	3	-	(1)	-	2	5	(2)	(1)	12/15
Sabadell Asia Trade Services, Ltd.	Other investees with their own business	Hong Kong	100.00	0.00	No	-	-	-	-	8	-	-	-	12/14
Sabadell Brasil Trade Services - Assessoria Comercial Ltda.	Credit institution	São Paulo	99.99	0.01	No	793	(706)	-	-	107	251	(154)	-	12/15
Sabadell Capital S.A De C.V. Sofom E.N.R.	Credit institution	Mexico	97.50	2.50	No	211,478	(490)	3,485	-	1,008,188	222,901	(266)	3,485	12/15
Sabadell Consumer Finance, E.F.C., S.A.U (4)	Credit institution	Sant Cugat del Vallès	100.00	0.00	Yes	35,720	26,391	12,654	-	730,254	72,232	(5,199)	12,654	12/15
Sabadell Corporate Finance, S.L.	Other subsidiaries with its own activity	Madrid	100.00	0.00	Yes	70	1,510	381	215	2,429	9,373	67	381	12/15
Sabadell D'Andorra Inversions Sgoic, S.A.U.	Other regulated companies	Andorra	0.00	50.97	No	300	1,104	324	285	2,101	300	563	324	12/15

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Sabadell Patrimonio Inmobiliario, Socimi, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	No	30,116	868,085	(24,757)	-	956,940	939,334	(44,054)	(24,757)	12/15
Sabadell Real Estate Activos, S.A.U. (5)	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	100,060	296,368	(12,970)	-	388,230	500,622	(104,194)	(12,970)	12/15
Sabadell Real Estate Development, S.L.U. (6)	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	15,807	(264,236)	(452,028)	-	4,597,107	2,147,442	(2,380,220)	(452,028)	12/15
Sabadell Real Estate Housing, S.L.U. (7)	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	2,073	1,161	(2,441)	-	35,406	14,292	(11,059)	(2,441)	12/15
Sabadell Securities Usa, Inc.	Other investees with their own business	Miami	100.00	0.00	No	735	1,815	142	-	2,789	551	1,493	142	12/15
Sabadell Solbank Sociedad De Gestión De Activos Adjudicados, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	60	2,413	(19)	-	2,467	3,074	(601)	(19)	12/15
Sabadell United Bank, N.A.	Credit institution	Miami	100.00	0.00	No	3,306	490,881	32,085	-	4,836,978	366,749	70,390	32,085	12/15
Sabadell Venture Capital, S. L.U.	Holding	Barcelona	0.00	100.00	No	3	-	(1)	-	2,004	3	-	(1)	12/15
Serveis D´Assessorament Bsa, S.A.U.	Other investees with their own business	Andorra	0.00	50.97	No	60	83	(37)	-	239	60	37	(37)	12/15
Simat Banol, S.L.U.	Real estate	Alicante	0.00	100.00	Yes	1,482	(6,027)	608	-	6,378	667	(3,818)	608	12/15
Sinia Renovables, S.C.R. De R.S., S.A.U.	Other regulated companies	Barcelona	100.00	0.00	Yes	15,000	(19,994)	6,338	-	25,923	15,000	(17,866)	6,338	12/15
Solvia Actividades Y Servicios Inmobiliarios, S.A.U.	Real estate	Alicante	100.00	0.00	Yes	60	-	(3)	-	57	60	-	(3)	12/15
Solvia Gestora De Vivienda Social, S.L.U.	Real estate	Alicante	0.00	100.00	Yes	3	-	709	-	655	3	-	709	12/15
Solvia Pacific, S.A. De C.V.	Real estate	Mexico	0.00	100.00	No	25,980	(6,982)	(2,939)	-	16,184	29,164	(7,179)	(2,939)	12/15
Solvia Servicios Inmobiliarios, S.L.U.	Real estate	Alicante	100.00	0.00	Yes	660	(5,070)	20,860	-	143,971	5,023	(6,012)	20,860	12/15
Stonington Spain, S.L.U.	Real estate	Sant Cugat del Vallès	100.00	0.00	Yes	60,729	7,111	(6,562)	-	61,551	60,729	(1,252)	(6,562)	12/15
Tasaciones De Bienes Mediterráneo, S.A. (in liquidation)	Other investees with their own business	Alicante	99.88	0.12	Yes	1,000	1,944	103	-	3,302	5,266	144	103	12/15
Tenedora De Inversiones Y Participaciones, S.L.	SPE	Alicante	100.00	0.00	Yes	296,092	27,447	(202,281)	-	2,566,475	2,397,018	(1,411,856)	(202,282)	12/15
Tierras Vega Alta Del Segura, S.L.	Real estate	Sant Cugat del Vallès	0.00	100.00	Yes	4,550	(13,298)	(988)	-	16,343	16,823	(20,579)	(988)	12/15
Tratamientos Y Aplicaciones, S.L.U. (in liquidation)	Services	Alicante	100.00	0.00	Yes	3,003	(312)	(41)	-	2,653	4,654	2,326	(41)	12/15
Tsb Bank Plc	Credit institution	Edinburgh	0.00	100.00	No	108,250	1,301,694	137,916	-	48,601,454	2,165,527	-		12/15
Tsb Banking Group Plc	Holding	London	100.00	0.00	No	6,812	(935)	13,736	-	2,692,899	2,344,750	-	120,911	12/15
Tsb Scotland (Investment) Nominees Limited	Other regulated companies	Scotland	100.00	0.00	No	1	-	-	-	-	1	-	-	12/15
Tsb Scotland Nominees Limited	Other regulated companies	Scotland	100.00		No	1	-	-	-	-	1	-	-	12/15
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulated companies	Madrid	0.00	100.00	Yes	3,606	6,955	3,982	-	21,400	5,286	5,690	3,982	12/15
Urumea Gestión, S.L.	Other investees with their own business	San Sebastián	0.00	100.00	No	9	2	(4)	-	8	9	(5)	(4)	12/15
Verum Inmobiliaria Urbanismo Y Promocion, S.A.	Real estate	Sant Cugat del Vallès	0.00	97.20	Yes	12,000	(37,547)	(1,062)	-	19,239	11,664	(30,366)	(1,062)	12/15
Viacarla Inversiones, S.A.	Services	Madrid	0.00	100.00	No	7,250	(15,192)	85	-	8,273	402	-		12/15
Vistas Del Parque 21, S.L. (in liquidation)	Real estate	Sant Cugat del Vallès	0.00	100.00	No	4,646	(4,791)	98	-	1,062	4,535	(4,672)	98	12/15
Total									**34,444**		**14,803,868**	**3,022,769**	**(66,345)**	

(*) Companies whose name has changed in 2015

(1) Formerly Sabadell Solbank Sociedad de Gestión de Activos Adjudicados, S.A.U.

(2) Formerly Desarrollos Corporativos Sabadell, S.A. De C.V

(3) Formerly Solvia Hotels, S.L.

(4) Formerly BanSabadell Fincom, E.F.C., S.A.U.

(5) Formerly Solvia Activos, S.A.U.

(6) Formerly Solvia Development, S.L.

(7) Formerly Solvia Housing, S.L.

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			Direct	Indirect		Capital	Reserves	Results (2)	Dividends paid (3)	Total assets				
Aviación Regional Cántabra, A.I.E.	Services	Madrid	26.42	0.00	No	29,606	-	2,953	49	70,564	7,824	1,233	-	09/15
Aviones Alfambra CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	No	1	2,937	292	-	11,992	1,060	(269)	-	11/15
Aviones Cabriel CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	No	1	2,855	281	-	11,861	1,060	(269)	-	11/15
Aviones Carraixet CRJ-200 Ii A.I.E.	Services	Madrid	25.00	0.00	No	1	4,047	(389)	-	6,998	894	-	-	11/15
Aviones Gorgos CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	No	1	2,778	271	-	11,727	1,060	(270)	-	11/15
Aviones Portacoli CRJ-200 Iii A.I.E.	Services	Madrid	25.00	0.00	No	1	4,196	(375)	-	7,163	897	-	-	11/15
Aviones Sella CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	No	1	2,694	260	-	11,586	1,060	(270)	-	09/15
Aviones Turia CRJ-200 I, A.I.E.	Services	Madrid	25.00	0.00	No	1	4,125	(384)	-	7,089	896	-	-	11/15
Bajo Almanzora Desarrollos Inmobiliarios, S.L. (in liquidation)	Real estate	Almeria	0.00	39.14	No	450	(4,223)	(50)	-	5,864	176	(3,426)	-	12/15
Bansabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	No	7,813	5	816	1,429	79,456	40,378	(3,941)	408	09/15
Bansabadell Seguros Generales, S.A. De Seguros Y Reaseguros	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	No	10,000	(421)	8,280	6,331	197,916	45,000	(743)	4,140	09/15
Bansabadell Vida, S.A. De Seguros Y Reaseguros	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	No	43,858	28,123	81,471	25,141	6,500,714	27,106	108,884	40,736	09/15
Blue-Lor, S.L. (in liquidation)	Real estate	Barcelona	0.00	27.62	No	1,858	(29,296)	(674)	-	28,391	4,138	-	-	07/14
Dexia Sabadell , S.A.	Credit institution	Madrid	20.99	0.00	No	120	-	-	-	-	108,026	64,554	-	10/15
Diana Capital, S.G.E.C.R., S.A.	Other regulated companies	Madrid	20.66	0.00	No	606	170	-	-	-	521	173	-	12/14
Emte Renovables, S.L.	SPE	Barcelona	0.00	62.11	No	7,050	(632)	(8)	-	6,709	4,379	(1,350)	-	11/15
Energías Renovables Sierra Sesnández, S.L.	Services	León	0.00	40.00	No	1,903	(68)	(116)	-	9,407	761	(49)	-	11/15
Esus Energía Renovable, S.L.	Services	Vigo	0.00	45.00	No	50	(295)	(8)	-	1,861	23	(23)	-	10/15
Financiera Iberoamericana, S.A.	Credit institution	Havana	50.00	0.00	No	31,912	1	5,052	2,268	76,776	12,644	586	2,890	12/15
Gate Solar, S.L.	Services	Vitoria	50.00	0.00	No	3,005	(18)	17	-	3,845	1,860	36	-	12/15
Gesta Aparcamientos, S.L.	Real estate	Alicante	0.00	40.00	No	301	(210)	(110)	-	970	120	(1,047)	-	11/15
Gestora De Aparcamientos Del Mediterráneo, S.L.	Services	Alicante	0.00	40.00	No	1,000	(7,207)	(136)	-	4,808	7,675	(2,012)	-	09/15
Grupo Luxiona, S.L.	Other investees	Canovelles	0.00	20.00	No	2,561	-	39	-	44,493	10,835	(3,236)	-	09/15
Guisain, S.L.	Real estate	Vizcaya	0.00	40.00	No	4,200	(6,332)	(46)	-	6,851	2,593	(173)	(74)	03/15
Hydrophytic, S.L.	Real estate	Vitoria	0.00	50.00	No	186	-	14	-	20	93	28	8	11/15
Intermas Nets, S.A.	Services	Llinars del Vallès	0.00	20.00	No	846	(1,644)	162	-	83,951	22,213	(1,350)	-	09/15
Mercurio Alicante Sociedad De Arrendamientos 1, S.L.	Real estate	Alicante	75.00	0.00	No	795	(848)	36	-	7,698	796	(362)	1	10/15
Murcia Emprende, S.C.R. De R.S., S.A.	Other regulated companies	Murcia	28.70	0.00	No	6,000	(281)	-	-	-	2,026	(534)	-	12/14

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			Direct	Indirect		Capital	Reserves	Results (2)	Dividends paid (3)	Total assets				
Mursiya Golf, S.L.	Real estate	Murcia	0.00	49.70	No	300	(323)	(72)	-	8,408	264	(46)	-	12/14
Nueva Pescanova, S.L.	Wholesale trade	Pontevedra	14.64	0.00	No	-	-	-	-	-	1,800	-	-	10/15
Parque Eólico Magaz, S.L.	Services	Leon	0.00	49.00	No	1,500	(308)	891	-	38,559	6,200	(309)	-	10/15
Parque Tecnológico Fuente Álamo, S.A.	Services	Murcia	22.54	0.00	No	4,128	(2,543)	(317)	-	5,638	918	(385)	-	11/15
Planificació TGN2004, S.L. (in liquidation)	Real estate	Tarragona	0.00	25.00	No	3,309	(31,085)	(3)	-	7,463	827	(154)	-	12/14
Plaxic Estelar, S.L.	Real estate	Barcelona	0.00	45.01	No	3	(21,385)	(261)	-	32,000	2,738	(6,595)	(269)	12/15
Ribera Salud, S.A.	Services	Valencia	0.00	50.00	No	9,518	49	(4,899)	-	440,308	30,203	-	-	09/15
Sabadell Bs Select Fund Of Hedge Funds Sicav (Luxembourg)	Other investees	Luxembourg	47.37	0.00	No	-	-	-	-	-	16,400	3,086	-	11/15
Sbd Creixent, S.A.	Real estate	Sabadell	23.05	0.00	No	15,284	(9,163)	(37)	-	16,475	3,524	(1,157)	24	11/15
Sistema Eléctrico De Conexión Valcaire, S.L.	Services	Madrid	0.00	46.88	No	175	(336)	11	-	5,971	82	-	-	09/15
Sociedad De Cartera Del Vallés, S.I.C.A.V., S.A.	Other associates	Sabadell	47.87	0.00	No	4,818	-	(657)	106	-	422	2,264	(267)	09/15
Societat D'Inversió Dels Enginyers, S.L.	SPE	Barcelona	0.00	35.78	No	2,040	(611)	(22)	-	1,408	909	(180)	(10)	09/15
Torre Sureste, S.L.	Real estate	Alicante	0.00	40.00	No	300	(506)	(717)	-	20	120	(348)	(61)	09/15
Tremon Maroc Mediterraneo Services Immobiliers, S.A.R.L.	Real estate	Tangier	0.00	40.00	No	5,000	(4,430)	(3)	-	-	183	(49)	-	12/14
Visualmark Internacional, S.L.	Services	A Coruña	0.00	20.00	No	-	-	-	-	-	2	(2)	-	06/08
Total									**35,324**		**370,706**	**152,295**	**47,526**	
Consolidation adjustments													727,260	
Total												**3,175,064**	**708,441**	

(*) Consolidated by the equity method due to the absence of management control

(1) Foreign company figures are translated into euro at the exchange ruling on 31 December 2015.

(2) Results pending approval by shareholders.

(3) Includes supplementary dividends for previous year and interim dividends paid to the group.

The total ordinary income balance of associates consolidated by the equity method amounted to €363,943,000 at 31 December 2015. The liabilities balance of associates at the end of 2015 totalled €7,036,457,000.

Changes in the group scope in 2015

Associates consolidated for the first time

Thousand euro

Company name (or activity) acquired or merged	Category	Effective date of operation	Cost of combination: Cost of acquisition	Cost of combination: Fair value equity instruments issued for the acquisition	% voting rights acquired	% total voting rights	Type of shareholding	Method
Banco Sabadell, S.A., Institución de Banca Múltiple	Subsidiary	29/01/15	57,375	-	100.00%	100.00%	Direct	Full consolidation
Solvia Actividades y Servicios Inmobiliarios, S.A.U.	Subsidiary	19/05/15	60	-	100.00%	100.00%	Direct	Full consolidation
TSB Banking Group PLC	Subsidiary	30/06/15	2,361,922	-	100.00%	100.00%	Direct	Full consolidation
TSB Bank PLC	Subsidiary	30/06/15	-	-	100.00%	100.00%	Indirect	Full consolidation
Cape Holdings No.1 Limited	Subsidiary	30/06/15	-	-	100.00%	100.00%	Indirect	Full consolidation
Duncan Holdings 2015-1 Limited	Subsidiary	30/06/15	-	-	100.00%	100.00%	Indirect	Full consolidation
Tsb Scotland (Investment) Nominees Limited	Subsidiary	30/06/15	-	-	100.00%	100.00%	Indirect	Full consolidation
Tsb Scotland Nominees Limited	Subsidiary	30/06/15	-	-	100.00%	100.00%	Indirect	Full consolidation
Solvia Gestora de Vivienda Social, S.A.U.	Subsidiary	18/09/15	-	-	100.00%	100.00%	Indirect	Full consolidation
HI Partners Holdco Gestión Activa, S.L.U.	Subsidiary	1/10/15	408	-	100.00%	100.00%	Indirect	Full consolidation
HI Partners Holdco Value Added, S.L.U.	Subsidiary	1/10/15	6,503	-	100.00%	100.00%	Indirect	Full consolidation
Viacarla Invesriones, S.A.	Subsidiary	8/10/15	402	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Atocha 49, S.L.U.	Subsidiary	23/10/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Héroe de Sostoa 17, S.L.U.	Subsidiary	23/10/15	6,500	-	100.00%	100.00%	Indirect	Full consolidation
Parque Eólico Lecrín, S.L.U.	Subsidiary	30/10/15	4,003	-	100.00%	100.00%	Direct	Full consolidation
Parque Eólico Las Lomas de Lecrín, S.L.U.	Subsidiary	30/10/15	83	-	100.00%	100.00%	Direct	Full consolidation
Parque Eólico Lomas de Manteca, S.L.U.	Subsidiary	30/10/15	163	-	100.00%	100.00%	Direct	Full consolidation
Parque Eólico Jaufil, S.A.U.	Subsidiary	30/10/15	163	-	100.00%	100.00%	Direct	Full consolidation
HIP Francia 184, S.L.U.	Subsidiary	16/11/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Mirador del Valle, S.L.U.	Subsidiary	16/11/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Sabadell Venture Capital, S.L.	Subsidiary	23/11/15	-	-	100.00%	100.00%	Indirect	Full consolidation
Nueva Pescanova	Associate	30/11/15	1,800	-	14.64%	14.64%	Direct	Equity method
Duncan de Inversiones SICAV, S.A.	Subsidiary	1/12/15	2,560	-	87.35%	87.35%	Direct	Full consolidation
Hotel Autovia del Mediterraneo 165, S.L.	Subsidiary	17/12/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Avenida Rhode 28, S.L.	Subsidiary	17/12/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Calle De Los Molinos 10, S.L.	Subsidiary	17/12/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Calle Mayor 34, S.L.	Subsidiary	17/12/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Carretera De Taull, S.L.	Subsidiary	17/12/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Cavall Del Mar 25, S.L.	Subsidiary	17/12/15	3	-	100.00%	100.00%	Indirect	Full consolidation
Hotel Maria Tarrida 6, S.L.	Subsidiary	17/12/15	3	-	100.00%	100.00%	Indirect	Full consolidation

Associates no longer consolidated

Thousand euro

Company name (or activity) sold, split or derecognised	Category	Effective date of operation	% of voting rights sold	% of total voting rights after the sale	Generated profit/(loss)	Type of shareholding	Method
Balam Overseas BV (a)	Associate	13/03/15	40.00%	0.00%	1,320	Indirect	Equity method
Eólica Mirasierra, S.L. (a)	Associate	27/03/15	50.00%	0.00%	1,012	Indirect	Equity method
Pemapro, S.L. (a)	Associate	31/03/15	49.00%	0.00%	0	Indirect	Equity method
Inversiones Ahorro 2000 (a)	Associate	28/04/15	20.00%	0.00%	3,922	Direct	Equity method
Sercacín, S.A. (a)	Associate	4/05/15	20.00%	0.00%	19	Direct	Equity method
Villacarrilla FV (a)	Subsidiary	5/05/15	100.00%	0.00%	61	Direct	Full consolidation
Casiopea Energia 1, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 10, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 11, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 12, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 13, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 14, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 15, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 16, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 17, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 18, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 19, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 2, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 3, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 4, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 5, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 6, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 7, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 8, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Casiopea Energia 9, S.L.U (a)	Subsidiary	5/05/15	100.00%	0.00%	0	Direct	Full consolidation
Promociones y Desarrollos Ribera Mujeres S.A, de C.V. (a)	Subsidiary	1/06/15	100.00%	0.00%	0	Direct	Full consolidation
Rocabella, S.L. (a)	Associate	26/06/15	36.09%	0.00%	(47)	Indirect	Equity method
Queenford, S.L. (b)	Associate	26/06/15	31.54%	0.00%	0	Indirect	Equity method
Hansa Mexico S.A. De C.V. (b)	Subsidiary	30/06/15	82.40%	0.00%	(5,530)	Indirect	Full consolidation
Hansa Cabo, S.A. De C.V. (b)	Subsidiary	30/06/15	80.00%	0.00%	5,712	Indirect	Full consolidation
Operadora Cabo De Cortes S.R.L. De C.V. (b)	Subsidiary	30/06/15	81.22%	0.00%	205	Indirect	Full consolidation
Servicios Inmobiliarios Trecam, S.L. (b)	Associate	11/07/15	30.01%	0.00%	0	Indirect	Equity method
Metalplast C.F.E. S.L. (En Liquidación) (b)	Associate	21/07/15	20.00%	0.00%	0	Indirect	Equity method
Adara Renovables S.L. (a)	Associate	22/07/15	34.00%	0.00%	0	Direct	Equity method
Alze Mediterráneo, S.L. En Liquidación (b)	Associate	29/07/15	45.00%	0.00%	0	Indirect	Equity method
Inerzia Mediterráneo, S.L. (b)	Associate	1/08/15	40.00%	0.00%	632	Indirect	Equity method
Metrovacesa, S.A. (a)	Associate	15/09/15	13.04%	0.00%	0	Direct	Equity method
Hotelera Marina, S.A, De C.V. (a)	Subsidiary	1/10/15	100.00%	0.00%	0	Indirect	Full consolidation
Playa Marina, S.A, De C.V. (a)	Subsidiary	1/10/15	100.00%	0.00%	0	Indirect	Full consolidation
Banco Gallego Vida Y Pensiones, S.A. De Seguros Y Reaseguros (d)	Subsidiary	26/10/15	100.00%	0.00%	0	Direct	Full consolidation
Residencial Kataoria, S.L. En Liquidación (b)	Subsidiary	27/10/15	100.00%	0.00%	(6)	Indirect	Full consolidation
Gest Madrigal, S.L.U. En Liquidación (b)	Subsidiary	27/10/15	100.00%	0.00%	6	Indirect	Full consolidation
Boreal Renovables 14, S.L.U. En Liquidación (b)	Subsidiary	27/10/15	100.00%	0.00%	(636)	Direct	Full consolidation
Son Blanc Caleta S.L. En Liquidación (b)	Subsidiary	27/10/15	100.00%	0.00%	(27)	Indirect	Full consolidation
Urdin Oria, S.A. En Liquidación (b)	Subsidiary	27/10/15	100.00%	0.00%	(7)	Direct	Full consolidation
Tabimed Gestión De Proyectos, S.L. En Liquidación (b)	Subsidiary	27/10/15	100.00%	0.00%	10	Indirect	Full consolidation

(a) No longer consolidated due to sale of investment.
(b) No longer consolidated due to dissolution and/or liquidation.
(c) No longer consolidated due to reclasification to non-current assets held for sale.
(d) No longer consolidated due to merger.

Thousand euro

Company name (or activity) sold, split or derecognised	Category	Effective date of operation	% of voting rights sold	% of total voting rights after the sale	Generated profit/(loss)	Type of shareholding	Method
Servicio De Administración De Inversiones, S.A. En Liquidación (b)	Subsidiary	27/10/15	100.00%	0.00%	(392)	Directa	Full consolidation
Gestión Mediterránea Del Medio Ambiente, S.A. En Liquidación (b)	Subsidiary	5/11/15	100.00%	0.00%	404	Directa	Full consolidation
Guipuzcoano Capital, S.A. Unipersonal (b)	Subsidiary	5/11/15	100.00%	0.00%	1	Directa	Full consolidation
Eco Resort San Blas, S.L.U. (a)	Subsidiary	19/11/15	100.00%	0.00%	(3,461)	Indirecta	Full consolidation
Gdsur Alicante, S.L. En Liquidación (b)	Associate	20/11/15	27.75%	0.00%	(155)	Indirecta	Equity method
Galenova Sanitaria, S.L. (b)	Associate	26/11/15	50.00%	0.00%	49	Indirecta	Equity method
Bluesky Property Development, S.L. En Liquidación (b)	Subsidiary	30/11/15	100.00%	0.00%	(175)	Indirecta	Full consolidation
Gazteluberri Gestión S.L. En Liquidación (b)	Subsidiary	30/11/15	100.00%	0.00%	2,683	Indirecta	Full consolidation
Grao Castalia, S.L. En Liquidación (b)	Subsidiary	30/11/15	100.00%	0.00%	(126)	Indirecta	Full consolidation
Promociones Y Desarrollos Creaziona Levante, S.L. En Liquidación (b)	Subsidiary	30/11/15	100.00%	0.00%	(242)	Indirecta	Full consolidation
Hotelera H.M., S.A. De C.V. (a)	Subsidiary	7/12/15	88.00%	0.00%	(148)	Indirecta	Full consolidation
Luzentia Fotovoltaica Sl (a)	Associate	10/12/15	25.93%	0.00%	0	Directa	Equity method
Sabadell International Equity, Ltd. (b)	Subsidiary	18/12/15	100.00%	0.00%	156	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 106, S.L.U. (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 113, S.L.U. (a)	Subsidiary	22/12/15	100.00%	0.00%	80	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 119, S.L.U. (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 121, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 127, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 130, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 131, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 144, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	80	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 162, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 163, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 164, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 165, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 166, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 167, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 168, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 169, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 170, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	77	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 171, S.L. (a)	Associate	22/12/15	50.00%	0.00%	20	Directa	Equity method
Fotovoltaica De La Hoya De Los Vicentes 189, S.L. (a)	Associate	22/12/15	25.00%	0.00%	17	Directa	Equity method
Fotovoltaica De La Hoya De Los Vicentes 195, S.L. (a)	Subsidiary	22/12/15	75.00%	0.00%	31	Directa	Full consolidation
Fotovoltaica De La Hoya De Los Vicentes 200, S.L.U (a)	Subsidiary	22/12/15	100.00%	0.00%	80	Directa	Full consolidation
Espais Arco Mediterráneo, S.L.U. (b)	Subsidiary	24/12/15	100.00%	0.00%	0	Indirecta	Full consolidation
Artemus Capital, S.L.U. (b)	Subsidiary	31/12/15	100.00%	0.00%	(28,900)	Indirecta	Full consolidation
Costa Mujeres Investment B.V. (b)	Subsidiary	31/12/15	100.00%	0.00%	(6,842)	Directa	Full consolidation
Playa Caribe Holding Iv B.V. (b)	Subsidiary	31/12/15	100.00%	0.00%	0	Directa	Full consolidation
Playa Caribe Holding V B.V. (b)	Subsidiary	31/12/15	100.00%	0.00%	0	Directa	Full consolidation
Playa Caribe Holding Vi B.V. (b)	Subsidiary	31/12/15	100.00%	0.00%	0	Directa	Full consolidation
Resto	-	-			(2,048)		
Total					**(31,087)**		

(a) No longer consolidated due to sale of investment.
(b) No longer consolidated due to dissolution and/or liquidation.
(c) No longer consolidated due to reclasification to non-current assets held for sale.
(d) No longer consolidated due to merger.

Banco Sabadell Group fully consolidated companies at 31 December 2014

Thousand euro

Company name	Principal business	Registered office	Percentage shareholding		Consolidated taxation	Company data (1)					Net investment by group	Contribution to reserves or losses in consolidated companies	Contribution to consolidated group results	Balance sheet date
			Direct	Indirect		Capital	Reserves	Results (2)	Dividends paid	Total assets				
Activos Valencia I, S.A.U.	Real estate	Valencia	-	100.00	No	10,000	(108,932)	(31,330)	-	84,657	8,704	-	(31,330)	12/14
Alfonso XII, 16 Inversiones, S.L.	Real estate	Sant Cugat del Vallès	-	100.00	No	11,400	(24,248)	(364)	-	9,186	15,939	(15,585)	(364)	12/14
Arrendamiento de Bienes Inmobiliarios del Mediterráneo, S.L.	Real estate	Alicante	100.00	-	Yes	100	12,987	(528)	-	12,611	20,038	(8,140)	(528)	12/14
Artemus Capital, S.L.	SPE	Alicante	-	100.00	No	29,026	(40,756)	(21,244)	-	-	29,574	18	(21,244)	12/14
Assegurances Segur Vida, S.A.	Other regulated companies	Andorra	-	50.97	No	602	338	184	150	131,124	602	172	184	12/14
Aurica XXI, S.C.R., S.A.U.	Other regulated companies	Barcelona	100.00	-	Yes	14,200	19,029	17,151	-	109,351	17,492	16,437	17,151	12/14
Ballerton Servicios, S.L.	Other investees with their own business	Sant Cugat del Vallès	-	100.00	Yes	50	24,326	8	-	24,387	3,140	(119)	8	12/14
Banco Atlantico Bahamas Bank & Trust, Ltd.	Credit institution	Bahamas	99.99	-	No	1,647	786	3	-	3,107	2,439	701	3	12/14
Banco de Sabadell, S.A.	Credit institution	Sabadell	100.00	-	Yes	503,058	8,832,575	850,038	-	159,854,131	-	7,587,576	850,038	12/14
Banco Gallego Vida y Pensiones, S.A. de Seguros y Reaseguros	Other regulated companies	Madrid	100.00	-	No	5,109	4,209	2,254	-	64,293	30,674	(177)	2,254	12/14
BancSabadell d'Andorra, S.A.	Credit institution	Andorra	50.97	-	No	30,069	30,779	7,128	1,211	658,005	15,326	13,667	7,128	12/14
BanSabadell Consulting, S.L.	Other investees with their own business	Sant Cugat del Vallès	100.00	-	Yes	3	25	102	-	494	3	25	102	12/14
BanSabadell Factura, S.L.	Other investees with their own business	Sant Cugat del Vallès	100.00	-	Yes	100	(3,165)	196	-	771	299	(3,364)	196	12/14
BanSabadell Financiación, E.F.C., S.A.	Credit institution	Sabadell	100.00	-	Yes	24,040	26,713	(497)	-	665,403	24,040	26,713	(497)	12/14
BanSabadell Fincom, E.F.C., S.A.U.	Credit institution	Sant Cugat del Vallès	100.00	-	Yes	35,520	14,977	11,615	-	583,429	72,232	(16,814)	11,615	12/14
BanSabadell Holding, S.L.	SPE	Sant Cugat del Vallès	100.00	-	Yes	330,340	(385,888)	(2,430)	-	271,244	239,544	(326,279)	(2,430)	12/14
BanSabadell Inversió Desenvolupament, S.A.	SPE	Barcelona	100.00	-	Yes	15,025	17,038	2,244	-	68,482	100,376	(13,891)	5,674	12/14
BanSabadell Inversión, S.A.U., S.G.I.I.C	Other regulated companies	Sant Cugat del Vallès	100.00	-	Yes	601	99,303	22,970	-	185,521	607	99,293	22,970	12/14
Bansabadell Mediación, Operador de Banca-Seguros Vinculado del Grupo Banco Sabadell, S.A.	Other regulated companies	Barcelona	-	99.80	Yes	301	11,973	20,770	-	51,708	524	39	20,770	12/14
BanSabadell Renting, S.L.	Other investees with their own business	Sant Cugat del Vallès	100.00	-	Yes	2,000	8,732	7,742	4,186	219,693	3,861	6,605	7,742	12/14
Bansabadell Securities Services, S.L.	Other investees with their own business	Sabadell	100.00	-	Yes	2,500	6,438	7,399	4,076	17,790	2,500	6,438	7,399	12/14
Bitarte S.A.	Other investees with their own business	San Sebastián	99.99	-	No	6,506	4,160	(958)	-	9,838	9,272	(2,535)	(958)	12/14
BlueSky Property Development, S.L.	Real estate	Sant Cugat del Vallès	-	100.00	No	2,500	(11,246)	(4,144)	-	1,786	2,492	(9,554)	(4,144)	12/14
Boreal Renovables 14 S.L.U.	Services	Madrid	100.00	-	Yes	508	(8)	(1,429)	-	613	508	(2,002)	(1,429)	12/14
Bstartup 10, S.L.U.	SPE	Barcelona	-	100.00	Yes	1,000	(1)	(481)	-	538	1,000	(1)	(481)	12/14
Business Services for Information Systems, S.A.	Other investees with their own business	Sabadell	81.00	-	Yes	240	27,519	6,890	-	353,518	3,687	23,833	6,890	12/14
Business Services for Operational Support, SAU	Services	Sant Cugat del Vallès	100.00	-	Yes	60	331	1,461	-	13,946	60	326	1,461	12/14
CAM Capital, S.A.U.	Other regulated companies	Alicante	100.00	-	Yes	61	297	264	-	30,595	1,217	278	264	12/14

Banco Sabadell Group fully consolidated companies at 31 December 2014

Thousand euro

Company name	Principal business	Registered office	Percentage shareholding		Consolidated taxation	Company data (1)					Net investment by group	Contribution to reserves or losses in consolidated companies	Contribution to consolidated group results	Balance sheet date
			Direct	Indirect		Capital	Reserves	Results (2)	Dividends paid	Total assets				
CAM Global Finance, S.A.U.	Other regulated companies	Alicante	100.00	-	Yes	61	67	(3)	-	207,768	2,059	55	(3)	12/14
CAM International Issues, S.A.U.	Other regulated companies	Alicante	100.00	-	Yes	61	337	156	-	146,976	114,079	(24,045)	156	12/14
Caminsa Urbanismo, S.A.	Real estate	Valencia	-	100.00	Yes	2,000	(1,415)	(175)	-	415	800	-	(175)	12/14
Casiopea Energia 1, S.L.U	Services	Madrid	100.00	-	Yes	3	(2)	-	-	46	6	(6)	-	12/14
Casiopea Energia 10, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	49	11	(12)	-	12/14
Casiopea Energia 11, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	46	10	(10)	-	12/14
Casiopea Energia 12, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	47	10	(11)	-	12/14
Casiopea Energia 13, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	47	11	(11)	-	12/14
Casiopea Energia 14, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	55	14	(16)	-	12/14
Casiopea Energia 15, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	57	16	(19)	-	12/14
Casiopea Energia 16, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	56	19	(25)	-	12/14
Casiopea Energia 17, S.L.U	Services	Madrid	100.00	-	Yes	3	1	-	-	37	3	3	-	12/14
Casiopea Energia 18, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	72	27	(52)	-	12/14
Casiopea Energia 19, S.L.U	Services	Madrid	100.00	-	Yes	3	2	-	-	52	15	(18)	-	12/14
Casiopea Energia 2, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	54	14	(16)	-	12/14
Casiopea Energia 3, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	56	15	(17)	-	12/14
Casiopea Energia 4, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	54	14	(16)	-	12/14
Casiopea Energia 5, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	54	14	(17)	-	12/14
Casiopea Energia 6, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	52	13	(15)	-	12/14
Casiopea Energia 7, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	53	20	(27)	-	12/14
Casiopea Energia 8, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	46	10	(9)	-	12/14
Casiopea Energia 9, S.L.U	Services	Madrid	100.00	-	Yes	3	(1)	-	-	47	11	(12)	-	12/14
Compañía de Cogeneración del Caribe Dominicana, S.A.	Services	Dominican Republic	-	100.00	No	6,589	(5,903)	-	-	702	-	112	-	12/14
Costa Mujeres Investment BV	SPE	Amsterdam	-	100.00	No	18	(19,784)	(1,079)	-	27,924	9,474	-	(1,079)	12/14
Delta Swing, S.A.U.	Services	Barcelona	-	100.00	Yes	981	(368)	(2,445)	-	39	-	-	(2,445)	12/14
Desarrollo y Ejecución Urbanística del Mediterráneo, S.L.	Real estate	Madrid	-	100.00	Yes	15,533	(9,412)	101	-	9,616	15,279	-	101	12/14
Desarrollos y Participaciones Inmobiliarias 2006, S.L.	Real estate	Alicante	-	100.00	Yes	1,942	(54,140)	(4,218)	-	47,856	1,919	-	(4,218)	12/14
Easo Bolsa, S.A.	Other investees with their own business	San Sebastián	100.00	-	No	15,150	24,055	1,015	-	40,221	38,317	2,943	1,015	12/14
Eco Resort San Blas, S.L.	Services	Santa Cruz de Tenerife	-	100.00	Yes	7,801	(3,218)	1,028	-	72,040	8,101	-	1,028	12/14
Ederra, S.A.	Real estate	San Sebastián	97.85	-	No	2,036	26,082	(2,045)	-	27,564	36,062	(8,549)	(2,045)	12/14
Eólica de Cuesta Roya, SL	Services	Zaragoza	50.97	-	No	3	(14)	(1)	-	2	2	(1)	-	12/14
Eólica de Valdejalón, SL	Services	Zaragoza	50.97	-	No	3	(18)	(1)	-	2	2	-	-	12/14
Epila de Renovables, SL	Services	Zaragoza	51.00	-	No	78	(37)	(15)	-	242	74	(26)	-	12/14
Espais Arco Mediterráneo S.L.	Real estate	Alicante	-	100.00	Yes	5,953	(25,548)	(1,336)	-	3,894	3,834	1,312	(1,336)	12/14
Europa Invest, S.A.	Other regulated companies	Luxembourg	22.00	78.00	No	125	233	107	-	501	336	14	107	12/14
Europea Pall Mall Ltd.	Real estate	London	100.00	-	No	19,870	(3,306)	33	-	16,929	20,843	(1,649)	33	12/14
Exel Broker Seguros, S.A.	Other regulated companies	San Sebastián	99.40	-	No	100	748	973	771	3,440	3,940	(1,192)	973	12/14
Fomento de la Coruña, S.A.	Real estate	A Coruña	-	100.00	No	100	(78)	(24)	-	25	9,606	(78)	(24)	12/14

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Fonomed Gestión Telefónica Mediterráneo, S.A.	Other investees with their own business	Alicante	99.97	-	Yes	180	57	87	12	480	240	-	87	12/14
Fotovotaica de la Hoya de los Vicentes 106, S.L.U.	Services	Madrid	100.00	-	Yes	74	(11)	(22)	-	677	84	(75)	-	11/14
Fotovotaica de la Hoya de los Vicentes 113, S.L.U.	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	685	108	(78)	-	11/14
Fotovotaica de la Hoya de los Vicentes 119, S.L.U.	Services	Madrid	100.00	-	Yes	74	(11)	(17)	-	683	87	(79)	-	11/14
Fotovotaica de la Hoya de los Vicentes 121, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(16)	-	683	89	(81)	-	11/14
Fotovotaica de la Hoya de los Vicentes 127, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	685	87	(79)	-	11/14
Fotovotaica de la Hoya de los Vicentes 130, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(13)	-	686	85	(73)	-	11/14
Fotovotaica de la Hoya de los Vicentes 131, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(16)	-	684	85	(77)	-	11/14
Fotovotaica de la Hoya de los Vicentes 144, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(16)	-	685	99	(77)	-	11/14
Fotovotaica de la Hoya de los Vicentes 162, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	681	87	(79)	-	11/14
Fotovotaica de la Hoya de los Vicentes 163, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	683	86	(79)	-	11/14
Fotovotaica de la Hoya de los Vicentes 164, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(15)	-	684	87	(79)	-	11/14
Fotovotaica de la Hoya de los Vicentes 165, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(15)	-	692	86	(85)	-	11/14
Fotovotaica de la Hoya de los Vicentes 166, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	690	86	(77)	-	11/14
Fotovotaica de la Hoya de los Vicentes 167, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	686	86	(78)	-	11/14
Fotovotaica de la Hoya de los Vicentes 168, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	686	87	(80)	-	11/14
Fotovotaica de la Hoya de los Vicentes 169, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	686	87	(80)	-	11/14
Fotovotaica de la Hoya de los Vicentes 170, S.L.U	Services	Madrid	100.00	-	Yes	74	(11)	(14)	-	686	86	(77)	-	11/14
Fotovotaica de la Hoya de los Vicentes 195, S.L.	Services	Madrid	75.00	-	Yes	74	(9)	(13)	-	694	74	(65)	-	11/14
Fotovotaica de la Hoya de los Vicentes 200, S.L.U	Services	Madrid	100.00	-	Yes	74	(9)	(18)	-	682	99	(90)	-	11/14
Gala Domus, S.A.	Real estate	A Coruña	-	100.00	No	4,000	(25,868)	(1,929)	-	10,552	4,000	(18,256)	(1,929)	12/14
Galeban 21 Comercial S.L.U	SPE	A Coruña	100.00	-	Yes	10,000	(4,374)	(206)	-	5,523	14,477	(8,895)	(206)	12/14
Galeban Control y Asesoramiento S.L.U	Services	A Coruña	100.00	-	Yes	8	30	(2)	-	40	80	(86)	-	12/14
Gazteluberri Gestión S.L.	Real estate	Sant Cugat del Vallès	-	100.00	No	1,460	(20,425)	(1,046)	-	10,813	1,769	(14,133)	(1,046)	12/14
Gazteluberri S.L.	Real estate	San Sebastián	-	99.97	No	-	-	-	-	19,526	68,153	(53,741)	(3,221)	12/14
Gest 21 Inmobiliaria, S.L.U	SPE	A Coruña	100.00	-	Yes	80,516	(4,619)	(68,117)	-	19,183	80,516	(66,132)	(68,117)	12/14
Gest Galinver, S.L.	Real estate	Madrid	-	100.00	Yes	6,580	(2,826)	(244)	-	3,529	7,155	(462)	(244)	12/14
Gest Madrigal, S.L.U.	Real estate	A Coruña	-	100.00	Yes	1,230	(4,749)	(3)	-	1,155	1,230	(7)	(3)	12/14

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			Direct	Indirect		Capital	Reserves	Results (2)	Dividends paid	Total assets				
Gestión de Proyectos Urbanísticos del Mediterráneo, S.L.	Real estate	Madrid	-	100.00	Yes	33,850	(15,594)	253	-	25,933	32,832	-	253	12/14
Gestión Financiera del Mediterráneo, S.A.U.	SPE	Alicante	100.00	-	Yes	13,000	114,560	247,809	173,514	202,306	400,865	83,710	247,809	12/14
Gestión Mediterránea del Medio Ambiente, S.A. en Liquidación	Other investees with their own business	Alicante	99.00	-	No	60	(1)	(3)	-	61	1,351	(1,292)	(3)	12/14
Grao Castalia S.L.	Real estate	Sant Cugat del Vallès	-	100.00	No	700	(2,470)	(373)	-	970	863	(897)	(373)	12/14
Guipuzcoano Capital, S.A. Unipersonal	Other regulated companies	San Sebastián	100.00	-	No	60	11	15	-	19,180	59	12	15	12/14
Guipuzcoano Promoción Empresarial, S.L.	SPE	San Sebastián	-	99.97	No	32,314	(101,255)	(9,431)	-	10,955	32,314	(64,759)	(9,431)	12/14
Guipuzcoano Valores, S.A.	Real estate	San Sebastián	99.99	-	No	4,514	4,301	(352)	-	8,561	10,833	(2,014)	(352)	12/14
Hansa Cabo, S.A. de C.V.	Real estate	Mexico	-	39.42	No	3,620	(15,757)	(428)	-	149	8,173	1,322	(428)	12/14
Hansa México S.A. de C.V.	Real estate	Mexico	-	57.15	No	16,892	(16,887)	(126)	-	2,631	20,243	862	(126)	12/14
Herrero Internacional Gestión, S.L.	Other investees with their own business	Sant Cugat del Vallès	-	100.00	Yes	354	3,760	(0)	-	4,114	1,139	63	-	12/14
Hobalear, S.A.	Real estate	Barcelona	-	100.00	Yes	60	610	12	-	683	414	610	12	12/14
Hondarriberri, S.P.E., S.L.	SPE	San Sebastián	99.99	-	No	41	(9,937)	(32,499)	-	27,022	74,631	(11,339)	(32,499)	12/14
Hotelera H.M., S.A. de C.V.	Real estate	Mexico	-	86.67	No	17,451	(14,995)	(3,406)	-	24,319	30,596	(2,231)	(3,406)	12/14
Hotelera Marina, S.A, de C.V.	Real estate	Mexico	-	100.00	No	67,191	(31,761)	4,387	-	39,968	71,346	-	4,387	12/14
Interstate Property Holdings, LLC.	SPE	Miami	100.00	-	No	6,589	(17,684)	4,590	-	35,730	3,414	(20,594)	4,590	12/14
Inverán Gestión, S.L.	Real estate	Madrid	44.83	55.17	Yes	45,090	(49,243)	(4,159)	-	17,285	45,090	(32,909)	(4,159)	12/14
Inversiones Cotizadas del Mediterráneo, S.L.	SPE	Alicante	100.00	-	Yes	308,000	192,284	151	-	500,439	589,523	(92,075)	151	12/14
Manston Invest S.L.U.	Real estate	Madrid	100.00	-	No	33,357	6,903	(9,588)	-	31,080	33,357	-	(9,588)	12/14
Mariñamendi S.L.	Real estate	Sant Cugat del Vallès	-	99.97	No	-	-	-	-	71,520	55,013	(84,526)	(7,069)	12/14
Mediterráneo Sabadell, S.L.	SPE	Alicante	50.00	50.00	Yes	85,000	104,641	179,046	429,104	191,315	624,116	(438,602)	179,046	12/14
Mediterráneo Vida, S.A.U. de Seguros y Reaseguros	Other regulated companies	Alicante	-	100.00	Yes	102,044	20,479	176,393	177,600	2,517,431	127,827	-	176,393	12/14
Mirador del Segura 21, S.L.	Real estate	Sant Cugat del Vallès	-	99.57	No	4,637	(70)	-	-	1,223	4,526	(4,724)	(70)	12/14
Operadora Cabo de Cortes S. DE R.L. DE C.V.	Services	Mexico	-	48.46	No	0	(209)	(152)	-	106	2,408	-	(152)	12/14
Parque Eólico Loma del Capón, S.L.	Services	Granada	-	100.00	Yes	3,124	(432)	35	-	55,038	2,904	(1,225)	35	12/14
Placements Immobiliers France, S.A.S.	Real estate	Paris	-	100.00	No	30,002	59,694	1,452	-	92,722	101,343	-	1,452	12/14
Playa Caribe Holding IV B.V.	SPE	Amsterdam	-	100.00	No	27	(13,856)	7,242	-	40,531	37,977	-	7,242	12/14
Playa Caribe Holding V B.V.	SPE	Amsterdam	-	100.00	No	27	(988)	52	-	1,907	1,182	-	52	12/14
Playa Caribe Holding VI B.V.	SPE	Amsterdam	-	100.00	No	27	(14,948)	(4,458)	-	464	4,092	-	(4,458)	12/14
Playa Marina, S.A, de C.V.	Real estate	Mexico	-	100.00	No	2,904	(1,000)	(88)	-	1,705	3,034	-	(88)	12/14
Procom Residencial Rivas, S.A.U.	Real estate	Alicante	-	100.00	No	12,500	(93,359)	(7,363)	-	22,596	5,625	10,565	(7,363)	12/14

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Promociones e Inmuebles Blauverd Mediterráneo, S.L.	Real estate	Alicante	-	100.00	Yes	17,666	(72,536)	(3,862)	-	32,057	10,684	14,327	(3,862)	12/14
Promociones y Desarrollos Creaziona Levante S.L.	Real estate	Sant Cugat del Vallès	-	100.00	No	8,740	(10,063)	(159)	-	4,641	14,497	(7,955)	(159)	12/14
Promociones y Desarrollos Ribera Mujeres S.A, de C.V.	Real estate	Isla Mujeres	-	100.00	No	45,181	(15,852)	(2,999)	-	24,477	50,898	-	(2,999)	12/14
Promociones y Financiaciones Herrero, S.A.	Other investees with their own business	Oviedo	100.00	-	Yes	3,456	269	-	-	3,725	24,185	8	-	12/14
Proteo Banking Software, S.L.	Other investees with their own business	Sant Cugat del Vallès	100.00	-	Yes	3	-	-	-	3	5	(2)	-	12/14
Residencial Kataoria S.L.	Real estate	Sant Cugat del Vallès	-	100.00	No	3,250	(4,779)	(152)	-	3,314	8,233	(8,215)	(152)	12/14
Sabadell Asia Trade Services, Ltd.	Other investees with their own business	Hong Kong	100.00	-	No	-	-	-	-	7	-	-	-	12/14
Sabadell Brasil Trade Services - Ass. Cial Ltda.	Credit institution	Brazil	99.99	-	No	1,062	(945)	-	-	135	250	(155)	-	12/14
Sabadell BS Select Fund of Hedge Funds, S.I.C.A.V., S.A.	Other investees	Luxembourg	52.11	-	No	31,474	5,163	322	-	41,666	16,400	2,918	322	12/14
Sabadell Capital S.A de C.V. SOFOM E.N.R.	Credit institution	Mexico	99.99	-	No	5,597	-	(518)	-	386,870	5,566	-	(518)	12/14
Sabadell Corporate Finance, S.L.	Other investees with their own business	Madrid	100.00	-	Yes	70	1,510	215	-	2,074	9,373	67	215	12/14
Sabadell d'Andorra Inversions SGOIC, S.A.U.	Other regulated companies	Andorra	-	50.97	No	300	1,000	704	600	2,679	300	509	704	12/14
Sabadell International Equity, Ltd.	Other regulated companies	Cayman Islands	100.00	-	No	1	117	30	-	18,960	1	-	30	12/14
Sabadell Patrimonio Inmobiliario, SOCIMI, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	-	No	30,116	895,146	(27,062)	-	1,004,860	939,333	(4,108)	(27,062)	12/14
Sabadell Securities USA, Inc.	Other investees with their own business	Miami	100.00	-	No	659	1,270	321	-	2,326	551	1,102	321	12/14
Sabadell Solbank Inversión, S.G.I.I.C., S.A.U.	Other regulated companies	Madrid	100.00	-	Yes	601	712	(380)	-	933	1,446	(133)	(380)	12/14
Sabadell Solbank Sociedad de Gestión de Activos Adjudicados, S.A.U.	Real estate	Madrid	100.00	-	Yes	60	2,867	(454)	-	2,482	3,074	(147)	(454)	12/14
Sabadell United Bank, N.A.	Credit institution	Miami	100.00	-	No	2,965	421,163	18,341	-	3,799,592	347,935	55,414	18,345	12/14
Serveis d´assessorament BSA S.A.U.	Other investees with their own business	Andorra	-	50.97	No	60	43	30	-	873	60	12	30	12/14
Servicio de Administración de Inversiones, S.A.	Other investees with their own business	Madrid	100.00	-	Yes	6,010	752	-	-	6,763	16,690	(6,104)	-	12/14
Simat Banol, S.L.	Real estate	Alicante	-	100.00	Yes	1,482	(5,867)	(160)	-	1,394	667	433	(160)	12/14
Sinia Renovables, S.C.R. de R.S., S.A.U	Other regulated companies	Barcelona	100.00	-	Yes	15,000	(20,141)	327	-	31,260	15,000	(3,807)	327	12/14
Solvia Activos, S.A.U.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	100,060	336,905	(39,983)	-	399,008	500,622	(63,657)	(39,983)	12/14
Solvia Development, S.L.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	15,807	(364,302)	(399,935)	-	4,354,541	1,647,442	(1,985,323)	(399,935)	12/14
Solvia Hotels, S.L.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	500	(14,280)	(6,281)	-	59,459	500	(14,280)	(6,281)	12/14
Solvia Housing, S.L.	Real estate	Sant Cugat del Vallès	100.00	-	Yes	2,073	896	264	-	29,864	14,292	(11,323)	264	12/14
Solvia Pacific, S.A. de C.V.	Real estate	Mexico	-	100.00	No	30,188	(1,599)	(5,599)	-	23,262	32,012	(1,580)	(5,599)	12/14
Solvia Servicios Inmobiliarios, S.L.	Real estate	Alicante	100.00	-	Yes	660	(4,039)	(1,031)	-	98,399	5,023	920	(1,031)	12/14

Banco Sabadell Group fully consolidated companies at 31 December 2014

Thousand euro

Company name	Principal business	Registered office	Percentage shareholding		Consolidated taxation	Company data (1)					Net investment by group	Contribution to reserves or losses in consolidated companies	Contribution to consolidated group results	Balance sheet date
			Direct	Indirect		Capital	Reserves	Results (2)	Dividends paid	Total assets				
Son Blanc Caleta S.L.	Real estate	Sant Cugat del Vallès	-	100.00	No	4,000	(11,186)	(107)	-	2,195	6,288	(9,349)	(107)	12/14
Stonington Spain S.L.U.	Real estate	Madrid	100.00	-	No	60,729	10,492	(11,744)	-	60,007	60,729	-	(11,744)	12/14
Tabimed Gestión de Proyectos, S.L.	Other investees with their own business	Alicante	-	99.67	Yes	3	(74)	(6)	-	323	3	-	(6)	12/14
Tasaciones de Bienes Mediterráneo, S.A. (En liquidcación)	Other investees with their own business	Alicante	99.88	-	Yes	1,000	1,931	13	-	3,365	5,266	137	13	12/14
Tenedora de Inversiones y Participaciones, S.L.	SPE	Alicante	100.00	-	Yes	296,092	(950,321)	(109,928)	-	2,637,902	1,309,153	(1,552,731)	(109,928)	12/14
Tierras Vega Alta del Segura S.L.	Real estate	Sant Cugat del Vallès	-	100.00	No	4,550	(18,592)	(8,983)	-	2,608	5,123	(12,895)	(8,983)	12/14
Tratamientos y Aplicaciones, S.L.	Services	Alicante	100.00	-	Yes	3,003	(190)	(122)	-	2,693	4,654	2,450	(122)	12/14
Urdin Oria, S.A.	No activity	San Sebastián	99.98	-	No	60	2	-	-	62	63	(1)	-	12/14
Urquijo Gestión, S.A.U., S.G.I.I.C.	Other regulated companies	Madrid	-	100.00	Yes	3,606	4,079	2,877	-	17,140	5,286	2,200	2,877	12/14
Urumea Gestión, S.L.	Other investees with their own business	San Sebastián	-	99.97	No	9	5	(3)	-	11	9	(2)	(3)	12/14
Verum Inmob. Urbanismo y Promocion, S.A.	Real estate	Madrid	-	97.20	Yes	12,000	(39,951)	1,702	-	35,382	11,664	(32,192)	1,702	12/14
Villacarrilla FV, S.L.U.	Services	Madrid	100.00	-	Yes	3	8	(22)	-	1,059	3	1	-	12/14
Vistas del Parque 21, S.L.	Real estate	Sant Cugat del Vallès	-	99.57	No	4,646	(41)	-	-	1,258	4,535	(4,631)	(41)	12/14
Total												**2,890,915**	**763,366**	

Banco Sabadell Group companies consolidated using the equity method at 31 December 2014 (*)

Thousand euro

Company name	Principal business	Registered office	Percentage shareholding		Consolidated taxation	Company data (1)					Investment by group	Contribution to reserves or losses in consolidated companies	Contribution to consolidated group results	Balance sheet date
			Direct	Indirect		Capital	Reserves	Results (2)	Dividends paid (3)	Total assets				
Adara Renovables, S.L.	Services	A Coruña	34.00	0.00	No	1,200	(435)	(18)	-	3,160	358	(263)	-	10/14
Alze Mediterráneo, S. L.	Real estate	Girona	0.00	45.00	No	2,102	(13,900)	9,323	-	425	946	-	-	12/14
Aviación Regional Cántabra, A.I.E.	Services	Madrid	26.42	0.00	No	29,606	4,260	3,008	40	77,240	7,824	1,233	-	11/14
Aviones Alfambra CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	No	1	3,010	(95)	-	14,174	1,060	(269)	-	11/14
Aviones Cabriel CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	No	1	3,012	(178)	-	14,061	1,060	(269)	-	11/14
Aviones Carraixet CRJ-200 II A.I.E.	Services	Madrid	25.00	0.00	No	1	4,377	(330)	-	11,291	894	-	-	12/13
Aviones Gorgos CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	No	1	3,012	(254)	-	13,946	1,060	(270)	-	11/14
Aviones Portacoli CRJ-200 III A.I.E.	Services	Madrid	25.00	0.00	No	1	4,392	(196)	-	11,482	897	-	-	12/13
Aviones Sella CRJ-900, A.I.E.	Services	Madrid	25.00	0.00	No	1	3,013	(338)	-	13,824	1,060	(270)	-	11/14
Aviones Turia CRJ-200 I, A.I.E.	Services	Madrid	25.00	0.00	No	1	4,385	(260)	-	11,395	896	-	-	12/13
Bajo Almanzora Desarrollos Inmobiliarios S.L.	Real estate	Almeria	0.00	39.14	No	1,450	(4,595)	(14)	-	5,840	176	(3,425)	-	10/14
Balam Overseas BV	Real estate	Holland	0.00	40.00	No	20,084	1,032	(21)	-	21,111	8,516	-	-	12/13
BanSabadell Pensiones, E.G.F.P., S.A.	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	No	7,813	64,486	2,857	5,149	80,911	40,378	(3,437)	1,429	12/14
BanSabadell Seguros Generales, S.A. de Seg. y Reas.	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	No	10,000	86,454	4,722	2,038	160,416	45,000	3,365	2,361	12/14
BanSabadell Vida, S.A. de Seguros y Reaseguros	Other regulated companies	Sant Cugat del Vallès	50.00	0.00	No	43,858	198,134	76,566	60,313	5,958,746	27,106	95,306	38,283	12/14
Blue-Lor, S.L.	Real estate	Barcelona	0.00	27.62	No	1,858	(27,357)	(674)	-	28,391	4,138	-	-	07/14
Cantabria Generación S.L.	Services	Santander	50.00	0.00	No	60	(820)	(73)	-	2,352	30	2,415	-	10/14
Dexia Sabadell , S.A.	Credit institution	Madrid	20.99	0.00	No	484	81	-	-	15,963	108,026	64,554	-	08/14
Diana Capital S.G.E.C.R. S.A.	Other regulated companies	Madrid	20.66	0.00	No	606	2,109	800	-	4,888	521	173	-	09/14
Emte Renovables Consolidado, S.L.	SPE	Barcelona	0.00	62.11	No	7,050	(7,362)	(1,016)	-	45,387	4,379	(1,350)	-	10/14
Energías Renovables Sierra Sesnández, S.L.	Services	Valladolid	0.00	40.00	No	1,903	(48)	(14)	-	8,961	761	(38)	(11)	10/14
Eólica Mirasierra, S.L.	Services	Palencia	0.00	50.00	No	64	5,393	154	-	69,810	2,709	(72)	-	10/14
ESUS Energía Renovable, S.L.	Services	Vigo	0.00	45.00	No	50	(271)	(23)	-	1,659	23	(23)	-	11/14
Financiera Iberoamericana, S.A.	Credit institution	Havana	50.00	0.00	No	34,720	1,122	6,563	1,499	86,191	12,644	426	1,972	12/14
Fotovoltaica de la Hoya de los Vicentes 171, S.L.	Services	Madrid	50.00	0.00	No	74	(11)	(11)	-	690	45	(45)	-	11/14
Fotovoltaica de la Hoya de los Vicentes 189, S.L.	Services	Madrid	25.00	0.00	No	74	(9)	(11)	-	689	22	(22)	-	11/14
Galenova Sanitaria S.L.	Services	Madrid	0.00	50.00	No	6	(2,684)	(1)	-	1,181	3	1,921	-	10/14
Gate Solar, S.L.	Services	Vitoria	50.00	0.00	No	3,005	816	20	-	3,841	1,860	36	-	08/14
GDSUR Alicante, S.L.	Real estate	Alicante	0.00	27.75	No	16,609	(32,463)	(664)	-	2,036	4,609	-	-	11/14
Gesta Aparcamientos, S.L.	Real estate	Alicante	0.00	40.00	No	3,007	(2,687)	(66)	-	1,128	120	-	(157)	10/14
Gestora de Aparcamientos del Mediterráneo, S.L.	Services	Alicante	0.00	40.00	No	10,368	(9,437)	(4,854)	-	29,597	7,675	-	(1,128)	12/13

Banco Sabadell Group companies consolidated using the equity method at 31 December 2014 (*)

Thousand euro

Company name	Principal business	Registered office	Percentage shareholding Direct	Percentage shareholding Indirect	Consolidated taxation	Company data (1) Capital	Reserves	Results (2)	Dividends paid (3)	Total assets	Investment by group	Contribution to reserves or losses in consolidated companies	Contribution to consolidated group results	Balance sheet date
Grupo Luxiona S.L.	Other investees	Canovelles	0.00	20.00	No	2,561	11,930	(783)	-	64,939	10,835	(3,236)	-	09/14
Guisain, S.L.	Real estate	Vizcaya	0.00	40.00	No	4,200	(6,130)	(185)	-	6,848	1,680	(173)	-	11/14
Hydrophytic, S.L.	Real estate	Vitoria	0.00	50.00	No	186	64	14	-	453	93	20	8	11/14
Inerzia Mediterráneo, S.L.	Real estate	Alicante	0.00	40.00	No	1,453	(10,134)	(11)	-	7	581	-	(2,221)	09/14
Intermas Nets, S.A.	Services	Llinars del Vallès	0.00	20.00	No	846	35,478	1,967	313	115,428	22,213	1,650	(3,000)	12/13
Inversiones Ahorro 2000, S.A.	Other regulated companies	Vigo	20.00	0.00	No	11,055	119	5	-	11,182	11,328	(2,358)	-	09/14
Luzentia Fotovoltaica, SL	Services	Madrid	25.93	0.00	No	513	2,879	424	-	6,584	3,620	(3,620)	-	11/14
Mercurio Alicante Sociedad de Arrendamientos 1, S.L.	Real estate	Alicante	75.00	0.00	Yes	795	372	(848)	-	7,722	796	274	(636)	12/14
Metalplast C.F.E. S.L. (En liquidación)	Services	A Coruña	0.00	20.00	No	31	1,088	-	-	1,119	3,798	(3,798)	-	12/09
Metrovacesa, S.A.	Real estate	Madrid	13.04	0.00	No	405	932	(101)	-	5,203	364,665	(35,531)	(17,439)	09/14
Murcia Emprende, S.C.R., S.A.	Other regulated companies	Murcia	32.50	0.00	No	6,000	(1,219)	(163)	-	4,639	2,026	(534)	-	11/14
Mursiya Golf, S.L.	Real estate	Murcia	0.00	49.70	No	300	(705)	(351)	-	8,310	264	(36)	(10)	12/14
Parque Eólico Magaz, S.L.	Services	Palencia	0.00	49.00	No	1,500	(203)	260	-	40,080	6,200	(309)	-	09/14
Parque Tecnológico Fuente Álamo, S.A.	Services	Murcia	22.54	0.00	No	4,128	(1,370)	(393)	-	5,336	918	(259)	(126)	11/14
Pemapro, S.L.	Real estate	A Coruña	0.00	49.00	No	1,483	(7,901)	(60)	-	4,134	727	(5,347)	-	10/14
Planificación TGN 2004, S.L.	Real estate	Tarragona	0.00	25.00	No	3,309	(2,126)	(7,837)	-	28,692	827	-	-	12/13
Plaxic Estelar, S.L.	Real estate	Barcelona	0.00	45.01	No	3	(14,099)	(3)	-	33,093	2,683	(6,595)	(1)	11/14
Queenford, S.L.	Real estate	Barcelona	0.00	31.54	No	3,800	(25,808)	(3,434)	-	97,232	1,199	-	-	12/14
Rocabella, S.L.	Real estate	Ibiza	0.00	36.09	No	40	111	(2)	-	200	7	-	(3)	12/13
Ribera Salud, S.A.	Services	Valencia	0.00	50.00	No	9,518	71,602	(766)	-	328,268	30,203	-	-	11/14
SBD Creixent, S.A.	Real estate	Sabadell	23.05	0.00	No	15,284	(8,251)	(1,056)	-	16,622	3,524	(854)	(266)	11/14
Sercacín, S.A.	Other associates with own business	Alicante	20.00	0.00	No	236	(45)	-	-	218	70	(23)	-	12/13
Servicios Inmobiliarios Trecam, S.L.	Real estate	Madrid	0.00	30.01	No	4,128	(1,280)	349	-	15,037	1,053	-	-	12/13
Sistema Eléctrico de Conexión Valcaire, S.L.	Services	Granada	0.00	46.88	No	175	(344)	520	-	6,819	82	-	-	11/14
Sociedad de Cartera del Vallés, S.I.C.A.V.,S.A.	Other associates	Sant Cugat del Vallès	47.73	0.00	No	4,818	47	874	42	5,862	422	2,008	363	11/14
Societat d'Inversió dels Enginyers, S.L.	SPE	Barcelona	0.00	35.54	No	1,690	(533)	(58)	-	1,105	716	(153)	(26)	09/14
Torre Sureste, S.L.	Real estate	Alicante	0.00	40.00	No	300	373	(595)	-	12,611	120	(88)	(260)	11/14
Tremon Maroc Mediterraneo Services Immobiliers S.A.R.L.	Real estate	Morocco	0.00	40.00	No	5,000	(4,317)	(113)	-	105,118	183	-	-	12/13
Visualmark Internacional S.L.	Services	A Coruña	0.00	20.00	No	11	(5)	-	-	6	2	(2)	-	06/08
Total												**100,712**	**19,132**	
Ajustes de consolidación													(410,821)	
Total												**2,991,627**	**371,677**	

(*) Consolidated by the equity method due to the absence of management control.

(1) Foreign company figures are translated into euro at the exchange ruling on 31 December 2013.

(2) Results pending approval by shareholders.

(3) Includes supplementary dividends for previous year and interim dividends paid to the group.

The total ordinary income balance of associates consolidated by the equity method amounted to €494,681,000 at 31 December 2014. The liabilities balance of associates at the end of 2014 totalled €7,236,526,000.

Changes in the group scope in 2014

Associates consolidated for the first time

Thousand euro

Company name (or activity) acquired or merged	Category	Effective date of operation	Cost of combination: Cost of acquisition	Cost of combination: Fair value equity instruments issued for the acquisition	% voting rights acquired	% total voting rights	Type of shareholding	Method
Placements Immobiliers France, S.A.S.	Subsidiary	1/01/14	-	-	99.62%	99.62%	Indirect	Full consolidation
Sabadell Capital S.A. de C.V. SOFOM E.N.R.	Subsidiary	22/04/14	2,772	-	100.00%	100.00%	Direct	Full consolidation
Manston Invest S.L.U.	Subsidiary	23/09/14	33,357	-	100.00%	100.00%	Direct	Full consolidation
Stonington Spain S.L.U.	Subsidiary	23/09/14	60,729	-	100.00%	100.00%	Direct	Full consolidation

Associates no longer consolidated

Thousand euro

Company name (or activity) sold, split or derecognised	Category	Effective date of operation	% of voting rights sold	% of total voting rights after the sale	Generated profit/(loss)	Type of shareholding	Method
New Premier Inversiones,SICAV, S.A. (a)	Subsidiary	12/02/14	99.97%	0.00%	2,855	Direct	Full consolidation
Gaviel, S.A. (b)	Associate	24/02/14	50.00%	0.00%	-	Direct	Equity method
NF Desarrollos, S.L. (b)	Associate	25/02/14	40.00%	0.00%	-	Indirect	Equity method
Saprosin Promociones, S.L. (a)	Associate	25/02/14	45.00%	0.00%	-	Indirect	Equity method
Galeban Gestión de Riesgos, S.A.U. (c)	Subsidiary	1/03/14	100.00%	0.00%	-	Direct	Full consolidation
Sabadell Solbank Mediación Operador de Banca (c)	Subsidiary	1/03/14	100.00%	0.00%	-	Direct	Full consolidation
Costa Marina Mediterraneo (b)	Associate	3/03/14	33.33%	0.00%	-	Indirect	Equity method
Datolita Inversiones 2010, S.L. (b)	Subsidiary	10/03/14	100.00%	0.00%	-	Direct	Full consolidation
Banco Gallego, S.A.U. (c)	Subsidiary	11/03/14	100.00%	0.00%	-	Direct	Full consolidation
Sabadell Solbank, S.A. Sociedad Unipersonal (c)	Subsidiary	11/03/14	100.00%	0.00%	-	Direct	Full consolidation
E.B.N Banco de Negocios,S.A. (a)	Associate	24/03/14	15.62%	0.00%	214	Direct	Equity method
Loalsa Inversiones Castilla la Mancha, S.L. (a)	Associate	31/03/14	20.00%	0.00%	-	Indirect	Equity method
Anara Guipúzcoa (d)	Associate	21/05/14	40.00%	0.00%	-	Indirect	Equity method
Liquidambar Inversiones Financieras (b)	Jointly controlled	22/05/14	13.33%	0.00%	-	Direct	Equity method
Berilia Grupo Inmobiliario, S.L. (a)	Associate	28/05/14	40.00%	0.00%	-	Indirect	Equity method
Leva Yorma, S.L. (a)	Associate	28/05/14	39.14%	0.00%	-	Indirect	Equity method
Ribera Casares Golf, S.L. (a)	Associate	28/05/14	47.07%	0.00%	-	Indirect	Equity method
Promociones y Desarrollos Urbanos Oncineda, S.L. (a)	Associate	30/05/14	50.00%	0.00%	(58)	Indirect	Equity method
Decovama 21, S.L. (d)	Associate	30/05/14	22.03%	22.03%	-	Indirect	Equity method
Inmobiliaria Valdebebas 21, S.L. (d)	Associate	30/05/14	40.92%	0.00%	-	Direct	Equity method
Fegaunion, S.A. (d)	Associate	30/05/14	48.00%	48.00%	-	Indirect	Equity method
Casas del Mar levante, S.L. (d)	Associate	30/05/14	33.33%	33.33%	-	Indirect	Equity method
Desarrollos Inmobiliarios Pronegui, S.L. (d)	Associate	30/05/14	40.00%	40.00%	-	Indirect	Equity method
Espazios Murcia, S.L. (d)	Associate	30/05/14	45.00%	45.00%	-	Indirect	Equity method
Key Vil I, S.L. (d)	Associate	30/05/14	40.00%	40.00%	-	Indirect	Equity method
Kosta Bareño, S.A. (d)	Associate	30/05/14	20.00%	20.00%	-	Indirect	Equity method
Lizarre Promociones, A.I.E. (d)	Associate	30/05/14	40.00%	40.00%	-	Indirect	Equity method
Naguisa Promociones, S.L. (d)	Associate	30/05/14	45.00%	45.00%	-	Indirect	Equity method
Parque del Segura, S.L. (d)	Associate	30/05/14	32.20%	32.20%	-	Indirect	Equity method
Probur BG XXI, S.L. (d)	Associate	30/05/14	25.00%	25.00%	-	Indirect	Equity method
Promociones Abaco Costa Almeria, S.L. (d)	Associate	30/05/14	40.00%	40.00%	-	Indirect	Equity method
Promociones Aguiver, S.L. (d)	Associate	30/05/14	43.39%	43.39%	-	Indirect	Equity method
Promociones Florida Casas, S.L. (d)	Associate	30/05/14	40.00%	40.00%	-	Indirect	Equity method
Residencial Haygon, S.L. (d)	Associate	30/05/14	25.00%	25.00%	-	Indirect	Equity method
Txonta Egizastu Promozioak, S.L. (d)	Associate	30/05/14	35.00%	35.00%	-	Indirect	Equity method
Urtago Promozioak, A.I.E. (d)	Associate	30/05/14	30.00%	30.00%	-	Indirect	Equity method
Dreamview, S.L. (d)	Jointly controlled	30/05/14	49.00%	49.00%	-	Indirect	Equity method
Fbex del Mediterráneo, S.L. (d)	Jointly controlled	30/05/14	25.00%	25.00%	-	Indirect	Equity method
Inmobiliaria Ricam 2005, S.L. (d)	Jointly controlled	30/05/14	40.00%	40.00%	-	Indirect	Equity method
La Ermita Resort, S.L. (d)	Jointly controlled	30/05/14	29.49%	29.49%	-	Indirect	Equity method
Mercado Inmobiliario de Futuro, S.L. (d)	Jointly controlled	30/05/14	49.14%	49.14%	-	Indirect	Equity method
Dime Habitat, S.L. (d)	Associate	30/05/14	40.00%	40.00%	-	Indirect	Equity method
Gradiente Entrópico, S.L. (d)	Associate	30/05/14	49.00%	49.00%	-	Indirect	Equity method

Thousand euro

Company name (or activity) sold, split or derecognised	Category	Effective date of operation	% of voting rights sold	% of total voting rights after the sale	Generated profit/(loss)	Type of shareholding	Method
Hansa Urbana S.A. (d)	Associate	30/05/14	30.61%	0.00%	-	Directa	Equity method
Altavista Hotelera,S.L. (a)	Associate	26/06/14	40.00%	0.00%	-	Indirecta	Equity method
General de Biocarburantes, S.A. (a)	Associate	26/06/14	25.00%	0.00%	43	Indirecta	Equity method
Puerto Mujeres, S.A, de C.V. (a)	Subsidiary	30/06/14	100.00%	0.00%	(3,970)	Indirecta	Full consolidation
BanSabadell Correduría de Seguros, S.A.U. (c)	Subsidiary	29/08/14	100.00%	0.00%	-	Directa	Full consolidation
Boreal Renovables 15 S.L.U. (b)	Subsidiary	17/09/14	100.00%	0.00%	-	Directa	Full consolidation
Boreal Renovables 16, S.L.U. (b)	Subsidiary	17/09/14	100.00%	0.00%	-	Directa	Full consolidation
Erbisinia Renovables, S.L. (b)	Jointly controlled	18/09/14	49.00%	0.00%	-	Indirecta	Equity method
Emporio Mediterráneo, S.L. (b)	Jointly controlled	25/09/14	50.00%	0.00%	-	Indirecta	Equity method
Gallego Preferentes, S.A.U., En Liquidación (b)	Subsidiary	30/10/14	100.00%	0.00%	-	Directa	Full consolidation
Mediterráneo Seguros Diversos, Compañía de Seguros y Reaseguros, S.A. (a)	Subsidiary	31/10/14	100.00%	0.00%	883	Directa	Full consolidation
Parc Eòlic Veciana-Cabaro, S.L. (a)	Associate	31/10/14	40.00%	0.00%	897	Indirecta	Equity method
Inversiones Valdeapa 21, S.L. (d)	Associate	31/10/14	16.03%	0.00%		Indirecta	Equity method
Norfin 21, S.L. (a)	Associate	14/11/14	49.99%	0.00%	(6)	Indirecta	Equity method
Cartera de Participaciones Empresariales, C.V., S.L. (b)	Jointly controlled	18/11/14	50.00%	0.00%		Directa	Equity method
Espais Catalunya Mediterráneo, S.A. (a)	Jointly controlled	25/11/14	49.72%	0.00%	805	Indirecta	Equity method
Alma Gestión de Hoteles, S.L.U. (a)	Jointly controlled	25/11/14	49.72%	0.00%	-	Indirecta	Equity method
Alma Hotelmanagement GMBH (a)	Jointly controlled	25/11/14	49.72%	0.00%	-	Indirecta	Equity method
Ecamed Barcelona, S.L.U (a)	Jointly controlled	25/11/14	49.72%	0.00%	-	Indirecta	Equity method
Ecamed Pamplona, S.L.U (a)	Jointly controlled	25/11/14	49.72%	0.00%	-	Indirecta	Equity method
Mankel System, S.L.U. (a)	Jointly controlled	25/11/14	49.72%	0.00%	-	Indirecta	Equity method
Solvia Atlantic, L.L.C (b)	Subsidiary	31/11/14	100.00%	0.00%	-	Indirecta	Full consolidation
6350 Industries, S.L. (b)	Associate	2/12/14	37.50%	0.00%	-	Indirecta	Equity method
IFOS, S.A. (a)	Associate	5/12/14	20.00%	0.00%	(20)	Indirecta	Equity method
Servicios Reunidos, S.A. (b)	Subsidiary	9/12/14	100.00%	0.00%	-	Directa	Full consolidation
Adelanta Corporación, S.A. (a)	Associate	15/12/14	25.00%	0.00%	996	Indirecta	Equity method
Atalanta Catalunya 2011, S.L. (a)	Associate	15/12/14	25.00%	0.00%	1	Indirecta	Equity method
Prat Spolka, Z.O.O. (b)	Associate	18/12/14	35.00%	0.00%	-	Indirecta	Equity method
Administración y Proyectos MDT, S.A. P.I. de C.V. (a)	Subsidiary	19/12/14	100.00%	0.00%	-	Directa	Full consolidation
Eurofragance, S.L (a)	Associate	29/12/14	25.00%	0.00%	9,473	Indirecta	Equity method
Explotaciones Energéticas SINIA XXI, S.L. (c)	Subsidiary	29/12/14	100.00%	0.00%	-	Indirecta	Full consolidation
Tinser Cartera, S.L. (c)	Subsidiary	29/12/14	100.00%	0.00%	-	Directa	Full consolidation
G.I. Cartera, S.A. (c)	Subsidiary	29/12/14	100.00%	0.00%	-	Directa	Full consolidation

(a) No longer consolidated due to sale of investment.
(b) No longer consolidated due to dissolution and/or liquidation.
(c) No longer consolidated due to merger.
(d) No longer consolidating due to loss of significant influence.

Schedule II – Structured entities – Securitisation funds

Thousand euro

Year	Consolidated securitisation funds	Company	Total securitised assets at 31/12/2015
2004	GC SABADELL 1, F.T.H	Banc Sabadell	227,823
2004	TDA CAM 3	Banco CAM	165,719
2004	FTPYME TDA CAM 2 F.T.A	Banco CAM	35,050
2005	TDA 23, F.T.A	Banco Guipuzcoano	56,996
2005	TDA CAM 4 F.T.A	Banco CAM	454,060
2005	TDA CAM 5 F.T.A	Banco CAM	684,916
2006	IM FTGENCAT SABADELL 2, F.T.A	Banc Sabadell	74,515
2006	TDA 26-MIXTO, F.T.A	Banco Guipuzcoano	140,875
2006	TDA CAM 6 F.T.A	Banco CAM	466,664
2006	EMPRESAS HIPO TDA CAM 3 F.T.A	Banco CAM	109,394
2006	FTPYME TDA CAM 4 F.T.A	Banco CAM	235,222
2006	TDA CAM 7 F.T.A	Banco CAM	707,019
2006	CAIXA PENEDES 1 TDA, FTA	BMN- Penedés	356,208
2007	GC FTPYME SABADELL 6, F.T.A	Banc Sabadell	122,991
2007	TDA 29, F.T.A	Banco Guipuzcoano	168,901
2007	TDA CAM 8 F.T.A	Banco CAM	696,937
2007	TDA CAM 9 F.T.A	Banco CAM	644,318
2007	CAIXA PENEDES PYMES 1 TDA, FTA	BMN- Penedés	101,984
2007	CAIXA PENEDES 2 TDA, FTA	BMN- Penedés	277,715
2008	IM SABADELL RMBS 2, F.T.A	Banc Sabadell	593,910
2008	IM SABADELL RMBS 3, F.T.A	Banc Sabadell	669,838
2008	TDA 31, F.T.A	Banco Guipuzcoano	128,843
2008	FTPYME TDA CAM 7 F.T.A	Banco CAM	303,022
2008	TDA CAM 11 F.T.A	Banco CAM	887,530
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA	BMN- Penedés	131,628
2009	TDA CAM 12 F.T.A	Banco CAM	1,043,903
2009	GAT-ICO-FTVPO 1, F.T.H (CP)	BMN- Penedés	15,946
2014	CAPE FUNDING 2014-1 PLC	TSB	3,680,364
2015	DUNCAN FUNDING 2015-1 PLC	TSB	2,761,099
Total			**15,943,390**

Thousand euro

Year	Non-Consolidated securitisation funds	Company	Total securitised assets at 31/12/2015
2001	TDA 14-MIXTO, F.T.A - Guipu	Banco Guipuzcoano	6,254
2001	TDA 14-MIXTO, F.T.A - Pene	BMN- Penedés	28,433
2002	TDA 15-MIXTO, F.T.A	Banco Guipuzcoano	15,421
2003	TDA 17-MIXTO, F.T.A	Banco Guipuzcoano	28,930
2003	TDA CAM 1	Banco CAM	130,136
2003	TDA CAM 2	Banco CAM	156,715
2006	TDA 25, FTA (*)	Banco Gallego	13,544
Total			**379,433**

(*) Securitised fund in the process of early settlement

Schedule III –Information required to be kept by issuers of mortgage market securities and the special mortgage register

Information concerning the data kept in the special accounting register of the issuer Banco Sabadell referred to in Article 21 of Royal Decree 716/2009 required by Bank of Spain Circular 5/2011 is as follows (excluding guarantee issued by the DGF).

A) Assets operation

Details of the aggregate nominal values of mortgage loans and credit at 31 December 2015 and 2014 covering issues of asset-backed securities, their eligibility and the extent to which they qualify as such for mortgage market purposes are presented in the following table:

Thousand euro

Analysis of overall mortgage loan & credit portfolio; eligibility and qualifying amounts (nominal values)

	2015	2014
Total mortgage loan and credit portfolio	**66,147,385**	**71,832,792**
Mortgage securities issued	**5,530,881**	**6,558,293**
Of which : Loans held on balance sheet	5,166,060	6,129,962
Mortgage transfer certificates	**4,370,275**	**5,790,050**
Of which: Loans held on balance sheet	4,180,536	5,609,226
Mortgage loans pledged as security for financing received	-	-
Loans backing issues of morgage bonds and mortgage covered bonds	**56,246,229**	**59,484,449**
Ineligible loans	19,382,351	20,497,568
Fulfil eligibility requirements except for limit under Article 5.1 of Royal Decree 716/2009	14,389,421	15,204,177
Rest	4,992,930	5,293,391
Eligible loans	36,863,878	38,986,881
Non-qualifying portions	146,914	40,963
Qualifying portions	36,716,964	38,945,918
Loans covering mortgage bond issues	-	-
Loans eligible as coverage for mortgage covered bond issues	36,716,964	38,945,918
Substitution assets related to mortgage covered bond issues	-	-

A breakdown of these nominal values according to different classifications is given below:

Thousand euro

Analysis of total mortgage loan & credit portfolio backing mortgage market issuances	2015		2014	
	Total	***Of which: Eligible loans***	**Total**	***Of which: Eligible loans***
Total mortgage loan and credit portfolio	**56,246,229**	**36,863,878**	**59,484,449**	**38,986,881**
Origin of operations	**56,246,229**	**36,863,878**	**59,484,449**	**38,986,881**
Originated by the Bank	55,382,031	36,376,744	58,561,095	38,462,992
Subrogated from other entities	273,461	218,221	256,634	219,618
Rest	590,737	268,913	666,720	304,271
Currency	**56,246,229**	**36,863,878**	**59,484,449**	**38,986,881**
Euro	55,593,779	36,810,879	58,834,666	38,882,014
Other currencies	652,450	52,999	649,783	104,867
Payment status	**56,246,229**	**36,863,878**	**59,484,449**	**38,986,881**
Satisfactory payment	43,807,302	32,165,666	44,168,736	32,926,382
Other situations	12,438,927	4,698,212	15,315,713	6,060,499
Average residual period to maturity	**56,246,229**	**36,863,878**	**59,484,449**	**38,986,881**
Up to 10 years	16,958,565	8,983,758	18,069,516	9,060,808
10 to 20 years	18,041,830	13,031,187	17,469,051	12,912,010
20 to 30 years	15,529,950	11,333,611	16,810,567	12,513,851
More than 30 years	5,715,884	3,515,322	7,135,315	4,500,212
Interest rate	**56,246,229**	**36,863,878**	**59,484,449**	**38,986,881**
Fixed	3,443,868	1,382,883	2,861,904	771,908
Variable	52,802,361	35,480,995	56,622,545	38,214,973
Mixed	-	-	-	-
Holders	**56,246,229**	**36,863,878**	**59,484,449**	**38,986,881**
Legal entities and individual entrepreneurs	24,582,556	11,860,390	27,054,006	13,153,963
Of which: Real estate developments	*8,088,495*	*3,102,456*	*10,384,237*	*4,394,653*
Other individuals and NPISHs	31,663,673	25,003,488	32,430,443	25,832,918
Type of guarantee	**56,246,229**	**36,863,878**	**59,484,449**	**38,986,881**
Assets /finished buildings	50,519,701	35,093,621	51,447,440	36,429,553
Residential	*40,175,606*	*28,875,792*	*40,557,558*	*29,743,456*
Of which: Official housing	*1,520,057*	*1,026,431*	*1,088,202*	*837,474*
Purchased for resale	*10,245,126*	*6,145,363*	*10,779,455*	*6,600,249*
Other	*98,969*	*72,466*	*110,427*	*85,848*
Assets/ buildings under construction	690,409	483,774	1,051,102	729,759
Residential	*643,299*	*443,712*	*898,991*	*651,265*
Of which: Official housing	*3,009*	*2,935*	*30,517*	*20,274*
Purchased for resale	*45,517*	*38,470*	*148,044*	*74,432*
Other	*1,593*	*1,592*	*4,067*	*4,062*
Land	5,036,119	1,286,483	6,985,907	1,827,569
Developed	*2,934,471*	*724,994*	*4,939,628*	*1,229,088*
Rest	*2,101,648*	*561,489*	*2,046,279*	*598,481*

The nominal values of drawable funds (i.e. undrawn loan commitments) within the total mortgage loan and credit portfolio were as follows:

Thousand euro

Available balances (nominal value). Total mortgage loans and credits backing the issue of morgage bonds and mortgage covered bonds	2015	2014
Potentially eligible	1,131,564	1,098,713
Ineligible	962,059	540,989

The following table shows a breakdown of nominal values of loans and credit by loan-to-value (LTV) ratio (loan exposure as a percentage of the most recent appraised value) for mortgage loans and credit eligible for issues of mortgage bonds (*bonos hipotecarios*) and mortgage covered bonds (*cédulas hipotecarias*):

Thousand euro

LTV ratio by type of security. Eligible loans for the issue of morgage bonds and mortgage covered bonds

	2015	2014
Secured on residential property	**29,509,448**	**30,331,068**
LTV ≤ 40%	*8,733,958*	*8,628,942*
LTV 40%-60%	*11,065,725*	*11,145,070*
LTV 60%-80%	*9,709,765*	*10,557,056*
LTV > 80%	-	-
Secured on other properties	**7,354,430**	**8,655,813**
LTV ≤ 40%	*4,441,514*	*4,661,352*
LTV 40%-60%	*2,912,916*	*3,994,461*
LTV > 60%	-	-

Changes during 2015 and 2014 in the nominal values of mortgage loans covering issues of mortgage bonds and mortgage covered bonds (eligible and non-eligible) are as follows:

Thousand euro

Movements in nominal values of mortgage loans	Eligible	Ineligible
Balance at 31 December 2013	**40,084,951**	**23,056,298**
Derecognised during the year	**(7,442,971)**	**(5,267,317)**
Repayment at maturity	2,672,320	636,421
Early repayment	1,021,303	646,794
Subrogations by other entities	6,537	2,419
Rest	3,742,811	3,981,683
Additions during the year	**6,344,901**	**2,708,587**
Originated by the Bank	2,064,559	1,475,074
Subrogations from other entities	5,007	6,743
Rest	4,275,335	1,226,770
Balance at 31 December 2014	**38,986,881**	**20,497,568**
Derecognised during the year	**(6,461,478)**	**(5,263,151)**
Repayment at maturity	2,445,835	719,117
Early repayment	1,212,274	755,535
Subrogations by other entities	24,601	7,687
Rest	2,778,768	3,780,812
Additions during the year	**4,338,475**	**4,147,934**
Originated by the Bank	2,577,936	1,995,185
Subrogations from other entities	31,882	10,973
Rest	1,728,657	2,141,776
Balance at 31 December 2015	**36,863,878**	**19,382,351**

B) Liabilities operation

Information on issues of collateralised securities backed by Banco Sabadell mortgage loan and credit portfolios is provided in the following table, disclosed by unexpired term and according to whether the sale was by public offering or otherwise:

Thousand euro Nominal value	2015	2014
Mortgage covered bonds in issue	**22,352,359**	**21,980,115**
Of which: Not reflected under liabilities on the balance sheet	8,133,200	6,352,600
Debt securities Issued through public offering	**7,250,000**	**8,200,000**
Time to maturity up to one year	1,750,000	2,700,000
Time to maturity from one to two years	1,500,000	1,750,000
Time to maturity from two to three years	1,000,000	1,500,000
Time to maturity from three to five years	1,750,000	1,000,000
Time to maturity from five to ten years	1,250,000	1,250,000
Time to maturity more than ten years	-	-
Debt securities Other issues	**10,883,000**	**8,233,000**
Time to maturity up to one year	420,000	4,400,000
Time to maturity from one to two years	500,000	420,000
Time to maturity from two to three years	1,150,000	500,000
Time to maturity from three to five years	7,530,000	1,550,000
Time to maturity from five to ten years	1,283,000	1,363,000
Time to maturity more than ten years	-	-
Deposits	**4,219,359**	**5,547,115**
Time to maturity up to one year	1,174,815	1,327,756
Time to maturity from one to two years	330,000	1,174,815
Time to maturity from two to three years	593,710	330,000
Time to maturity from three to five years	669,980	1,117,856
Time to maturity from five to ten years	1,430,855	1,240,278
Time to maturity more than ten years	20,000	356,410

	2015		2014	
	Nominal value (thousand euro)	Average residual term (years)	Nominal value (thousand euro)	Average residual term (years)
Mortgage transfer certificates	**4,370,275**	**18**	**5,790,050**	**17**
Issued through public offering	-	-	-	-
Other issues	4,370,275	18	5,790,050	17
Mortgage securities	**5,530,881**	**17**	**6,558,293**	**17**
Issued through public offering	-	-	-	-
Other issues	5,530,881	17	6,558,293	17

At 31 December 2015, the over-collateralisation ratio (the nominal value of the total mortgage loan portfolio backing the issue of mortgage covered bonds divided by the nominal value of mortgage covered bonds in issue) for Banco de Sabadell, S.A. stood at 252%.

As required by Royal Decree 716/2009, which developed certain aspects of Law 2/1981 of 25 March on the Regulation of the Mortgage Market and other matters relating to mortgage lending, the Board of Directors represents that it is responsible for ensuring that the bank has a set of policies and procedures in place to assure compliance with mortgage market regulations.

In line with these policies and procedures for managing the group's mortgage market activities, the Board of Directors is responsible for ensuring compliance with all mortgage market regulations and for implementing the group's risk management and control procedures (see Note 4, Financial Risk Management). In the area of credit risk, in particular, the Board of Directors delegates powers and discretions to its Executive Committee, which then sub-delegates authority at each level of decision-making. The internal procedures set up to handle the origination and monitoring of the assets that make up the group's lending and particularly those secured by mortgage, which serve as coverage for the group's mortgage covered bond issues, are described in detail below for each type of loan applicant.

Individuals

Analysis and decisions concerning the risk rating of individuals are carried out based on the scoring tools described in the Directors' Report. Where necessary, these tools are complemented with the work analyst, who carries out more in-depth studies of supplementary materials and reports. There are, in addition, a whole range of other details and parameters to be considered, such as the consistency of the customer's application and how well it matches his possibilities; the customer's ability to pay based on his current and future position; the value of the property provided as security for the loan (as determined by an appraisal carried out by Bank of Spain-authorised valuation firms which Banco Sabadell's own internal approval processes will additionally have shown to be free of any association with the group); the availability of any additional security; examinations of internal and external databases of defaulters, etc.

One aspect of the decision-making process is to establish the maximum amount of the loan, based on the assessed value of the security (the loan-to-value, or LTV). As a general rule, under internal group procedures the maximum LTV is applicable to purchases by individuals of properties for use as their normal residence and is fixed at 80%. This provides an upper limit below which a range of other maximum LTV ratios of less than 80% are set, having regarded to the purpose of the loan.

A further step that must be taken before an application can be decided upon is to review all charges associated with the property on which the loan is to be secured and also any insurance taken out to cover the security. Once a loan application has been approved, the mortgage must be registered with the Property Registry as part of the formalities for arranging the loan.

Concerning approval autonomy levels, the scoring tools are the main reference for determining the feasibility of the operation. Where the loan being sought is above a certain amount, or where factors are present that are not readily captured by a scoring procedure, a risk analyst will be involved. The limit for each autonomy level is based on credit scores, with additional conditions being specified at each level to determine when special intervention is required. A list of exceptions has been drawn up, based on the particular circumstances of the borrower and the operation, and these exceptions are covered in the group's internal rules and procedures.

As mentioned in the Directors' Report, the group has an integrated monitoring system which uses early warning tools that enable the early detection of borrowers that could have compliance issues. A key part of this process consists of well-established procedures to review and validate the security provided.

Businesses (other than construction/real estate development)

Analysis and decisions concerning the risk rating are based on rating tools and the "basic management teams", both of which are described in the Director's Report. Where necessary, these tools are complemented with the work of a risk analyst, who carries out more in-depth studies of supplementary materials and reports. A range of other data and parameters are also taken into account, such as the consistency of the application, ability to pay and the nature of the security provided (as determined by an appraisal carried out by Bank of Spain-authorised valuation firms which Banco Sabadell's own approval processes will, additionally, have shown to be free of any association with the group) and considering any supplementary guarantees, the "fit" between the company's working capital and its total sales; the appropriateness of the total amount borrowed from the group based on the business's capital strength; examinations of internal and external databases of defaulters, and so on.

Business loans are likewise subject to processes that evaluate any charges associated with the security provided and to have any mortgage registered with the Property Registry.

An autonomy level is assigned on the basis of the expected loss associated with a transaction. There are several levels at which decisions may be taken. Each of these levels involves the "key management team", one member of which will be on the business side and one on the risk management side. All loan approvals must be the result of a joint decision. As with individual customers, a set of exceptional circumstances has been specified for borrowers or sectors, and these are provided for in the group's internal procedures.

As in the case of individuals, operations are monitored using early warning tools. There are also procedures to ensure that the borrower's security or guarantees are constantly being reviewed and validated.

Businesses (construction/real estate development)

Real estate assets and property development are handled by the bank's Asset Transformation and Industrial and Real Estate Subsidiaries division. The division is organisationally structured to focus on the specialised management of assets of this type based on knowledge of the status and development of the real estate market. Managing the risks in this portfolio is the responsibility of the bank's Asset Risk Unit, part of the Risk Management Division.

Risk analysis is carried out by specialist management teams who operate in conjunction with the real estate lending units to ensure that a risk management perspective is combined with a view based on direct contact with the customer.

Factors influencing the decision will include the borrower's credit rating assessment together with a series of other considerations such as the financial position and net worth of business, revenue and cash flow projections, any business plans and, most particularly, an in-depth study of current credit risks whether related to completed developments, land holdings or other assets.

There is a scale of maximum LTV ratios defined internally by the group based on the purpose of the financing, quality of the developer and an internal appraisal of the development.

Decision-taking powers and discretions are assigned according to the specific types of asset portfolio handled within this business segment, which may be related to new projects, sales, purchases or action plans. All these different circumstances are provided for in the bank's rules and procedures.

Loans are subject to the kind of continuous monitoring that asset management necessarily implies. For completed developments, levels of sales or rents are monitored, and for current assets, the development stage is monitored. Constant checks are made that commitments are being adhered to and, as with businesses, procedures are in place for the continuous review and validation of the loan security provided.

Other matters

The Banco Sabadell group is an active participant in the capital markets and has a number of funding programmes in operation (see Note 4). As one element of its funding strategy Banco de Sabadell, S.A. is an issuer of mortgage covered bonds. Mortgage covered bond issues are backed by the issuer's portfolio of loans secured by real estate mortgages that meet the eligibility criteria applicable under Royal Decree 716/2009 which provides rules on the mortgage market and mortgage finance in Spain. The group has review procedures in place to monitor its entire portfolio of loans and credit lines secured with mortgages. These include maintaining special accounting records of all mortgage assets – and any assets that replace them – used to back issues of mortgage covered bonds and mortgage bonds, and of any financial derivatives associated with them; verifying that all loans and other assets meet the eligibility criteria for use as collateral in issues of mortgage covered bonds; and ensuring that bond issues are at all times kept to within their maximum limits, as required by the applicable mortgage market legislation.

Schedule IV – Information of issuers in territorial bonds and on the special territorial accounting record

Details of the data from the special accounting registry of territorial bonds of issuing entity Banco Sabadell, referred to in the sole additional provision of Royal Decree 579/2014, required by Circular 4/2015 of the Bank of Spain:

A) Asset operation

Details of the aggregate nominal values of loans and credit in pubic administrations at 31 December 2015 and 2014 covering issues of asset-backed securities, their eligibility and the extent to which they qualify as such for territorial bond hedging purposes are presented in the following table:

Thousand euro

	2015		
	Total	**Residents in Spain**	**Residents in other European Economic Area countries**
Central governments	236,245	236,245	-
Regional governments	770,350	770,350	-
Local governments	785,879	785,879	-
Total cartera de préstamos y créditos	**1,792,474**	**1,792,474**	**-**

B) Liability operation

Information on issues of collateralised securities backed by the bank's loan and credit to public administrations portfolios is provided in the following table, disclosed by unexpired term and according to whether the sale was by public offering or otherwise:

Thousand euro

Nominal value	**2015**
Issued territorital bonds	**900,000**
Of which: Not registered on the balance sheet	900,000
Issued by public offering	**-**
Residual maturity up to 1 year	-
Residual maturity 1 to 2 years	-
Residual maturity 2 to 3 years	-
Residual maturity 3 to 5 years	-
Residual maturity 5 to 10 years	-
Residual maturity over 10 years	-
Other issues	**900,000**
Residual maturity up to 1 year	-
Residual maturity 1 to 2 years	-
Residual maturity 2 to 3 years	-
Residual maturity 3 to 5 years	900,000
Residual maturity 5 to 10 years	-
Residual maturity over 10 years	-

At 31 December 2015, the over-collateralisation ratio (the nominal value of the total loan and credit to public administrations portfolio backing the issue of territorial bonds divided by the nominal value of territorial bonds in issue) for Banco de Sabadell, S.A. stood at 199.16%.

As required by Royal Decree 579/2014, the Board of Directors represents that it is responsible for ensuring that the bank has a set of policies and procedures in place in terms of the financing activities of public entities to assure compliance with regulations governing the issuance of these securities (see Note 4 on the management of financial risks).

In the area of credit risk, in particular, the Board of Directors delegates powers and discretions to its Executive Committee, which then sub-delegates authority at each level of decision-making. The internal procedures set up to handle the origination and monitoring of the assets that make up the group's lending and particularly those in public institutions, which back the issued territorial bonds.

Schedule V – Details of outstanding subordinate assets and liabilities of the group

Marketable debt securities

Marketable debt securities issued by the group at 31 December 2015 and 2014 are as follows:

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	Amount 31/12/14	Interest rate ruling at 31/12/2015	Maturity date	Issue currency	Target of offering
Banco CAM, S.A. (*)	30/06/2005	-	48,350	-	15/08/2015	Euro	Retail
Banco CAM, S.A. (*)	15/02/2006	-	100,000	-	15/08/2015	Euro	Retail
Banco CAM, S.A. (*)	08/03/2006	-	50,000	-	15/08/2015	Euro	Retail
Banco de Sabadell, S.A.	04/10/2006	50,000	50,000	EURIBOR 3M + 0,14	04/10/2016	Euro	Institutional
CAM Global Finance S.A.U.	05/12/2006	107,000	107,000	EURIBOR 3M + 0,225	05/12/2016	Euro	Institutional
Banco Guipuzcoano, S.A. (*)	18/04/2007	25,000	25,000	1.70%	18/04/2022	Euro	Institutional
Banco Gallego, S.A. (*)	28/10/2013	186	186	2.00%	29/12/2019	Euro	Retail
Banco de Sabadell, S.A.	05/12/2013	600,000	600,000	2.50%	05/12/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/03/2014	1,022	3,022	0/01/00	10/03/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/03/2014	1,287	3,985	0/01/00	10/03/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/03/2014	1,486	5,226	EURIBOR 6M + 2,30	10/03/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/03/2014	3,281	4,624	EURIBOR 6M + 3,50	10/03/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/03/2014	3,348	6,669	EURIBOR 6M + 3,50	10/03/2020	Euro	Institutional
Banco de Sabadell, S.A.	18/03/2014	5,000	5,000	EURIBOR 3M + 0,95	18/03/2019	Euro	Institutional
Banco de Sabadell, S.A.	18/03/2014	11,500	11,500	EURIBOR 3M + 1,25	18/03,2019	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	3,550	10,499	2.89%	10/04/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	2,479	7,329	2.98%	10/04/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	711	4,079	2.92%	10/04/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	767	2,928	3.02%	10/04/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	3,558	11,588	EURIBOR 6M + 2,30	10/04/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	1,810	2,851	4.30%	10/04/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/04/2014	9,391	13,147	EURIBOR 6M + 3,50	10/04/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	2,891	8,553	2.82%	10/05/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	2,604	7,704	2.84%	10/05/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	1,597	4,721	2.91%	10/05/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	811	2,398	2.87%	10/05/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	6,627	20,081	EURIBOR 6M + 2,30	10/05/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	2,074	6,077	4.18%	10/05/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	2,175	2,983	4.22%	10/05/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	7,648	11,595	EURIBOR 6M + 3,50	10/05/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	8,611	10,305	4.42%	10/05/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2014	9,563	11,688	EURIBOR 6M + 3,50	10/05/2020	Euro	Institutional
Banco de Sabadell, S.A.	13/05/2014	20,000	20,000	EURIBOR 3M + 0,70	13/05/2019	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	2,537	7,524	2.31%	10/06/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	500	2,640	2.33%	10/06/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	2,860	8,472	2.58%	10/06/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	492	2,585	2.60%	10/06/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	2,192	6,750	EURIBOR 6M + 1,85	10/06/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	1,893	5,867	EURIBOR 6M + 2,10	10/06/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	2,146	2,955	3.39%	10/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	4,220	5,804	3.63%	10/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	2,141	2,997	EURIBOR 6M + 2,75	10/06/2018	Euro	Institutional

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	31/12/14	Interest rate ruling at 31/12/2015	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	10/06/2014	3,287	4,944	EURIBOR 6M + 3,00	10/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	2,977	3,951	EURIBOR 6M + 2,75	10/06/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2014	3,863	8,296	EURIBOR 6M + 3,00	10/06/2020	Euro	Institutional
Banco de Sabadell, S.A.	27/06/2014	20,000	20,000	EURIBOR 3M + 0,65	27/06/2019	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	4,555	9,000	2.47%	10/07/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	4,984	9,850	2.40%	10/07/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	2,834	5,600	2.44%	10/07/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	8,541	18,300	EURIBOR 6M + 1,85	10/07/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	2,422	3,175	3.52%	10/07/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	4,385	7,050	3.61%	10/07/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	7,974	10,675	EURIBOR 6M + 2,75	10/07/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/07/2014	7,474	9,675	EURIBOR 6M + 2,75	10/07/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	4,164	8,225	2.50%	10/08/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	1,709	3,375	2.54%	10/08/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	3,532	6,975	2.55%	10/08/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	5,718	24,600	EURIBOR 6M + 1,85	10/08/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	4,924	6,450	3.64%	10/08/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	2,679	4,050	3.73%	10/08/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	6,277	11,200	EURIBOR 6M + 2,75	10/08/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/08/2014	6,730	11,200	EURIBOR 6M + 2,75	10/08/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/09/2014	2,557	5,050	2.53%	10/09/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/09/2014	2,400	7,300	EURIBOR 6M + 1,85	10/09/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/09/2014	2,730	3,575	3.71%	10/09/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/09/2014	3,490	4,825	EURIBOR 6M + 2,75	10/09/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/10/2014	1,959	3,875	2.27%	10/10/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/10/2014	2,141	4,225	2.67%	10/10/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/10/2014	1,306	3,575	EURIBOR 6M + 1,55	10/10/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/10/2014	2,825	5,650	EURIBOR 6M + 1,85	10/10/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/10/2014	2,750	3,300	EURIBOR 6M + 2,35	10/10/2020	Euro	Institutional
Banco de Sabadell, S.A.	04/11/2014	360,000	360,000	1.10%	04/05/2016	Euro	Retail
Banco de Sabadell, S.A.	10/11/2014	2,376	4,700	2.26%	10/11/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/11/2014	4,462	8,825	2.24%	10/11/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/11/2014	4,213	8,425	EURIBOR 6M + 1,55	10/11/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/11/2014	2,516	3,300	3.34%	10/11/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/11/2014	8,445	13,975	EURIBOR 6M + 2,35	10/11/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/11/2014	4,601	8,850	EURIBOR 6M + 2,35	10/11/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	6,659	20,100	EURIBOR 6M + 1,55	10/12/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	5,571	11,025	2.13%	10/12/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	3,349	6,625	2.19%	10/12/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	9,064	13,475	EURIBOR 6M + 2,35	10/12/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	2,857	3,750	3.19%	10/12/2018	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2014	5,640	15,075	EURIBOR 6M + 2,35	10/12/2020	Euro	Institutional
Banco de Sabadell, S.A.	30/12/2014	500,000	500,000	1.00%	30/06/2016	Euro	Retail
Banco de Sabadell, S.A.	02/02/2015	200,000	-	0.90%	02/08/2016	Euro	Retail
Banco de Sabadell, S.A.	26/02/2015	500,000	-	1.00%	26/08/2016	Euro	Retail
Banco de Sabadell, S.A.	13/04/2015	250,000	-	1.00%	13/10/2016	Euro	Retail
Banco de Sabadell, S.A.	12/05/2015	200,000	-	0.80%	12/08/2016	Euro	Retail
Banco de Sabadell, S.A.	29/06/2015	450,000	-	0.75%	29/12/2016	Euro	Retail
Banco de Sabadell, S.A.	14/07/2015	300,000	-	0.80%	14/10/2016	Euro	Retail
Banco de Sabadell, S.A.	04/08/2015	250,000	-	0.75%	04/11/2016	Euro	Retail
Banco de Sabadell, S.A.	16/10/2015	300,000	-	0.75%	16/01/2017	Euro	Retail
Banco de Sabadell, S.A.	26/11/2015	300,000	-	0.75%	26/05/2017	Euro	Retail
Subscribed by group companies		(312,087)	(259,918)				
Total straight bonds		**4,403,806**	**2,170,855**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	Amount 31/12/14	Interest rate ruling at 31/12/2015	Maturity date	Issue currency	Target of offering
CAM Global Finance, S.A.U.	04/06/2008	100,000	100,000	underlying assets ref.	04/06/2018	Euro	Institutional
Banco de Sabadell, S.A.	24/05/2012	-	4,900	underlying assets ref.	19/06/2015	Euro	Retail
Banco de Sabadell, S.A.	02/07/2012	-	1,300	underlying assets ref.	27/07/2015	Euro	Retail
Banco de Sabadell, S.A.	25/07/2012	3,000	3,000	underlying assets ref.	25/07/2022	Euro	Retail
Banco de Sabadell, S.A.	27/07/2012	-	2,200	underlying assets ref.	27/07/2015	Euro	Retail
Banco de Sabadell, S.A.	01/08/2012	-	2,000	underlying assets ref.	03/08/2015	Euro	Retail
Banco de Sabadell, S.A.	10/10/2012	1,600	1,600	underlying assets ref.	10/10/2016	Euro	Retail
Banco de Sabadell, S.A.	10/10/2012	1,425	1,525	underlying assets ref.	10/10/2017	Euro	Retail
Banco de Sabadell, S.A.	20/12/2012	3,000	3,000	underlying assets ref.	20/12/2019	Euro	Retail
Banco de Sabadell, S.A.	02/04/2013	4,000	4,000	underlying assets ref.	02/06/2016	Euro	Retail
Banco de Sabadell, S.A.	16/04/2013	1,170	1,440	underlying assets ref.	18/04/2016	Euro	Retail
Banco de Sabadell, S.A.	16/05/2013	5,000	5,000	underlying assets ref.	16/05/2018	Euro	Retail
Banco de Sabadell, S.A.	31/10/2013	-	2,040	underlying assets ref.	02/11/2015	Euro	Retail
Banco de Sabadell, S.A.	10/01/2014	-	3,500	underlying assets ref.	10/01/2019	Euro	Retail
Banco de Sabadell, S.A.	10/01/2014	-	3,500	underlying assets ref.	10/01/2019	Euro	Retail
Banco de Sabadell, S.A.	14/03/2014	-	5,000	underlying assets ref.	14/03/2019	Euro	Retail
Banco de Sabadell, S.A.	27/05/2014	5,000	5,000	underlying assets ref.	27/05/2019	Euro	Retail
Banco de Sabadell, S.A.	16/06/2014	-	5,000	underlying assets ref.	17/06/2019	Euro	Retail
Banco de Sabadell, S.A.	14/07/2014	10,000	10,000	underlying assets ref.	15/07/2024	Euro	Retail
Banco de Sabadell, S.A.	14/07/2014	3,000	3,000	underlying assets ref.	14/07/2021	Euro	Retail
Banco de Sabadell, S.A.	16/07/2014	5,000	5,000	underlying assets ref.	16/07/2019	Euro	Retail
Banco de Sabadell, S.A.	24/07/2014	4,000	4,000	underlying assets ref.	24/07/2019	Euro	Retail
Banco de Sabadell, S.A.	10/09/2014	-	5,000	underlying assets ref.	10/09/2019	Euro	Retail
Banco de Sabadell, S.A.	10/10/2014	6,000	6,000	underlying assets ref.	10/11/2016	Euro	Retail
Banco de Sabadell, S.A.	10/12/2014	-	8,000	underlying assets ref.	10/12/2019	Euro	Retail
Banco de Sabadell, S.A.	18/12/2014	5,000	5,000	underlying assets ref.	18/12/2019	Euro	Retail
Banco de Sabadell, S.A.	03/02/2015	7,000	-	underlying assets ref.	03/02/2020	Euro	Retail
Banco de Sabadell, S.A.	15/04/2015	4,000	-	underlying assets ref.	15/04/2020	Euro	Retail
Banco de Sabadell, S.A.	15/04/2015	8,500	-	underlying assets ref.	15/04/2020	Euro	Retail
Banco de Sabadell, S.A.	15/04/2015	8,000	-	underlying assets ref.	15/04/2020	Euro	Retail
Banco de Sabadell, S.A.	22/05/2015	10,000	-	underlying assets ref.	22/05/2020	Euro	Retail
Banco de Sabadell, S.A.	06/07/2015	15,000	-	underlying assets ref.	06/07/2020	Euro	Retail
Banco de Sabadell, S.A.	24/07/2015	39,998	-	underlying assets ref.	24/07/2018	Euro	Retail
Banco de Sabadell, S.A.	14/10/2015	10,500	-	underlying assets ref.	14/10/2020	Euro	Retail
Banco de Sabadell, S.A.	18/12/2015	8,200	-	underlying assets ref.	18/12/2020	Euro	Retail
Suscritos por empresas del grupo		(1,845)	(1,864)				
Total structured bonds		**266,548**	**198,141**				

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	Amount 31/12/14	Interest rate ruling at 31/12/2015	Maturity date	Issue currency	Target of offering
Banco CAM, S.A. (*)	09/03/2012	1,059,050	1,059,050	4.50%	09/03/2017	Euro	Institutional
Subscribed by group companies			-				
Total government guaranteed ordinary		**1,059,050**	**1,059,050**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	Amount 31/12/14	Interest rate ruling at 31/12/2015	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A. (ofic. Londres) (*)	25/06/2008	291,918	184,236	Between 0,16% and 0,95%	Various	Euro	Institutional
Banco de Sabadell, S.A. (**)	06/03/2015	5,699,452	4,975,686	Between 0,08% and 1,60%	Various	Euro	Institutional
Subscribed by group companies		(2,054,156)	(2,250,070)				
Total promissory notes		**3,937,214**	**2,909,852**				

(*) Promissory notes (ECP).

(**) Prospectus for €5,000,000,000 filed with CNMV.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	31/12/14	Interest rate ruling at 31/12/2015	Maturity date	Issue currency	Target of offering
Banco de Sabadell, S.A.	15/06/2005	-	1,500,000	3.25%	15/06/2015	Euro	Institutional
Banco de Sabadell, S.A.	19/01/2006	1,750,000	1,750,000	3.50%	19/01/2016	Euro	Institutional
Banco de Sabadell, S.A.	10/05/2006	300,000	300,000	4.125%	10/05/2016	Euro	Institutional
Banco de Sabadell, S.A.	16/05/2006	120,000	120,000	4.25%	16/05/2016	Euro	Institutional
Banco de Sabadell, S.A.	24/01/2007	1,500,000	1,500,000	4.25%	24/01/2017	Euro	Institutional
Banco de Sabadell, S.A.	20/06/2007	300,000	300,000	EURIBOR 3M + 0,045	20/06/2017	Euro	Institutional
Banco de Sabadell, S.A.	08/05/2009	100,000	100,000	EURIBOR 3M + 1	08/05/2021	Euro	Institutional
Banco de Sabadell, S.A.	31/07/2009	200,000	200,000	EURIBOR 3M + 1,30	31/07/2017	Euro	Institutional
Banco de Sabadell, S.A.	18/09/2009	150,000	150,000	EURIBOR 3M + 0,90	18/09/2018	Euro	Institutional
Banco CAM, S.A. (*)	27/04/2010	30,000	30,000	4.60%	31/07/2020	Euro	Institutional
Banco de Sabadell, S.A.	10/12/2010	150,000	150,000	EURIBOR 3M + 2,35	10/12/2020	Euro	Institutional
Banco de Sabadell, S.A.	11/01/2011	100,000	100,000	EURIBOR 3M + 2,60	11/01/2019	Euro	Institutional
Banco Guipuzcoano, S.A. (*)	19/01/2011	100,000	100,000	EURIBOR 3M + 2,75	19/01/2019	Euro	Institutional
Banco de Sabadell, S.A.	07/06/2011	200,000	200,000	EURIBOR 3M + 2,25	07/06/2019	Euro	Institutional
Banco de Sabadell, S.A.	13/07/2011	50,000	50,000	EURIBOR 3M + 2,60	13/07/2021	Euro	Institutional
Banco de Sabadell, S.A.	12/12/2011	150,000	150,000	EURIBOR 3M + 3,10	12/12/2021	Euro	Institutional
Banco de Sabadell, S.A.	16/02/2012	-	1,200,000	3.625%	16/02/2015	Euro	Institutional
Banco de Sabadell, S.A.	05/10/2012	95,000	95,000	EURIBOR 3M + 4,80	05/10/2022	Euro	Institutional
Banco de Sabadell, S.A.	28/12/2012	200,000	200,000	EURIBOR 3M + 4,15	28/12/2020	Euro	Institutional
Banco CAM, S.A. (*)	19/01/2012	-	1,000,000	EURIBOR 3M + 3,5	19/01/2015	Euro	Institutional
Banco CAM, S.A. (*)	16/02/2012	-	500,000	EURIBOR 3M + 3,5	17/08/2015	Euro	Institutional
Banco CAM, S.A. (*)	10/08/2012	-	400,000	EURIBOR 3M + 4	10/08/2015	Euro	Institutional
Banco de Sabadell, S.A.	23/01/2013	1,000,000	1,000,000	3.375%	23/01/2018	Euro	Institutional
Banco de Sabadell, S.A.	29/04/2013	-	1,500,000	EURIBOR 12M + 2,10	29/04/2015	Euro	Institutional
Banco de Sabadell, S.A.	19/06/2013	-	1,000,000	EURIBOR 12M + 1,65	19/06/2015	Euro	Institutional
Banco de Sabadell, S.A.	09/12/2013	200,000	200,000	EURIBOR 3M+1,60	09/12/2021	Euro	Institutional
Banco de Sabadell, S.A.	26/09/2014	250,000	250,000	EURIBOR 3M + 0,70	26/09/2022	Euro	Institutional
Banco de Sabadell, S.A.	03/10/2014	38,000	38,000	EURIBOR 3M + 0,68	03/10/2023	Euro	Institutional
Banco de Sabadell, S.A.	12/11/2014	1,250,000	1,250,000	0.875%	12/11/2021	Euro	Institutional
Banco de Sabadell, S.A.	26/11/2014	1,000,000	1,000,000	EURIBOR 12M + 0,055	26/11/2018	Euro	Institutional
Banco de Sabadell, S.A.	05/12/2014	100,000	100,000	EURIBOR 3 M + 0,40	05/12/2022	Euro	Institutional
Banco de Sabadell, S.A.	29/01/2015	1,250,000	-	EURIBOR 12 M + 0,232	29/01/2019	Euro	Institutional
Banco de Sabadell, S.A.	23/04/2015	1,500,000	-	EURIBOR 12 M + 0,08	23/04/2019	Euro	Institutional
Banco de Sabadell, S.A.	04/05/2015	250,000	-	EURIBOR 3 M + 0,13	04/05/2023	Euro	Institutional
Banco de Sabadell, S.A.	10/06/2015	750,000	-	0.375%	10/06/2020	Euro	Institutional
Banco de Sabadell, S.A.	18/06/2015	1,500,000	-	EURIBOR 12 M + 0,05	18/06/2020	Euro	Institutional
Banco de Sabadell, S.A.	03/07/2015	50,000	-	EURIBOR 3 M + 0,20	03/07/2023	Euro	Institutional
Banco de Sabadell, S.A.	20/07/2015	1,500,000	-	EURIBOR 12 M + 0,05	20/07/2020	Euro	Institutional
Banco de Sabadell, S.A.	16/09/2015	1,000,000	-	EURIBOR 12 M + 0,07	16/09/2020	Euro	Institutional
Banco de Sabadell, S.A.	03/11/2015	1,000,000	-	0.625%	03/11/2020	Euro	Institutional
Subscribed by group companies		(8,133,200)	(6,352,600)				
Total mortgage covered bonds		**9,999,800**	**10,080,400**				

(*) Companies merged with Banco Sabadell.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	31/12/14	Interest rate ruling at 31/12/2015	Maturity date	Issue currency	Target of offering
Banco CAM, S.A. (*)	16/02/2012	-	450,000	EURIBOR 3M + 3,5	17/08/2015	Euro	Institutional
Banco CAM, S.A. (*)	30/04/2012	-	500,000	EURIBOR 3M + 3,5	30/04/2015	Euro	Institutional
Banco de Sabadell, S.A.	23/04/2015	500,000	-	EURIBOR 12M + 0,13	23/04/2019	Euro	Institutional
Banco de Sabadell, S.A.	16/12/2015	400,000	-	EURIBOR 12M + 0,33	16/12/2019	Euro	Institutional
Subscribed by group companies		(900,000)	(950,000)				
Total territorial bonds		**-**	**-**				

(*) Companies merged with Banco Sabadell.

Securitisations

The following table shows the issued bonds for securitisation funds of assets pending depreciation/ amortisation at 31 December 2015 and 2014, respectively.

Thousand euro

Year	Type of securitised asset	Issue: Number of securities	Issue: Amount	Outstanding balance of liabilities: 2015	Outstanding balance of liabilities: 2014	Performance
2004	TDA CAM 3,FTA (*) (A)	12,000	1,200,000	146,580	179,708	EURIBOR 3M + (between 0.23% and 0.70%)
2004	GC SABADELL 1, F.T.H. (A)	12,000	1,200,000	159,515	184,571	EURIBOR 3M + (between 0.06% and 0.78%)
2004	FTPYME TDA CAM 2 F.T.A(*) (A)	1,968	196,800	14,527	22,808	EURIBOR 3M + (between 0% and 0.70%)
2005	TDA CAM 4,FTA (*) (A)	20,000	2,000,000	321,190	376,937	EURIBOR 3M + (between 0.09% and 0.24%)
2005	TDA CAM 5,FTA (*) (A)	20,000	2,000,000	289,145	458,727	EURIBOR 3M + (between 0.12% and 0.35%)
2005	GC FTPYME SABADELL 4, F.T.A. (A)	7,500	750,000	-	16,117	EURIBOR 3M + (between 0.00% and 0.70%)
2005	TDA 23, FTA (**) (A)	8,557	289,500	30,934	37,350	EURIBOR 3M + (between 0.09% and 0.75%)
2006	TDA CAM 6 F.T.A (*) (A)	13,000	1,300,000	205,117	286,888	EURIBOR 3M + (between 0.13% and 0.27%)
2006	IM FTGENCAT SABADELL 2, F.T.A. (A)	5,000	500,000	45,751	-	EURIBOR 3M + (between 0.045% and 0.70%)
2006	EMPRESAS HIPO TDA CAM 3 F.T.A (*)(A)	5,750	575,000	45,582	71,652	EURIBOR 3M + (between 0.18% and 0.80%)
2006	TDA CAM 7 F.T.A (*)(A)	15,000	1,500,000	291,599	413,343	EURIBOR 3M + (between 0.14% and 0.30%)
2006	CAIXA PENEDES 1 TDA, FTA (***) (A)	10,000	1,000,000	93,796	105,207	EURIBOR 3M + (between 0.14% and 0.55%)
2006	GC FTPYME SABADELL 5, F.T.A. (A)	12,500	1,250,000	-	26,327	EURIBOR 3M + (between 0.01% and 0.58%)
2006	TDA 26-MIXTO, FTA (**) (A)	6,783	435,500	6,062	7,239	EURIBOR 3M + (between 0.14% and 3.50%)
2006	FTPYME TDA CAM 4 F.T.A (*) (A)	11,918	1,191,800	137,791	175,848	EURIBOR 3M + (between 0.02% and 4%)
2007	TDA CAM 8 F.T.A(*) (A)	17,128	1,712,800	339,552	510,113	EURIBOR 3M + (between 0.13% and 3.50%)
2007	CAIXA PENEDES PYMES 1 TDA, FTA (***) (A)	7,900	790,000	20,712	43,418	EURIBOR 3M + (between 0.19% and 0.80%)
2007	GC FTPYME SABADELL 6, F.T.A. (A)	10,000	1,000,000	37,951	54,118	EURIBOR 3M + (between -0.005% and 0.75%)
2007	TDA CAM 9 F.T.A (*) (A)	15,150	1,515,000	332,655	422,668	EURIBOR 3M + (between 0.12% and 3.50%)
2007	TDA 29, FTA (**) (A)	8,128	452,173	132,867	151,835	EURIBOR 3M + (between 0.20% and 3.50%)
2007	CAIXA PENEDES 2 TDA, FTA (***) (A)	7,500	750,000	-	-	EURIBOR 3M + (between 0.30% and 1.75%)
2007	FTPYME TDA 7, FTA (**) (A)	2,904	290,400	-	1,271	EURIBOR 3M + (between 0.10% and 4%)
2008	IM SABADELL RMBS 2, F.T.A. (A)	14,000	1,400,000	-	-	EURIBOR 3M + (between 0.45% and 1.75%)
2008	FTPYME TDA CAM 7 F.T.A (*) (A)	10,000	1,000,000	-	-	EURIBOR 3M + (between 0.30% and 1.50%)
2008	CAIXA PENEDES FTGENCAT 1 TDA, FTA (***) (A)	5,700	570,000	-	74,918	EURIBOR 3M + (between 0.35% and 1.75%)
2008	IM FTPYME SABADELL 7, F.T.A. (A)	10,000	1,000,000	-	-	EURIBOR 3M + (between 0.50% and 1.75%)
2008	TDA CAM 11 F.T.A (*) (A)	13,812	1,381,200	-	-	EURIBOR 3M + (between 0.40% and 3.50%)
2008	IM SABADELL RMBS 3, F.T.A. (A)	14,400	1,440,000	-	-	EURIBOR 3M + (between 0.40% and 1.25%)
2008	TDA 31, FTA (**) (A)	3,000	300,000	-	-	EURIBOR 3M + (entre 0,30% y 1,20%)
2009	TDA CAM 12 F.T.A (*) (A)	15,960	1,596,000	-	-	EURIBOR 3M + (between 0.40% and 3.50%)
2009	GAT-ICO-FTVPO 1, F.T.H (***) (A)	3,374	337,400	-	-	EURIBOR 3M + (between 1.40% and 1.50%)
2010	GC FTPYME SABADELL 8, F.T.A. (A)	10,000	1,000,000	-	-	EURIBOR 3M + 0.35%
2010	FTPYME TDA CAM 9 F.T.A (*) (A)	4,160	416,000	-	-	EURIBOR 3M + (between 0.30% and 1%)
2011	IM FTPYME SABADELL 9, F.T.A. (A)	15,000	1,500,000	-	-	3M LIBOR + 60bps
2014	CAPE FUNDING 2014-1 PLC (****) (B)	1	3,315,420	3,209,094	-	EURIBOR 3 M + 0,48% & £ LIBOR 3 M + (entre 0% y 1,5%)
Subtotal				**6,601,999**	**3,621,063**	

(*) Current Banco CAM securitisation funds.
(**) Current Banco Guipuzcoano securitisation funds.
(***) Current securitisation funds from the acquisition of BMN-Penedès assets.
(****) Current TSB securisation fund. In November a full disposal of the fund took place.
(*****) Current TSB securitisation fund.
(A) Listed on the AIAF market emissions.
(B) Listed on the LSE market emissions

Subordinated liabilities

The subordinated liabilities issued by the group at 31 December 2015 and 2014 are as follows:

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	31/12/14	Interest rate ruling at 31/12/2014	Maturity/derecognition date	Issue currency	Target of offering
Banco CAM, S.A. (*)	15/09/1988	-	618	-	-	Euro	Retail
Banco CAM, S.A. (*)	25/11/1988	-	101	-	-	Euro	Retail
Banco CAM, S.A. (*)	01/06/1992	15,025	15,025	-	-	Euro	Institutional
Banco CAM, S.A. (*)	16/02/2004	-	6,130	-	-	Euro	Retail
Banco Guipuzcoano, S.A. (*)	21/03/2006	12,600	12,600	0.767%	21/03/2016	Euro	Institutional
Banco de Sabadell, S.A.	25/05/2006	206,600	206,600	0.701%	25/05/2016	Euro	Institutional
CAM International Issues, S.A.U.	29/09/2006	80,250	80,250	0.769%	29/09/2016	Euro	Institutional
CAM International Issues, S.A.U.	26/04/2007	66,050	66,050	0.747%	26/04/2017	Euro	Institutional
Banco de Sabadell, S.A.	26/04/2010	424,600	424,600	6.250%	26/04/2020	Euro	Institutional
Banco de Sabadell, S.A.	25/02/2011	40,400	40,400	3.901%	25/02/2021	Euro	Institutional
Banco de Sabadell, S.A. (**)	28/10/2013	42,238	44,256	5.000%	28/10/2016	Euro	Retail
Banco de Sabadell, S.A. (**)	28/10/2013	35,360	53,040	5.000%	28/10/2017	Euro	Institutional
TSB Banking Group Plc	01/05/2014	547,921	-	5.750%	06/05/2021	GBP	Institutional
Subscribed by group companies		(32,832)	(38,117)				
Total subordinated bonds		**1,438,212**	**911,553**				

(*) Currently merged with Banco de Sabadell, S.A.
(**) Convertible subordinated bonds.

Thousand euro

Issuing entity	Date of issue	Amount 31/12/15	31/12/14	Interest rate ruling at 31/12/2014	Maturity/derecognition date	Issue currency	Target of offering
Banco de Sabadell, S.A.	20/09/2006	18,400	18,400	5.234%	-	Euro	Institucional
Banco de Sabadell, S.A.	24/02/2009	-	10,840	4.500%	-	Euro	Minorista
Sabadell International Equity Ltd.	30/03/1999	-	18,793	0.775%	-	Euro	Minorista
Guipuzcoano Capital, S.A.	27/02/2004	-	1,160	0.331%	-	Euro	Minorista
Guipuzcoano Capital, S.A.	19/11/2009	-	17,734	6.430%	-	Euro	Minorista
CAM Capital, S.A.U.	16/08/2001	-	6,071	0.328%	-	Euro	Minorista
CAM Capital, S.A.U.	16/08/2002	-	3,455	0.278%	-	Euro	Minorista
CAM Capital, S.A.U.	29/09/2009	-	20,398	6.800%	-	Euro	Minorista
Subscribed by group companies			(8,034)				
Total preference shares		**18,400**	**88,817**				

The issues included in subordinated liabilities, for the purposes of credit priority, are placed after all the common creditors of the group. All issues have been made in euros.

Schedule VI – Annual banking report

INFORMATION REQUIRED UNDER ARTILE 89 OF EUROPEAN PARLIAMENT AND COUNCIL DIRECTIVE 2013/36/EU OF 26 JUNE 2013

This information has been prepared in compliance with Article 89 of Directive 2013/36/EU of the European Parliament and Council of 26 June 2013 relating to access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directive 2006/48/EC and Directive 2006/49/EC, and the transposition thereof into Spanish national legislation in accordance with Article 87 and Transitional Provision 12 of Law 10/2014 of 26 June 2014 on the arrangement, supervision and solvency of credit institutions published on the Official State Gazette of 27 June 2014.

In accordance with the above regulations the following information is presented on a consolidated basis for the financial year 2015:

	Business volume (€'000)	No. equivalent full time employees	Gross income before taxes	Corporate income tax
Spain	4,653,314	16,796	556,460	(28,027)
United Kindom	617,735	7,344	98,857	22,777 (*)
USA	147,501	653	58,539	(21,016)
Rest	59,820	316	30,905	(6,250)
Total	**5,478,370**	**25,109**	**744,761**	**(32,516)**

(*) Includes €45.3 million due to changes in UK legislation, as explained previously.

This information is available in Schedule I to these consolidated Annual Accounts for the year ended 31 December 2015, in which the companies operating in each jurisdiction are listed, including among other details their names, geographical location and area of activity.

As can be seen in Schedule I, the main activity carried out by the group in the different jurisdictions in which it operates is banking, and fundamentally commercial banking through an extensive range of products and services for large and medium enterprises, SMEs, businesses and self-employed professionals, professional groups, other individuals and bancassurance.

For the purposes of this information, business volume is regarded as the gross income reflected on the consolidated income statement for December 2015. Data on full-time equivalent employees have been obtained from the template of each company/country at the end of 2015.

The amount of public grants and aid received is not significant.

CONSOLIDATED REPORT OF THE DIRECTORS FOR 2015

This report has been prepared in line with the recommendations contained in the *Guide for the preparation of directors' reports by listed companies,* published by the Spanish National Securities Commission (CNMV) in July 2013.

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1. Governance structure and strategy overview
2. Business performance and results
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9. Research, development and innovation
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1 – GOVERNANCE STRUCTURE AND STRATEGY OVERVIEW

1.1. Organisational structure

The group is organised into the following business units:

- Business banking in Spain encompasses the following customers' business units:

  - Commercial Banking: is the largest single business line; it focuses on offering financial products and services to large and medium-sized enterprises, SMEs, small retailers, sole proprietors, individuals and professional groups, Consumer Finance and Bancassurance.

    During the last year, the bank has unified the brands Sabadell Atlántico and SabadellCAM to strengthen its image, with "Sabadell" being the flagship brand that operates throughout most of the Spanish market.

    It also operates under the following brands:

    - SabadellHerrero, in Asturias and León.
    - SabadellGuipuzcoano, in the Basque Country, Navarra and La Rioja.
    - Sabadell Gallego in Galicia.
    - SabadellSolbank, in the Canary Islands, the Balearic Islands and the southern and south-eastern coast areas of mainland Spain.
    - ActivoBank serves customers who prefer to do their banking exclusively by telephone or online.

  - Corporate Banking; this unit offers products and services to large corporations and financial institutions, both Spanish and international. Its activities encompass corporate banking, structured finance, Trade & Finance and IFIs.

  - Markets and Private Banking: this unit offers savings and investment management services to Banco Sabadell customers, including the analysis of investment options, market trading, active wealth management and custody services. It comprises the following businesses, which are managed on an integrated basis: SabadellUrquijo Private Banking, the Investment, Products and Analysis unit, Treasury and Capital Markets, and Securities Trading and Custody services.

Asset Transformation handles the overall management of the bank's real estate assets taking an integrated view of the whole process and providing services for real estate asset portfolios for both the group and third parties with a focus on business and leveraging value.

- Banking business in the United Kingdom corresponds to TSB Banking Group PLC and 6 months of results. The TSB franchise includes retail business that is carried out in the United Kingdom and which includes current and savings accounts, personal loans, cards and mortgages.

- Banking business in America: this area is made up of a number of business units, affiliates and representative offices that engage in corporate banking, private banking and commercial banking activities related to finance. The bank has the capacity and experience to provide all types of banking services, from the most complex and specialised for large corporations, such as structure project finance operations, to products for individuals. The business is carried on through the Banco Sabadell Miami Branch, Sabadell United Bank and Sabadell Securities in the United States and Sabadell Capital SOFOM and Banco Sabadell Institución Banca Múltiple in Mexico.

- BancSabadell d'Andorra: incorporated in the Principality of Andorra, BancSabadell d'Andorra is owned 50.97% by Banco Sabadell. Its customers consist of medium-to-high earners and leading companies in the Principality of Andorra.

Banco Sabadell is the parent of a corporate group which at 31 December 2015 comprised 170 companies of which 127 were treated as group undertakings and 43 were associates (at 31 December 2014 the group consisted of 225 companies of which 165 were group undertakings and 60 were associates).

The Board of Directors is the highest decision-making body in the company and its consolidated group, as it is responsible under the law and the Articles of Association for managing and representing the institution. The Board of Directors is basically configured as a supervision and control instrument, delegating the management of ordinary banking business to the executive organs and the management team.

The Board of Directors is governed by clear and transparent rules of governance, in particular the Articles of Association and the Regulations of the Board of Directors, in accordance with corporate governance regulations.

Its responsibilities include:

a) Approving general strategies of the Company;

b) Naming and, if appropriate, discharging administrators in the various subsidiaries;

c) Identifying the main risks facing the company and implementing and monitoring adequate internal control and information systems;

d) Establishing policies relating to information, communication with markets and shareholders, and public opinion;

e) Establishing policy on treasury shares within the framework laid down by the shareholders at the Annual General Meeting, if applicable;

f) Approving the Annual Corporate Governance Report;

g) Authorising transactions between the company and directors or significant shareholders that could lead to conflicts of interest; and

h) Generally, taking decisions concerning business or financial operations that are of particular importance for the Company.

The members of the Board of Directors at 31 December 2015 were the following:

Members of the Board of Directors	Position
José Oliu Creus	Chairman
José Javier Echenique Landiribar	Deputy Chairman
Jaime Guardiola Romojaro	Managing Director
Aurora Catá Sala	Director
Héctor María Colonques Moreno	Director
Joaquin Folch-Rusiñol Corachán	Director
María Teresa García-Milá Lloveras	Director
José Manuel Lara García	Director
Joan Llonch Andreu	Director
David Martínez Guzmán	Director
José Manuel Martínez Martínez	Director
José Ramón Martínez Sufrategui	Director
Antonio Vitor Martins Monteiro	Director
José Luis Negro Rodríguez	Director - General Manager
David Vegara Figueras	Director
Miquel Roca i Junyent	Secretary to the Board (non-director)
Maria José García Beato	Deputy Secretary to the Board (non-director)

The Board of Directors has implemented a set of clear and transparent rules and regulations on corporate governance as required by Spanish regulations. The majority of the Board's members (12 of the 15) are non-executive directors and include nine independent directors.

At present, there are five committees to which the Board of Directors delegates functions by making use of the powers conferred on it in the Articles of Association; meetings of the committees are attended by members of Senior Management.

These Committees are:

- the Executive Committee
- the Audit and Control Committee
- the Appointments Committee
- the Remuneration Committee
- the Risk Committee

The composition of these Committees at 31 December 2015 is shown in the table below:

Board Committees - membership

Position	Executive	Audit and Control	Appointments	Remuneration	Risk Control
Chairman	José Oliu Creus	Maria Teresa Garcia-Millà Lloveras	Héctor María Colonques Moreno	Aurora Catá Sala	José Manuel Martínez Martínez
Deputy Chairman	-	-	-	-	
Member	José Javier Echenique Landiribar	Joan Llonch Andreu	Aurora Catá Sala	Héctor María Colonques Moreno	María Teresa Garcia-Milà Lloveras
Member	Jaime Guardiola Romojaro	José Ramón Martínez Sufrategui	José Javier Echenique Landiribar	José Javier Echenique Landiribar	Joan Llonch Andreu
Member	José Manuel Martínez Martínez	-	Joaquín Folch-Rusiñol Corachán	Joaquín Folch-Rusiñol Corachán	David Vegara Figueras
Member	José Luis Negro Rodríguez	-	-	-	-
Member	David Vegara Figueras	-	-	-	-
Secretary	María José García Beato	Miquel Roca i Junyent	Miquel Roca i Junyent	María José García Beato	María José García Beato
Number of meetings had in 2015	35	7	6	6	8

Executive Committee

The Executive Committee is responsible for the coordination of the bank's Executive Management, adopting to this end any resolutions and decisions within the scope of the powers vested in it by the Board of Directors, for monitoring usual activities in the Bank; any decisions adopted by the Committee are reported to the Board of Directors during their joint meetings, without prejudice to any other functions assigned to the Executive Committee in the Articles of Association and the Board's Regulations.

Audit and Control Committee

The purpose of the Audit and Control Committee is to review reports from the Internal Audit Department to verify that good banking and accounting practices are being followed in all parts of the organisation, as well as to ensure that General Management and their other executive functions take suitable measures to address improper conduct or practices by persons in the organisation. It is also a watchdog, ensuring that the measures, policies and strategies defined by the Board are duly implemented (the committee meets not less than once a quarter).

The Audit and Control Committee is responsible for functions established in the Law, including:

a) Reporting to the General Meeting on all issues raised by shareholders that are within its remit;

b) Monitoring the effectiveness of the company's internal controls, any Internal Audit carried out and the risk management systems, including those for fiscal risks, in place, and discussing with auditors or auditing firms any significant internal control weaknesses identified in the course of the audit;

c) Overseeing the preparation and presentation of statutory financial information;

d) Making recommendations to the Board of Directors, for submission to the Annual General Meeting, on the appointment of external auditors and their terms of engagement, the scope of their professional mandate and, if applicable, the terminal 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 auditor's report are expressed in a clear and precise way;

e) Advising 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 generally accepted accounting principles have been correctly applied, and reporting on any proposed amendments to those principles;

f) Maintaining working relations with external auditors to receive information on, and enquire into, any issues that could compromise their independence and keeping itself informed of any other matters related to the audit process and to auditing standards.

g) Advising on any issues referred to the Committee by the Board of Directors that are within its terms of reference; and

h) Any other matters for which the Committee is responsible by law or under the Articles of Association or any regulations made in accordance therewith, or under any generally applicable rules on corporate governance.

The Committee also has the following tasks in connection with compliance of regulatory provisions, legal requirements and the precepts of Corporate Governance Codes:

1. Overseeing compliance with the law, internal regulations and regulatory provisions concerning Company activities;

2. Assessing the effectiveness of, and compliance with, the Regulations of the Annual General Meeting, the rules of procedure of the Board of Directors, the Company's Code of Conduct and, particularly, the Internal Code of Conduct for trading on the stock markets;

3. Reviewing compliance with the rules on corporate governance and submitting recommendations for improvement to the Board as it sees fit; and

4. Supervising the corporate governance report to the Board of Directors for approval and inclusion in the annual report.

Appointments Committee

The Appointments Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Appointments Committee by Law, in the Articles of Association and the Board's Regulations:

a) Make recommendations to the Board of Directors on the appointment of external consultants for their co-opted appointment or for their subjection to the decision at the Annual General Meeting, in addition to any proposals for re-electing or discharging these counsellors;

b) Submit the proposals for the appointment of the remaining board members for their co-opted appointment or for their subjection to the decision at the Annual General Meeting, in addition to any proposals for re-electing or discharging these counsellors;

c) Ensure compliance with the qualitative composition of the Board of Directors, in accordance with the provisions of Article 54 of Statutes of Association;

d) Evaluate the suitability, skills, knowledge and experience necessary for members of the Board of Directors;

e) Submit the proposals for the appointment and discharge of senior management members;

f) Submit the proposals for the appointment and discharge of directors included in the Identified Staff;

g) Report the basic conditions of the contracts of the executive directors and senior management members;

h) Examine and organise the plans of succession of the Chairman of the Board and the first executive director of the Bank and, where applicable, present proposals to the Board; and

i) Establish an objective for gender diversity in the Board of Directors and prepare ideas on how to reach this objective;

Remuneration Committee

The Remuneration Committee shall have, as a minimum, the following basic responsibilities, without prejudice to any other functions assigned to the Appointments Committee by Law, in the Articles of Association and the Board's Regulations:

a) Propose to the Board of Directors the remuneration policy of the board members;

b) Propose to the Board of Directors the remuneration policy of the General Managers and those performing top management functions who directly report to the Board, Executive Committee members or Managing Directors, and the individual remuneration and other contractual conditions of the Board Members, ensuring their compliance;

c) Regularly review the remuneration policy;

d) Report on the schemes for remuneration in shares and/or options;

e) Regularly review the general principles in matters of remuneration, and the remuneration schemes of all employees, weighing their conformity with these principles;

f) Ensure that remuneration is transparent.

g) Ensure that any potential conflicts of interest do not hinder the independence of external consultants; and

h) Verify the information on remuneration contained in the various corporate documents, including the Report on Board Members' Remuneration.

Risk Committee

The Risk Committee is responsible for:

a) Supervising the implementation of the Risk Appetite Framework;

b) Determining and making recommendations to the full Board on annual levels of investment in the real estate market, as well as criteria and volumes applicable to all of its different types;

c) Reporting to the full Board on the development of its tasks, in accordance with this Article of Association and any other applicable legal or statutory requirements;

d) Making quarterly reports to the full Board on the levels of risks taken, investments carried out and on their evolution, as well as on any possible repercussions on the Group's income caused by fluctuations in interest rates and their adjustment to the VAR approved by the Board;

e) Monitoring and detecting any breaches of the approved tolerance thresholds, ensuring the activation of the corresponding contingency plans established to this effect;

f) Reporting to the Remuneration Committee on whether the employees' Remuneration Programs are coherent with the Bank's risk, capital and liquidity levels.

1.2. Operating review; objectives achieved and actions implemented

The group's development objectives are focused on profitable growth and the generation of shareholder value through a strategy of business diversification based on high returns, efficiency and quality of service together with a conservative risk profile, while maintaining high standards of ethics and professional conduct combined with sensitivity to shareholders' interests.

The bank has a business model that fosters long-term customer relationships through constant efforts to promote customer loyalty by adopting an initiative-based proactive approach. The bank offers a comprehensive range of products and services, competent and highly qualified personnel, a technological platform with ample capacity to support future growth and a relentless focus on quality.

Since the onset of the financial crisis, Spain's banking sector has been going through an unprecedented process of consolidation. Higher levels of capital, stricter provisioning requirements, the economic recession and pressure from the capital markets are some of the factors that have driven Spanish banks to merge and gain in scale, maximise efficiency and strengthen their balance sheets.

During the last decade, Banco Sabadell has expanded its geographic presence and increased its market share in Spain through several acquisitions, the largest of which was Banco CAM in 2012, which enabled it to notably expand its balance sheet. In 2013 Banco Sabadell was able to undertake further corporate actions on economically acceptable terms in a context of banking sector restructuring. Following the acquisition of the Penedès branch network, Banco Gallego and Lloyds España in 2013, Banco Sabadell is well positioned to grow organically and to benefit from the economic recovery in Spain.

Synergies from the Banco CAM merger exceeded expectations, with the systems and operational integration of the Penedès branch network into that of Banco Sabadell being successfully complemented in 2013, followed by the integration of Banco Gallego and Lloyds España in 2014.

Acquisitions and organic growth in recent years have enabled Banco Sabadell to reinforce its position in some of Spain's most prosperous regions (e.g. Catalonia, Valencia and the Balearic Islands) and to increase its market share in other key areas. According to the most recent available information, at a national level, Banco Sabadell holds a market share of 7.8% in lending and 6.5% in deposits (October 2015). Banco Sabadell also has a strong position in other products such as ICO funding, with a market share of 18.9% (December 2015); commercial loans with a share of 10.4% (October 2015); direct salary payments with 6.4% (November 2015) and POS terminal transactions, with 17.9% (September 2015).

Banco Sabadell has always been a leader in cross-border operations. It has continued to be so in 2015 through its presence in strategic markets and by serving companies as they expand abroad, reaching market shares of 31.5% and 16.5% in documentary credits for exports and imports, respectively (November 2015).

Internationalisation, on of the pillars of the bank's current business plan, has been significantly carried out in 2015. The acquisition of TSB meant that at 2015 year-end, 30% of the Group's credit investment is abroad.

The short-term priority for TSB is the execution of its current business plan, on one hand, and the technological migration and integration on the other hand. In the medium-term, Banco Sabadell's high market share in the SMEs sector in Spain, together with its international experience, will be a solid added-value tool to support TSB in the development of efficient and high-quality services for SMEs in the United Kingdom.

In 2015, Banco Sabadell has experienced a favourable dynamic in the acquisition of off-balance funds, increasing its weight on the balance sheet. The mutual funds share has increased from 5.1% at the beginning of 2015 to 6.0% in December 2015.

Since 2007 deposits have been the Bank's primary source of funding, thereby reducing its dependency on capital markets. Other developments during the year include the successful completion of two senior debt issues for €750 and €1,000 million in June and October respectively, with a strong interest from investors.

In 2015, Banco Sabadell has maintained its policy of removing problem assets and it has implemented allowances of €2,333 million, allowing it to achieve a coverage ratio of doubtful assets of 53.6%.

2 – BUSINESS PERFORMANCE AND RESULTS

2.1. Global economic and financial environment

In 2015, the global economy has maintained a modest growth. The year has been marked by new episodes of political and geopolitical instability, and also by more erratic behaviour of financial markets.

In the political arena, uncertainty regarding Greece during the first half of the year took centre stage. The new Government elected in January, led by the political party Syriza, began a challenging process of negotiation with international lenders regarding the terms of the financial aid programmes. The negotiations became increasingly complicated, ending with Greece calling a referendum to decide on whether or not to accept the conditions of the rescue package. Furthermore, the ECB froze the emergency liquidity that had been granted to the Greek banking sector, resulting in a significant outflow of banking deposits, which required the establishment of capital controls. In this context, Greece became the first developed country to break its financial commitments with the IMF, and significant doubts arose as regards to it remaining a member of the Eurozone. In the end, a third international rescue package for Greece was granted, of up to €86 million, tied to an important set of conditions. Following the agreement, the instability surrounding the country was significantly reduced, and new elections were held (on 20 September), in which Syriza was victorious once again.

In the political arena, the victory of the Conservative Party in the United Kingdom, which won the elections with absolute majority, also attracted widespread attention. This implies that a referendum will be held before the end of 2017 to decide on whether or not the country will remain a part of the European Union. In Portugal, after the general elections, difficulties in forming a government became apparent. Finally, the Socialist Party headed the government thanks to the support from left-wing parties and despite obtaining fewer votes than the Conservative Party. In Spain, the conservative Partido Popular won the general elections held on 20 December, although agreements and pacts will have to be reached in order to be able to form a government. Lastly, in terms of the European development, work has continued on the Banking Union process, with a proposal from the European Commission to create a European Deposit Guarantee Mechanism. Similarly, the creation of the Capital Markets Union has also continued to develop, with the publication of an Action Plan up to 2017.

In the geopolitical arena, the conflict in Ukraine has taken second stage to the refugee crisis in Europe and the increasing tension with regards to Syria, particularly after the terrorist attacks in Paris by the Islamic State.

With regards to the global financial markets, the abrupt summer movements are notable, fuelled by doubts concerning the growth of China after the devaluation of the Chinese Yuan and amidst expectations that the first increase in interest rates in nine years would take place in the United States. The evolution was particularly negative in terms of currencies, stock exchanges and corporate debt of emerging countries, with similar reductions, and in some cases even more severe reductions, reaching previous economic crisis levels.

In terms of activity in the United States, the economy has maintained growth rates similar to those seen in 2014, and the labour market has continued to progress with the implementation of its normalisation process. The economy has been negatively affected by the strength of the dollar and the reduced activity in the petroleum extraction sector. In the Eurozone, despite the uncertainty surrounding Greece, activity has been more positive than in the previous year, backed by the depreciation of the Euro, the lower price of crude oil and reduced financing costs. In the United Kingdom, the economy has maintained a favourable trend, supported by the good performance of the labour market, although it is experiencing lower growth rates than in 2014. In Japan, the economy has shown weakness, with its GDP declining in the second quarter.

Emerging economies have witnessed lower growth rates than in 2014, affected by more restrictive financing conditions, lower commodities prices and the structural deceleration in China. In China, this deceleration is framed within its process of changing its production model. China has made progress in areas such as financial liberalisation, while the authorities have continued to adopt measures to limit the deterioration of the country's activities. On the other hand, in Latin America, the economic situation has continued to decline in Brazil, in a context of political instability and severe fiscal imbalances and declines in current accounts. Mexico has maintained a moderate growth rate, which slightly exceeds that of 2014. In Colombia, the economy has decelerated, hindered by the deterioration of its petrol activity. Eastern Europe has suffered an economic downturn and the financial crisis in Russia, which was still affected by the conflict in Ukraine, particularly in the first half of the year.

The Spanish economy has maintained a highly favourable development, and has continued to stand out from other Eurozone countries. In 2015, its GDP will have recorded growth in excess of 3.0%, something not seen since 2007. Domestic demand has continued to be the main source of growth, while exports have maintained a notable dynamism. The activity has benefited from lower crude oil prices, a reduced fiscal effort (e.g. tax reductions) and some favourable financing conditions. The positive behaviour of the economic activity has been reflected in an improved behaviour in the labour market, with an increase in net employment and a further decline in unemployment rates. With regards to the external sector, the economy has maintained a situation of surplus current accounts for the third consecutive year. Lastly, in terms of tax, the public deficit has continued to decline, although the European Commission estimates that in 2015 it will be above the target GDP level of 4.2%.

In terms of inflation, it has remained at a very low level and a long way off from the targets of the monetary policies in the main developed economies. Inflation has declined due to the lower price of crude oil and of commodities in general. In this sense, the price of petrol was at its lowest in over a decade, affected by aspects such as a lack of adjustment of supply and a weak demand. The underlying aspect of inflation (prices excluding food or energy) has shown a better improvement than the general price index.

The monetary policy of the main central banks has continued to be accommodating. In the Eurozone, the ECB extended its private asset purchase program in March, to allow public debt to also be purchased. This new program included monthly purchases of assets for €60 million. At its December meeting, the ECB extended this program by six months, up to March 2017, and also reduced the deposit interest rate to -0.30%. The ECB's monetary policy has enabled the German short part of its price curve to remain in negative figures throughout the year. In fact, the two-year profitability of the German bond has reached historical levels. In the United States, the Fed, in its December meeting, increased the benchmark interest rate for the first time in nine years, to 0.25-0.50%. The improvement in labour market conditions was an influencing factor in this decision. In the United Kingdom, the benchmark interest rate of the Bank of England has remained unaltered, at 0.50%, and the stock of assets acquired under its purchase program has also remained stable, at GBP 375 million. Lastly, in Japan, the central bank has not made any changes to the monthly purchase volume of assets. In its December meeting, it qualitatively modified some of the characteristics of its asset purchase program to facilitate its implementation.

The profitability of long-term public debt markets in the United States and Germany have remained at very reduced levels, ending the year at levels only slightly above those of 2014. These assets have been supported by reduced inflation, the accommodating characteristics of monetary policies and doubts concerning global economic growth. The profitability of the German bond reached a new record low in April, due in part to the start of the ECB purchase programs and the uncertainty surrounding Greece. The profitability of the German bond over 10 years, after having reached levels close to 0.0%, suffered a significant and historic increase, which can be explained, in part, by the idiosyncrasies of the operation of the public debt market itself. This rate of increase gradually slowed throughout the second half of the year. In Europe, public debt has continued to be supported by the ECB's monetary policy, as shown by the limited recovery of country-risk premiums when uncertainty surrounding Greece was at its highest. Credit rating agencies have introduced new credit rating improvements in these countries. Throughout the year, risk premiums in Italy and Portugal have declined, while in Spain the year-end has seen levels which are slightly above 2014 levels. Political uncertainty in Spain due to the various elections, has contributed to worse behaviour in terms of assets. In any event, the profitability of public debt of these countries has reached historic minimums.

In currency markets, the euro has once again been significantly devalued compared with the dollar and the pound sterling. This depreciation largely occurred in the first quarter, coinciding with the announcement of the purchase of public debt by the ECB. The yen, quoted against the dollar, ended the year at levels similar to those in 2014. The outflow of capital from the Japanese economy, in a context where various domestic investors have diversified their portfolios to give more weight to foreign assets, have caused the yen to depreciate. However, during the financial instability over the summer, the yen acted as a safe asset and appreciated.

In terms of equity markets, European indices have been supported by the ECB's monetary policy. During the summer, the indices in both Europe and the United States were severely affected by doubts concerning global economic growth. Throughout the year, in the United States, the S&P 500 has increased, in euro, by over 10%, although this improvement is due exclusively to the appreciation of the dollar. In Europe, the EURO STOXX 50 has advanced by almost 4%, although with a similar behaviour over all the European countries. The IBEX-35 in Spain has ended the year below its 2014 levels, with a fall of 7%, while the German DAX, despite the Volkswagen scandal, has recorded an increase of close to 10%.

Finally, financial markets in emerging countries have maintained high volatility and were severely affected during summer, with strong exchange depreciations and an abrupt stock market decline in China. The high volatility has been linked to doubts concerning the extent of the economic deceleration in China, political instability in some countries, reduced prices of commodities and concerns over a possible increase in the benchmark interest rate in the United States. In this context of strong exchange depreciations, some central banks have been forced to increase their official interest rates in order to avoid falling short of inflation expectations. Standard&Poor's and Fitch withdrew the investment grade of Brazilian sovereign debt in foreign currencies, which had been maintained since 2008.

2.2. Key financial and non-financial indicators

The key figures for the bank, including financial and non-financial data of critical importance to the running of the bank, are set out below:

		2015	2014	Change YoY (%)
Balance sheet (Thousand euro)	**(A)**			
Total assets		208,627,771	163,345,673	27.7
Gross loans and advances to customers, excluding reverse repos		152,696,839	117,963,953	29.4
Gross loans and advances to customers		153,425,314	118,551,550	29.4
On-balance sheet funds	(1)	162,974,003	121,806,632	33.8
Of which: On-balance sheet customer funds	(2)	131,489,191	94,460,668	39.2
Mutual funds		21,427,252	15,705,612	36.4
Marketing of pension funds and insurance		11,951,922	11,755,126	1.7
Funds under management	(3)	200,355,081	152,185,441	31.7
Shareholders' funds		12,274,945	10,223,743	20.1
Income statement (Thousand euro)	**(B)**			
Net interest income		3,202,830	2,259,706	41.7
Gross income		5,478,370	4,800,526	14.1
Profit before impairment and other provisions		2,862,993	2,749,104	4.1
Profit attributed to the parent company		708,441	371,677	90.6
Ratios (%)	**(C)**			
ROA	(4)	0.38%	0.23%	
ROE	(5)	6.34%	3.70%	
ROTE	(6)	7.58%	4.36%	
Cost/Income ratio	(7)	50.45%	53.14%	
Core capital / Common Equity	(8)	11.5%	11.7%	
Tier I	(9)	11.5%	11.7%	
BIS ratio	(10)	12.9%	12.8%	

Risk management	**(D)**			
Doubtful loans (€'000)		12,560,805	15,909,945	
Loan loss ratio (%)		7.79	12.74	
Loan loss and real estate impairment allowances (€'000)		11,344,044	11,814,083	
Loan loss coverage ratio		53.6	49.4	
Share data (period end)	**(E)**			
No. of shareholders		265,935	231,481	
Number of shares		5,439,244,992	4,024,460,614	
Share price (€)		1.635	2.205	
Market capitalisation (€'000)	(11)	8,893,166	8,873,936	
Earnings per share (EPS) (€)		0.13	0.09	
Book value per share (€)	(12)	2.26	2.54	
Price/Book value (times)		0.72	0.87	
Price/earnings ratio (P/E) (times)		12.55	23.88	
Adjusted for effect of mandatory convertible bonds				
Total number of shares including shares resulting from conversion of bonds		5,472,251,402	4,289,732,386	
Earnings per share (EPS) (€)		0.13	0.09	
Book value per share (€)		2.24	2.38	
Price/Book value (times)		0.73	0.93	
Other data				
Branches		2,873	2,320	
Employees		26,090	17,529	
Numbe of employees (million)	(13)	11.4	6.4	

(A) This section of the table provides an overview of year-on-year changes in the main items on the group's consolidated balance sheet, focusing especially on data related to customer loans and customer funds.

(B) This section sets out key components of the income statement for the last two years.

(C) The ratios in this section of the table have been included to give a meaningful indication of profitability, efficiency and capital adequacy in the last two years.

(D) This section gives some key balances related to risk and risk management within the group, as well as the most significant ratios related to this risk.

(E) This section provides data on the share price and other stock market ratios and indicators.

(1) Includes customer deposits, debts represented by marketable securities, subordinated liabilities and liabilities under insurance contracts.
(2) Includes customer deposits (ex repos) and other liabilities placed via the branch network: mandatory convertible bonds, non-convertible bonds issued by Banco Sabadell, commercial paper and others.
(3) Includes on-balance sheet funds, mutual funds, pension funds, asset management and insurance contracts distributed by the Group.
(4) Consolidated profit (loss) for the year/ average total assets.
(5) Income attributable to the group / average shareholders' equity (not treating income attributable to the group as shareholders' equity)
(6) Income attributable to the group / average shareholders' equity (not treating income attributable to the group as part of shareholders' equity, deducting goodwill).
(7) Personnel and other general administrative expenses / gross income. To calculate these ratios, gross income was adjusted considering only net trading income and recurring exchange differences.
(8) Core capital / risk-weighted assets (RWA). The December 2014 ratio was calculated according to Basel III with modifications provided in Bank of Spain Circular 2/2014 (approved in July 2014).
(9) Tier 1 capital / risk-weighted assets (RWA). The December 2014 ratio was calculated according to Basel III with modifications provided in Bank of Spain Circular 2/2014 (approved in July 2014).
(10) Total capital / risk-weighted assets (RWA). The December 2014 ratio was calculated according to Basel III with modifications provided in Bank of Spain Circular 2/2014 (approved in July 2014).
(11) Number of shares by quoted market price at year-end.
(12) Shareholders' equity / Number of shares.
(13) The changes mainly correspond to the acquisition of TSB.

2.3. Financial review

Balance sheet and income statement

In 2015, the acquisition of the entirety of TSB shares was finalised, reaching a shareholding of 100% of TSB's share capital (see Note 2 of these current accounts).

As a result, the variations in the balances on the balance sheet and the profit and loss accounts were affected by the consolidation of TSB on 30 June 2015.

Banco Sabadell and its group ended 2015 with a net attributed profit of €708.4 million (€586.4 excluding TSB), after making the transfers to insolvencies and provisions of the securities and real estate assets portfolio of €2,333.2 million.

The positive evolution of the ordinary banking business and the strict control over recurring operating expenses, together with the adequate management of customer spreads and rigorous quality controls of the credit risk, complied once more with the main pillars on which the development of Banco Sabadell activities in 2015 were based.

Balance sheet

At the end of 2015, total assets for Banco Sabadell amounted to €208,627.8 million (€165,249.6 million excluding TSB), amply surpassing the figure at the end of 2014 (€163,345.7 million). This is mainly due to the acquisition of TSB.

Thousand euro

	2015	2014	Change YoY (%)
Cash and balances with central banks	6,139,459	1,189,787	416.0
Assets held for trading, derivatives and other financial assets	3,097,952	3,253,356	(4.8)
Available-for-sale financial assets	23,460,356	21,095,619	11.2
Loans and receivables	154,754,303	117,895,179	31.3
Loans and advances to credit institutions	6,206,088	4,623,197	34.2
Loans and advances to customers (net)	146,815,737	110,835,723	32.5
Debt securities	1,732,478	2,436,259	(28.9)
Investments	340,996	513,227	(33.6)
Tangible assets	4,188,526	3,982,866	5.2
Intantible assets	2,080,570	1,591,296	30.7
Other assets	14,565,609	13,824,343	5.4
Total assets	**208,627,771**	**163,345,673**	**27.7**
Liabilities held for trading and derivatives	2,334,617	2,254,459	3.6
Financial liabilities at amortised cost	189,468,677	145,580,114	30.1
Deposits from central banks	11,566,070	7,201,546	60.6
Deposits from credit institutions	14,724,718	16,288,193	(9.6)
Customer deposits	132,876,312	98,208,370	35.3
Capital market	26,406,617	20,196,329	30.7
Subordinated liabilities	1,472,779	1,012,362	45.5
Other financial liabilities	2,422,181	2,673,314	(9.4)
Liabilities under insurance contracts	2,218,295	2,389,571	(7.2)
Provisions	346,225	395,215	(12.4)
Other liabilities	1,492,296	1,510,362	(1.2)
Total liabilities	**195,860,110**	**152,129,721**	**28.7**
Shareholders' funds	12,274,945	10,223,743	20.1
Valuation adjustments	455,606	937,416	(51.4)
Non-controlling interests	37,110	54,793	(32.3)
Total equity	**12,767,661**	**11,215,952**	**13.8**
Total liabilities and equity	**208,627,771**	**163,345,673**	**27.7**
Contingent risks	8,356,167	9,132,560	(8.5)
Contingent commitments	21,130,614	14,769,638	43.1
Total memorandum accounts	**29,486,781**	**23,902,198**	**23.4**

Gross loans and advances to customers (excluding repos) amounted to €152,696.8 million at 2015 year-end (€116,634.8 million excluding TSB). This item increased by 29.4% year-on-year (-1.1% excluding TSB) mainly as a result of the acquisition of TSB, partially offset by a reduced volume of doubtful assets. Secured mortgage loans formed the largest single component of gross lending, amounting to €90,538.6 million at 31 December 2015, representing 60% of total gross loans and advances.

Thousand euro

	2015	2014	Change YoY (%)	Ex TSB 2015	Change YoY (%)
Mortgage loans and credit	90,538,646	57,112,332	58.5	57,835,895	1.3
Other secured loans and credit	2,201,305	2,155,279	2.1	2,201,305	2.1
Commercial loans	5,665,062	4,867,272	16.4	5,410,519	11.2
Other loans	28,092,445	24,194,643	16.1	26,303,782	8.7
Other credit	4,593,404	4,188,075	9.7	4,593,404	9.7
Finance leases	2,070,028	2,124,317	(2.6)	2,070,028	(2.6)
Overdrafts and sundry accounts	7,206,937	7,738,268	(6.9)	6,121,714	(20.9)
Doubtful loans	12,470,413	15,714,213	(20.6)	12,253,836	(22.0)
Accruals	(141,401)	(130,447)	8.4	(155,715)	19.4
Gross loans and advances to customers, excluding reverse repos	**152,696,839**	**117,963,952**	**29.4**	**116,634,768**	**(1.1)**
Reverse repos	728,475	587,597	24.0	728,475	24.0
Gross loans and advances to customers	**153,425,314**	**118,551,549**	**29.4**	**117,363,243**	**(1.0)**
Credit and country risk allowances	(6,609,577)	(7,715,826)	(14.3)	(6,425,973)	(16.7)
Loans and advances to customers (net)	**146,815,737**	**110,835,723**	**32.5**	**110,937,270**	**0.1**

The evolution of the Group's portfolio of problem assets improved in 2015. Quarter-on-quarter changes in these loans ex-TSB (doubtful assets plus real estate assets not covered by the Asset Protection Scheme) were as follows:

€million

	2015				2014			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Net increase in ordinary doubtful exposure	(802)	(731)	(540)	(544)	(83)	(203)	(316)	(457)
Change in real estate	211	167	1	7	64	148	202	263
Net increase in ordinary doubtful exposure and real estate	**(591)**	**(564)**	**(539)**	**(537)**	**(19)**	**(55)**	**(114)**	**(194)**
Assets written-off	245	170	300	234	265	97	224	298
Quarter-on-quarter movements in doubtful exposure and real estate	**(836)**	**(734)**	**(839)**	**(771)**	**(284)**	**(152)**	**(338)**	**(492)**

The decrease in doubtful assets was reflected in a loan loss ratio of 7.79% at the close of 2015, compared with 12.74% at the close of 2014 – a fall of 495 basis points. The provision coverage ratio for doubtful assets at 31 December 2015 was 53.6%, compared with 49.4% a year earlier.

In 2015, customer funds showed a positive trend and increased overall by 35.3% year on year (7.0% excluding TSB), mainly due to the acquisition of TSB and also to the sustained increase of off-balance sheet funds, in particular managed and traded funds associated with equity in credit investment schemes (CISs).

At 2015 year-end, on-balance sheet customer funds totalled €131,489.2 million (€96,227.0 million excluding TSB), compared with €94,460.7 million at 2014 year-end. The balances of demand accounts totalled €84,536.1 million (€53,849.5 million excluding TSB), representing a year-on-year change of 95.3% (24.4% excluding TSB) and customer term deposits amounted to €46,376.3 million (€41,800.8 million excluding TSB), 13.1% lower than in the previous year (21.7% lower excluding TSB). The downwards trend of interest rates in financial markets has caused a change in the composition of on-balance sheet customer funds (between term deposits and demand accounts) and a transfer of these to off-balance sheet funds.

Total off-balance sheet funds amounted to €37,381.1 million and increased by 23.0% compared with the previous year. In this chapter, the uninterrupted growth of equity in credit investment schemes (CISs), which at 31 December 2015 stood at €21,427.3 million, representing a 36.4% increase compared with 2014 year-end, and the equity balances, that increased to €4,001.9 million, representing a growth of 37.1% compared with 2014 year-end were particularly notable.

Debit represented by marketable securities totalled €26,406.6 million at 2015 year-end, compared with €20,196.3 million at 31 December 2014. This increase was mainly due to the net increase in balances of bonds and commitments issued by TSB securitisation funds.

The total of funds under management at 31 December 2015 amounted to €200,355.1 million (€160,605.2 million excluding TSB), compared with €152,185.4 million at 31 December 2014, an increase of 31.7% in 2015 (5.5% excluding TSB).

Thousand euro

	2015	2014	Change YoY (%)	Ex TSB 2015	Change YoY (%)
On-balance sheet customer funds	**131,489,191**	**94,460,668**	**39.2**	**96,227,003**	**1.9**
Customer deposits	132,876,312	98,208,370	35.3	97,625,064	(0.6)
Current accounts	50,889,085	31,098,746	63.6	39,404,802	26.7
Savings accounts	33,647,047	12,176,217	176.3	14,444,711	18.6
Time deposits	46,376,324	53,395,928	(13.1)	41,800,754	(21.7)
Repurchase agreements	1,950,585	1,291,799	51.0	1,950,586	51.0
Accruals	226,621	447,697	(49.4)	226,621	(49.4)
Adjustments due to hedging derivatives	(213,350)	(202,017)	5.6	(202,410)	0.2
Debt represented by marketable securities	26,406,617	20,196,329	30.7	22,455,945	11.2
Subordinated liabilities	1,472,779	1,012,362	45.5	924,858	(8.6)
Liabilities under insurance contracts	2,218,295	2,389,571	(7.2)	2,218,295	(7.2)
On-blanace sheet funds	**162,974,003**	**121,806,632**	**33.8**	**123,224,162**	**1.2**
Mutual funds	21,427,252	15,705,612	36.4	21,427,252	36.4
Equity funds	1,417,574	953,518	48.7	1,417,574	48.7
Balanced funds	4,271,899	1,695,488	152.0	4,271,899	152.0
Fixed-income funds	4,327,692	3,829,651	13.0	4,327,692	13.0
Guaranteed return funds	3,380,152	3,793,940	(10.9)	3,380,152	(10.9)
Real estate funds	67,407	9,225	--	67,407	--
Investment entities (SICAVs)	1,994,220	1,725,078	15.6	1,994,220	15.6
Mutual funds	5,968,308	3,698,712	61.4	5,968,308	61.4
Wealth management	4,001,904	2,918,071	37.1	4,001,904	37.1
Pension funds	4,305,121	4,334,615	(0.7)	4,305,121	(0.7)
Individual	2,759,773	2,861,552	(3.6)	2,759,773	(3.6)
Company	1,529,575	1,456,994	5.0	1,529,575	5.0
Group	15,773	16,069	(1.8)	15,773	(1.8)
Third party insurance products	7,646,801	7,420,511	3.0	7,646,801	3.0
Funds under management	**200,355,081**	**152,185,441**	**31.7**	**160,605,240**	**5.5**

(*) Includes customer deposits (ex-repos) and other liabilities placed by the branch network: bonds mandatorily convertible into shares, straight bonds of Banco Sabadell, commercial pap

Income and profit performance

Thousand euro

	2015	2014	Change YoY (%)	Ex TSB 2015	Change YoY (%)
Interest and similar income	4,842,356	4,513,497	7.3	4,158,143	(7.9)
Interest and similar charges	(1,639,526)	(2,253,791)	(27.3)	(1,494,933)	(33.7)
Net interest income	**3,202,830**	**2,259,706**	**41.7**	**2,663,210**	**17.9**
Returns on equity instruments	2,912	8,628	(66.2)	2,912	(66.2)
Share of profit/(loss) of equity accounted entities	48,795	101	-	48,795	-
Net fees and commissions	1,003,344	860,891	16.5	924,515	7.4
Net gains (losses) on financial assets and liabilities	1,208,161	1,763,604	(31.5)	1,207,108	(31.6)
Exchange differences (net)	137,926	99,556	38.5	137,926	38.5
Other operating income/expense	(125,598)	(191,960)	(34.6)	(123,377)	(35.7)
Gross income	**5,478,370**	**4,800,526**	**14.1**	**4,861,089**	**1.3**
Personnel expenses	(1,457,341)	(1,202,604)	21.2	(1,219,305)	1.4
Recurring (*)	(1,417,493)	(1,169,295)	21.2	(1,183,777)	1.2
Non-recurring	(39,848)	(33,309)	19.6	(35,528)	6.7
Other general administrative expenses	(829,174)	(570,714)	45.3	(588,418)	3.1
Recurring (**)	(805,201)	(563,849)	42.8	(579,645)	2.8
Non-recurring	(23,973)	(6,865)	249.2	(8,773)	27.8
Depreciation and amortisation	(328,862)	(278,104)	18.3	(289,588)	4.1
Profit before impairment and other provisions	**2,862,993**	**2,749,104**	**4.1**	**2,763,778**	**0.5**
Provisions for loan losses and other impairments	(2,333,163)	(2,499,659)	(6.7)	(2,333,163)	(6.7)
Profit on disposal of assets	(16,960)	236,948	-	(16,960)	-
Negative goodwill	231,891	-	-	231,891	-
Profit/(loss) from discoontinued operations	-	-	-	-	-
Profit/(loss) before tax	**744,761**	**486,393**	**53.1**	**645,546**	**32.7**
Corporate income tax	(32,516)	(109,748)	(70.4)	(55,318)	(49.6)
Consolidated profit/(loss) for the year	**712,245**	**376,645**	**89.1**	**590,228**	**56.7**
Profit/(loss) attributed to non-controlling interests	3,804	4,968	(23.4)	3,804	(23.4)
Income attributed to the group	**708,441**	**371,677**	**90.6**	**586,424**	**57.8**
Memorandum item:					
Average total assets	186,535,634	163,372,812	14.2	165,824,058	1.5
Earnings per share (€)	0.13	0.09	-	0.11	-

Net interest income totalled €3,202.8 million in 2015, rising by 41.7% on the previous year's figure, with the ratio of net interest income to average total assets and the customer margin both increasing significantly. This upward trend was due to a reduction of financing costs and the acquisition of TSB. Excluding TSB, net interest income amounts to €2,663.2 million at 2015 year-end, an increase of 17.9% compared with the previous year.

In terms of overall annual averages, the net interest margin for the year was 1.72% (1.61% excluding TSB), 34 basis points higher than the figure for the previous year (1.38% in 2014). The higher average return on average total assets was the result of several factors, mainly due to the rise in customer spreads (due mainly to the lower cost of customer deposits), lower capital market funding costs, the reduction in problem assets and the improved profitability of recent acquisitions.

Thousand euro

	2015			2014			Change		Efl
	Average balance	Income/(expense)	Rate (%)	Average balance	Income/(expense)	Rate (%)	Average balance	Income/(expense)	Volume
Cash, central banks and other credit institutions	7,363,259	42,204	0.57	4,259,117	40,099	0.94	3,104,142	2,105	4,931
Loans and advances to customers	121,382,919	3,973,834	3.27	106,441,489	3,640,970	3.42	14,941,430	332,864	(364,487)
Fixed-income portfolio	27,388,253	763,530	2.79	22,703,810	806,852	3.55	4,684,443	(43,322)	(181,949)
Subtotal	**156,134,431**	**4,779,568**	**3.06**	**133,404,416**	**4,487,921**	**3.36**	**22,730,015**	**291,647**	**(541,506)**
Equity portfolio	1,431,499	-	-	1,325,403	-	-	106,096	-	-
Tangible and intangible assets	4,228,316	-	-	3,761,914	-	-	466,402	-	-
Other assets	24,744,119	62,788	0.25	24,881,079	25,576	0.10	(136,960)	37,212	37,212
Total capital employed	**186,538,365**	**4,842,356**	**2.60**	**163,372,812**	**4,513,497**	**2.76**	**23,165,553**	**328,859**	**(504,294)**
Credit institutions	17,508,806	(140,619)	(0.80)	13,234,024	(194,307)	(1.47)	4,274,782	53,688	56,130
Deposits from other creditors	110,217,214	(738,986)	(0.67)	93,079,509	(1,107,189)	(1.19)	17,137,705	368,203	949,695
Capital markets	26,792,153	(660,394)	(2.46)	26,901,563	(908,505)	(3.38)	(109,410)	248,111	233,477
Repurchase agreements	9,623,242	(41,567)	(0.43)	8,597,642	(49,179)	(0.57)	1,025,600	7,612	12,761
Subtotal	**164,141,415**	**(1,581,565)**	**(0.96)**	**141,812,738**	**(2,259,180)**	**(1.59)**	**22,328,677**	**677,615**	**1,252,063**
Other liabilities	10,148,335	(57,961)	(0.57)	10,785,387	5,389	0.05	(637,052)	(63,350)	(63,350)
Shareholders' equity	12,248,615	-	-	10,774,687	-	-	1,473,928	-	-
Total funds	**186,538,365**	**(1,639,526)**	**(0.88)**	**163,372,812**	**(2,253,791)**	**(1.38)**	**23,165,553**	**614,265**	**1,188,713**
Average total assets	**186,538,365**	**3,202,830**	**1.72**	**163,372,812**	**2,259,706**	**1.38**	**23,165,553**	**943,124**	**684,420**

Dividends received and income from equity-accounting undertakings together amounted to €51.7 million against €8.7 million in 2014 (an increase of €43.0 million). The increase was due to income from insurance and pension assets that significantly increased compared with the previous year.

Net fees and commissions totalled €1,003.3 million (€924.5 million excluding TSB) due mainly to the acquisition of TSB, a 16.5% increase year-on-year (7.4% excluding TSB). This increase was mainly due to the positive performance of mutual funds and structuralisation and insurance (syndicated) operations, as well as the consolidation of TSB.

Fees and commissions derived from risk operations grew by €53.4 million overall, largely due to the acquisition of TSB. Fees for services increased by €30.5 million, with a strong performance being shown in the securities, credit/debit card and syndicated loan categories, driven by the growth in business volumes and the inclusion of TSB in the consolidated group accounts. Fees and commissions related to mutual funds, insurance and pensions showed an increase of €58.6 million on the previous year, attributable primarily to the growth of assets held in collective investment schemes (CISs) sold by the group or under its management.

Income from financial operations totalled €1,208.2 million (€1,207.1 million excluding TSB), with particularly notable gains from the sale of fixed income financial assets available for sale amounting to €1,045.5 million. The high level of gains from financial operations derived from the management of the ALCO portfolio up to June 2015 is also particularly noteworthy; these allowed hedging levels to be strengthened. In 2014, income from financial operations totalled €1,763.6 million, of which €1,860.7 million corresponded to the sale of fixed income financial assets available for sale.

Net income from exchange differences totalled €137.9 million, compared with a significantly lower amount in 2014 (€99.6 million), representing a year-on-year increase of 38.5%.

Other operating income and expenses showed a negative balance of €125.6 million (€-123.4 million excluding TSB), compared with €-192.0 million in 2014. A major component of this item consisted of contributions to the deposit guarantee fund amounting to €-86.0 million and contributions to the national resolution fund amounting to €-43.5 million.

Operating expenses (personnel and general) for 2015 totalled €2,286.5 million (€1,807.7 million excluding TSB), of which €63.8 million were non-recurring in character (consisting essentially of redundancy payments to employees); in 2014, operating expenses amounted to €1,773.3 million and included €40.2 million in non-recurring expenses.

Recurring operating expenses in 2015 increased by 28.2% overall (1.7% excluding TSB), compared with 2014 (specifically, personnel expenses increased by 21.2% (1.2% excluding TSB) and general expenses increased by 42.8% (2.8% excluding TSB).

The increase in gross income in 2015 combined with the policies to hold down operating expenses resulted in an improved cost/income ratio which at the end of the year stood at 50.45% (46.16% excluding TSB), down from 53.14% at the end of 2014 (the figures for both years included income and expenses from financial operations and exchange differences net of recurring differences, which amount to €400 million per year.

The profit and loss account explained before resulted in a profit before impairment and other allowances of €2,863.0 million in 2015 (€2,763.8 million excluding TSB), compared with €2,749.1 million in 2014.

Allowances for impairment and other losses (on real estate and financial assets, for the most part) were €2,333.2 million, compared with €2,499.7 million in 2014.

Capital gains on asset disposals amounted to €-17.0 million and were made up largely of profit and loss from the sale of the group's sale of property, plant and equipment for own use. In 2014, gains from sales of assets amounted to €236.9 million and included mainly gross gains of €162 million due to the sale of the debt management and recovery business and an exceptional payment of €80 million (net of formalisation expenses) on the signature of a reinsurance treaty in respect of the Mediterráneo Vida.

The group's income statement for 2015 included a negative goodwill of €231.9 million, mainly attributable to the badwill (net of tax) generated by the acquisition of TSB.

After deducting income tax and the share of profit attributed to non-controlling interests, the year-end profit attributed to the group for 2015 was €708.4 million, an increase of 90.6% compared with the previous year. Excluding TSB, the net profit attributed to the group amounts to €586.4 million at 2015 year-end, an increase of 57.8% compared with the previous year.

2.4. Business review

The main financial highlights associated with the group's main business units are set out below, in accordance with the segment reporting procedures described in Note 43 of these consolidated annual accounts.

Banking business in Spain

Within the banking business in Spain, the most significant businesses should be identified, and used to give information concerning the changes in profit and loss and the key figures.

Thousand euro

	2015	2014	Change YoY (%)
Net interest income	**2,141,985**	**1,778,469**	**20.4**
Net fees	651,564	636,269	2.4
Other income	(55,635)	(76,969)	(27.7)
Gross income	**2,737,914**	**2,337,769**	**17.1**
Operating expenses	(1,395,259)	(1,345,734)	3.7
Operating income	**1,342,655**	**992,035**	**35.3**
Impairment losses	(642,929)	(644,154)	(0.2)
Profit/(loss) before taxes	**699,726**	**347,881**	**101.1**
Ratios (%):			
ROE	14.8%	8.0%	
Cost/Income ratio	49.9%	57.6%	
Loan/Loss ratio	9.0%	10.3%	
Coverage ratio	52.7%	47.2%	
Customer balances (million euro)			
Loans and receivables	77,708	79,460	(2.2)
Deposits	94,053	90,785	3.6
Securities deposited	9,008	8,678	3.8
Other data			
Employees	12,550	12,562	(0.1)
Domestic branches	2,190	2,253	(2.8)

The Group’s largest business line is Commercial Banking, which provides a range of financial products and services for large and medium-sized companies, SMEs, businesses and individuals - private banking, personal banking and mass market customers- non-residents and professional groups, with a degree of specialisation that provides customers with personalised attention depending on their needs, whether from experts throughout its multi-brand branch network or via other channels to support the customer relationship and give access to remote banking services.

2015 has been characterised by an improvement in net interest income, stronger customer relationships, a major boost to the insurance business and strong growth in mutual funds. Following the Triple business plan, management priorities in 2015 have been on the one hand, profitability, and on the other, integrated productivity capacity.

As regards individuals, the bank has mainly worked on two pillars: the reinforcement of customer relationships and the boost of notoriety.

In terms of companies, the bank has increased the amount of new customers it has attracted, as well as its market shares in all segments for another year.

Net interest income attributable to Commercial Banking amounted to €2,141.9 million in 2015, while profit before tax totalled €699.7 million. The ROE was 14.8% and the cost/income ratio was 49.9%. The volume of business in loans and advances amounted to €77,708 million and assets under management were €94,053 million.

Corporate Banking

Corporate Banking offers financial solutions and advisory services to large companies and financial institutions, both Spanish and foreign. Its activities encompass corporate banking, structured finance, Trade Finance and IFIs.

Thousand euro

	2015	2014	Change YoY (%)
Net interest income	**164,053**	**162,499**	**1.0**
Net fees	25,492	24,942	2.2
Other income	7,445	11,439	(34.9)
Gross income	**196,990**	**198,880**	**(1.0)**
Operating expense	(29,660)	(26,596)	11.5
Operating income	**167,330**	**172,284**	**(2.9)**
Impairment losses	(96,720)	(102,236)	(5.4)
Profit/(loss) before taxes	**70,610**	**70,048**	**0.8**
Ratios (%):			
ROE	8.4%	7.1%	
Cost/Income ratio	14.8%	13.4%	
Loan/Loss ratio	3.2%	2.5%	
Coverage ratio	65.0%	64.7%	
Customer balances (million euro)			
Loans and receivables	11,702	10,798	8.4
Deposits	6,191	5,177	19.6
Securities deposited	666	662	0.6
Other data			
Employees	124	113	9.7
Domestic branches	2	2	-
Foreign branches	3	3	-

2015 has seen a significant growth in investment in the large corporate clients segment. Closeness to customers and excellent service provided by the Middle Office allows the bank to grow in terms of financing operations of large corporations.

A key feature is also the increase seen in 2015 in specialist products, with a greater contribution of value, which is evident in the recorded income figures: foreign trade operations, treasury distribution business and fees for structured financing operations, the result in these cases of increased productivity in the offering of more sophisticated solutions together with the coordination of specialist teams.

In 2015, net interest income attributed to Corporate Banking stands at €164 million, and the profit before tax at €70.6 million. The ROE ratio stands at 8.4% and the cost/income ratio at 14.8%.

Markets and Private Banking

Markets and Private Banking offers and designs products and services with a high added-value with a view to achieving good profitability for the customer, increasing and diversifying the client base and ensuring consistency of investment processes through a rigorous analysis and with a good-quality management, while taking the customer relationship model to a multichannel level.

Thousand euro

	2015	2014	Change YoY (%)
Net interest income	**44,884**	**51,102**	**(12.2)**
Net fees	183,414	141,900	29.3
Other income	6,895	4,322	59.5
Gross income	**235,193**	**197,324**	**19.2**
Operating expenses	(104,446)	(96,032)	8.8
Operating income	**130,747**	**101,292**	**29.1**
Impairment losses	(7,797)	996	(882.8)
Profit/(loss) before taxes	**122,950**	**102,288**	**20.2**
Ratios (%):			
ROE	125.2%	94.7%	
Cost/Income ratio	44.0%	48.7%	
Loan/Loss ratio	4.3%	3.4%	
Coverage ratio	62.1%	56.1%	
Customer balances (million euro)			
Loans and receivables	981	1,029	(4.6)
Deposits	16,854	16,896	(0.2)
Securities deposited	6,231	7,326	(15.0)
Assets under management in CISs	15,459	12,007	28.7
Total assets including mutual funds sold but not managed	21,427	15,706	36.4
Other data			
Employees	529	529	-
Domestic branches	12	12	

In 2015, gross contributed income amounted to €235.1 million, and profit before tax was €122.9 million. The ROE ratio stands at 125.2% and the cost/income ratio at 44%. The volume of customer funds under management stands at €23,085 million.

SabadellUrquijo Private Banking has continued to contribute value through personalised advisory services and the offering of specific Private Banking products, such as mutual funds, discretional management portfolios or SICAVs has allowed SabadellUrquijo to achieve the best rankings in Private Banking institutions. The commercial activity has been unequivocally tied to the exhaustive analysis of the customers' risk profile and the adaptation of the products and services offered.

Investment Management, at 2015 year-end, investment funds under management of Spanish law amounted to €12,840.2 million, 29.0% above 2014 year-end, and significantly more than the increase in the sector, which has been 13.1%. With this volume of managed equity, the Sabadell Group has achieved an investment fund share of nearly 6%, and its managing entity, Sabadell Inversión, has remained as the fourth largest investment fund manager in Spain.

Treasury and Capital Market, in 2015, it has increased its activity in Foreign currency operations with customers, increasing the accumulated income by 32.0% compared with the previous year, and the Trading activities and operations have been directed towards the management of liquidity and the proactiveness in the management of the fixed-income trading portfolio, as well as the operations in currencies arising from the bank's customer orders and instructions. In terms of Capital Market activity, the bank continues to identify potential operations and receiving mandates, both from issuers and from institutional clients who channel their financing and investment needs through ours.

In terms of Contracting and Custody of Securities, 2015 has been characterised by significant market movements, mainly on a national scale. Political and economic uncertainties have had a negative impact on volumes, mainly in the second quarter of the year. However, 2015 has seen a strong growth in market shares, reaching the top ranking among market members, with a market share in excess of 14% In July it reached a record market share of 20.68%.

Banking business United Kingdom

Banking Business United Kingdom corresponds to TSB Banking Group PLC and 6 months of results. The TSB franchise includes retail business that is carried out in the United Kingdom and includes current and savings accounts, personal loans, credit/debit cards and mortgages.

Thousand euro

	2015	2014	Change YoY (%)
Net interest income	**539,620**	**-**	**-**
Net fees	78,829	-	-
Other income	(3,721)	-	-
Gross income	**614,728**	**-**	**-**
Operating expense	(493,566)	-	-
Operating income	**121,162**	**-**	**-**
Impairment losses	(59,500)	-	-
Profit/(loss) before taxes	**61,662**	**-**	**-**
Ratios (%):			
ROE	5.3%	-	-
Cost/Income ratio	77.9%	-	-
Loan/Loss ratio	0.6%	-	-
Coverage ratio	44.8%	-	-
Customer balances (million euro)			
Loans and receivables	36,062	-	-
Deposits	40,699	-	-
Other data			
Employees	8,224	-	-
Domestic branches	614	-	-

(*) On 30 June 2015, the Group took control over TSB Banking Group PLC, therefore only 6 months of results are shown.
The exchange rate applied on the balnace sheet is GBP 0.734 and on the income statement is GBP 0.720 (average of last six months)

The business also includes the "mortgage premium" which is a separate set of mortgages allocated to TSB as part of the restructuration of Lloyds, as well as ex-UKAR assets. Ex-UKAR assets are a set of mortgages that were managed by the British government and which were purchased during an acquisition process effective from 7 December.

Sources of financing are mainly comprised of the increase in customer deposits and the success in their diversification, with a launch of the first securitisation on the market.

These funds are mainly used to increase the loans and advances portfolio, following a successful launch of a mortgage mediation platform and the acquisition of UKAR mortgages, as explained previously.

Banking business America

Thousand euro

	2015	2014	Change YoY (%)
Net interest income	**216,096**	**148,082**	**45.9**
Net fees	26,460	25,722	2.9
Other income	2,209	3,179	(30.5)
Gross income	**244,765**	**176,983**	**38.3**
Operating expense	(142,338)	(111,365)	27.8
Operating income	**102,427**	**65,618**	**56.1**
Provisions (net)	2,938	3,485	(15.7)
Impairment losses	(29,152)	(22,995)	19.1
Operating expense	4,769	2,525	88.9
Profit/(loss) before taxes	**80,982**	**48,632**	**66.5**
Ratios (%):			
ROE	14.5%	10.8%	
Cost/Income ratio	54.1%	58.0%	
Loan/Loss ratio	0.6%	1.0%	
Coverage ratio	142.6%	89.5%	
Customer balances (million euro)			
Loans and receivables	7,374	4,942	49.2
Deposits	6,769	5,478	23.6
Real-estate assets (gross)	1,996	1,790	11.5
Other data			
Employees	764	692	10.4
Domestic branches	28	28	-

The exchange rate applied in 2015 is USD 1.0887 and in 2014 is USD 1.2141.

Banco Sabadell Banking Business America is comprised of various business units that together manage the financing business of corporate, private and commercial banking in this geography. This business is managed from Miami, where Banco Sabadell has a Full International Branch which has been operating since 1993, and a banking entity, Sabadell United Bank, which develops the commercial banking business in South Florida. In 2012, the bank opened a representative office in New York from which it manages a large part of the structured financing business and in 2015, new representative offices have been opened in Colombia and Peru to strengthen the corporate banking and structured financing business. Additionally, in 2014 Sabadell Capital was set up in Mexico, to develop a portfolio of corporate credit and Project Finance, which has been consolidated in 2015.

Sabadell also works in coordination with the representative offices in Mexico, Dominican Republic and Venezuela, rendering customer services.

Within the internationalisation plan framework, in August the bank was granted a banking licence in Mexico, which will allow it to operate as a commercial bank in this country from early 2016. In this way, operations started in 2014 can be extended with the start-up of Sabadell Capital, which is a multiple purpose financial institution (SOFOM).

In 2015, the bank has continued with its consolidation project of domestic banking in Florida through its subsidiary Sabadell United Bank, strengthening its associate banking business and improvement programs for operating efficiency.

Real Estate Asset Transformation

Thousand euro

	2015	2014	Change YoY (%)
Net interest income	**(44,772)**	**(11,192)**	**300.0**
Net fees	(1,584)	(659)	140.4
Other income	107,853	15,228	608.3
Gross income	**61,497**	**3,377**	**1,721.1**
Operating expense	(143,180)	(135,824)	5.4
Operating income	**(81,683)**	**(132,447)**	**(38.3)**
Provisions (net)	(71)	(1,847)	(96.1)
Impairment losses	(508,448)	(407,293)	24.8
Other results	(254,005)	(455,884)	(44.3)
Profit/(loss) before taxes	**(844,207)**	**(997,472)**	**(15.4)**
Ratios (%):			
ROE	(20.0)%	(39.3)%	
Cost/Income ratio	-	-	
Loan/Loss ratio	64.9%	61.9%	
Coverage ratio	52.5%	50.9%	
Customer balances (million euro)			
Loans and receivables	8,413	12,394	(32.1)
Deposits	301	484	(37.7)
Real estate assets (gross)	9,234	8,848	4.4
Other data			
Employees	712	668	6.6
Domestic branches	-	-	-

In 2015 the development of the asset transformation strategy established in previous years has been further implemented. Its main objective is the optimisation of value, either through management, to maximise the possible changes in value, or through divestment, in the event that this is the best alternative.

With regards to debt recovery assets in default status, it is particularly important to note that in 2015 Banco Sabadell has continued to proactively manage default situations of mortgage debts for customers' housing, seeking solutions that avoid legal proceedings and not carrying out, under any circumstances, forceful evictions.

Following the acquisition of one of SAREB's real estate asset portfolios in November 2014, Solvia has been the first 'servicer' to complete the migration and service transfer process of portfolios acquired through SAREB, positioning itself as one of the main management platforms in Spain in terms of the volume of assets managed.

3.-THE ENVIRONMENT

Environmental sustainability

We care about the future and about sustainability. This is why Banco Sabadell has an environmental policy in place, is a signatory to the main international covenants on the environment and promotes a commitment to the environment globally.

Environmental policy

- Minimise the potential environmental impacts of processes, facilities and services.
- Effectively manage the environmental risks and opportunities inherent in the business.
- Promote a global commitment to the environment.

Global covenants and alliances

- A signatory of the United Nations Global Compact: in taking this step we are committing ourselves to adopting a preventive approach to environmental protection, promoting initiatives to foster environmental responsibility and supporting the development of technologies that do not harm the environment.
- A signatory of the Carbon Disclosure Project (CDP) and CDP Water Disclosure: a commitment to actively combat climate change and publish an annual inventory of corporate emissions.
- A signatory of the Equator Principles; to ensure that social and environmental risks are taken account of in the funding of large projects.
- A signatory of the United Nations Principles for Responsible Investment in the "investment manager" category: inclusion of environmental, social and governance criteria in investment policies and practices.
- A collaborating partner of the Spanish Association of Renewable Energy Producers and a member of the Spanish Wind Energy Association.
- Environmental management system certified to ISO 14004: 15.10% of our employees in Spain work in one of our six certified Central Service buildings. Our environmental management system has been adapted for the rest of the group.
- Certified to Gold level under LEED New Construction for sustainable buildings: certification was obtained for the service area of the group's main Central Service building in Sant Cugat del Vallès.
- A member of the European Commission's GreenBuilding Programme: Banco Sabadell is a partner in the GreenBuilding Programme for the sustainable construction .of the group's logistics centre and general archive in Polinyà.

All departments of the organisation have the financial resources they need to meet Banco Sabadell's aims and commitments on the environment. Due to the structure of the group and the nature of its business, these funds are not recognised under a specific line item to provide an overview of environment-related costs and investment.

Key environmental action areas:

Renewable energy – finance and investment

Banco Sabadell promotes the development of sustainable energy through direct investment and as a provider of finance for renewable energy projects. As in previous years, the bank shared its experience in the renewables sector and provided speakers at leading forums in Spain. These included events organised by the Spanish Wind Energy Association and the Association of Renewable Energy Producers.

Banco Sabadell provides finance for renewable energy generation projects, such as wind energy, photovoltaic power, thermal solar energy, biomass or biofuel projects, in addition to advisory and brokerage services for this type of energy projects. Banco Sabadell also makes direct investments in the equity capital of renewable energy generation projects.

Most of this business is carried on through Sinia Renovables, a wholly-owned subsidiary.

The Equator Principles

Banco Sabadell adopted the Equator Principles in September 2011. Based on the policies, standards and guidelines of the International Finance Corporation (IFC), the Principles apply to structured finance projects and corporate loans.

Since then, the bank has applied the Equator Principles to all of its new structured finance projects valued at an amount greater than, or equal to, USD 10 million and corporate loans from USD 100 million. The projects are classed as A, B or C following the standard developed by the International Finance Corporation (IFC) and in all class-A or B projects a social and environmental assessment is carried out and reviewed by an independent expert.

Banco Sabadell publishes the details of each of its projects associated with the Equator Principles in its annual report, and they can also be consulted through the bank's website.

Environmental management and climate change management system

The Environment Committee is charged with overseeing compliance with group environmental policy and reviewing group performance in environmental matters. The group has an environmental management system which was set up in 2006 according to the ISO 14001:2004 standard. Currently 15.10% of the group's employees in Spain work in one of the six office buildings that have been certified to that standard. The environmental management system has been adapted for use at all other group facilities in Spain.

Year after year Banco Sabadell works to improve the eco-efficiency of its facilities and reduce the environmental impacts of the services it provides to customers.

Some of the measures it has taken to reduce consumption and emissions are as follows:

- Inventory of CO_2 emissions*:* In 2009 the Bank compiled an independently verified inventory of corporate CO_2 emissions. In 2015, it set up a new reduction target of 3% for the period 2015-2020 of scope 1 and 2 emissions, taking 2014 as a base. In 2015, a reduction in emissions of 70.80% has been achieved, mainly by purchasing electrical power generated from renewable sources.
- Power consumption; overall consumption of electrical power in Spain in 2015 was 97,642 MWh from 104,419 MWh in 2014. It should be noted that since April Banco Sabadell has increased its contracting of renewable energy sources through Nexus Renovables, which has provided 71.8% of the total electricity provided to the group in 2015.
- The majority of group branches are equipped with centralised heating and climate control systems. Lighting systems fitted with LED lamps and presence detectors in some areas of Central Service buildings.
- Widespread use of low-energy lamps and billboard lighting systems fitted with daylight switching systems.
- Energy recovery climate control systems are installed in Central Service buildings and larger branches.

Branches are using Thin Client hardware that consumes 90% less energy than conventional PCs.

- Paper consumption: Reduce, reuse and recycle. Paper consumption by the group in Spain in 2015 was 1,469 tons (up from 1,039 tons in 2014). The increase was due to the addition of new businesses to the group and the rise in customer numbers. At the same time, the main actions put in hand to reduce paper consumption were as follows:

- Banking services are now available to customers 24 hours a day via remote access channels, ATMs, telephone banking, email or social media. 100% of correspondence with customers was sent electronically.
- Branches are equipped with digital tablets for customers' signatures. In 2015 this made it possible for 30 million printed forms to be eliminated.
- Conventional paper is chlorine-free, certified by the FSC and produced to ISO 9001 and ISO 14001 standards; all of the group's printers are configured for duplex printing by default.

- Water usage: Water consumption is limited to sanitary uses and to some watering of gardens. In 2015 the group's water consumption resulted in costs of €1.08 million (€1.1 million in 2014). With regard to waste water management, all our facilities and offices are connected to the public sewage network. Toilet cisterns and taps are fitted with water-saving mechanisms. The main group Central Service building has a cistern for collecting rainwater and greywater for watering plants. Landscaped areas have been planted with autochtononous drought-resistant plants.

- In 2014, the lawn at the Agua Amarga corporate building (Alicante) began to be replaced with decorative gravel, which has resulted in savings of approximately 60% of water usage in 2015.

- Waste management: In 2015 the group generated 819 tons of waste paper and card (883 tons in 2014). In all group premises, used paper is treated as confidential waste for shredding and 100% is recycled through authorised waste managers. All Central Service buildings have facilities for the separation and collection of packaging, organic matter and batteries. Banco Sabadell works with Ricoh (only branches as banking printers are available) and the HP Planet Partners programme to manage the collection and reuse of toner cartridges and disposes of computer waste through authorised waste managers. There are specific oversight mechanisms for managing waste at branches that are in the process of closing or being merged.

Environmental training and awareness

All group employees have access to an online training course which is obligatory for staff at certified Central Service facilities.

Banco Sabadell also keeps all its suppliers informed on the group's environmental policy and integrates environmental and social responsibility into its supply chain in a number of ways. In the group-level procurement process, tenders or offers from suppliers with ISO 9001, ISO 14001/EMAS or EFQM certifications are looked on favourably. Consideration is given to the environmental qualities (recycled, ecological, good for the environment, etc.) of the products offered. Banco Sabadell's basic contract with suppliers includes specific clauses on compliance with environmental criteria, human rights and the Ten Principles of the United Nations Global Compact, as well as acceptance of the Supplier Code of Conduct. In particular, environmental requirements are included in specification for products and services that have significant environmental impacts.

4.- HUMAN RESOURCES

Human Resources aims to support the transformation of the organisation through a people agenda that is an integral part of its day-to-day business operations and its growth. Its key objective is to maximise the value-creating potential of Banco Sabadell's highly skilled workforce by developing their talent, managing their expectations and fully leveraging their capabilities.

Talent management and human capital form an essential component of the new "Triple" strategic business plan along with other key action areas of the plan.

The Triple plan includes drivers of organisational change and development as well as a wide-ranging and completely updated view of the Human Resources function.

In the area of organisational change and development, three strategic priorities have been identified: comprehensive talent management (strengthening leadership and fostering a culture in which talent is planned for and nurtured) to meet the needs generated by growth; raising the bar on employee performance (a universal model for today's business that allows people performance to be actively managed); and involving and engaging all employees in the Group's development.

Key human resources data

Number of employees

	2015	2014
Equivalent average workforce	21,879	17,760
Domestic workforce at year-end	16,869	16,593
Workforce at year-end	26,090	17,529
Turnover (%) (*)	1.02%	0.60%
Absenteeism (%) (**)	2.45%	2.41%
Hours of training per empoyee	20.99	33.62

The average number of employees has been calculated from the average number of employees at the end of each month.
(*)Undesired turnover: number of cases of sick leave and voluntary leaves of absence/total workforce x 100.
(**)Seriousness index (days lost/total working days x 100).

In terms of its external employees, the tendency is changing towards the hiring of personnel with training at the degree or diploma levels. Most of the hiring is carried out in response to an accumulation of tasks, however other reasons for which Banco Sabadell hires personnel externally are to fill a temporary position, to temporarily replace a worker whose post is being maintained, among others. The contracting of external personnel also facilitates introduction of recent graduates or students into the labour market.

Number of employees

	Men	Women	Total
Spanish workforce	8,446	8,423	16,869
International workforce	3,133	6,088	9,221
Breakdown by gender (%)	44.4%	55.6%	100%
Average age (*)	45.23	41.86	43.54
Average length of service (*)	19.23	15.64	17.42

Figures calculated for the group's total workforce.
(*) Excludes TSB.

Number of employees

	Men	Women	Total
Clerical staff	1,714	4,814	6,528
Technical staff	9,375	9,560	18,935
Management (*)	490	137	627
Total	**11,579**	**14,511**	**26,090**

Figures calculated for the group's total workforce.
(*) Data refer to TOP 300 directors.

Human resources management – policies and principles

Human resources policy is grounded in respect for human dignity, fair and competitive remuneration, transparency and truthfulness in reporting, and lasting cooperation.

Recruitment policy

In line with its human resources policy, Banco Sabadell has a personnel selection process which ensures that objective criteria based on professionalism and suitability are applied in finding the right person for each job and career path. The group seeks to ensure optimal professional development for its employees by encouraging them to excel and rewarding hard work. This mutual commitment is set out in the Banco Sabadell Group Code of Conduct.

In 2015 the Bank worked on a number of initiatives to strengthen and adapt its procedures for recruiting and attracting talent.

Banco Sabadell is not only competing in an ever more global, dynamic and competitive environment, but is also currently undergoing a major programme of transformation, expansion and internationalisation, for whose success having the best talent is critical.

Attracting, selecting and recruiting staff are a part of this new environment: a higher intake of new employees, new job profiles and geographic dispersion are making it necessary to redesign and update the procedures, skills, technologies and capabilities used to attract the best candidates and provide them with a professionally rewarding experience.

To meet this need the group has launched an ambitious internal recruitment program, whose purpose is to provide opportunities for career development and to favour internal movements of employees within the Group.

In line with the defined human resources model and policies, the volume of international movements continues to grow. The bank is still working on the consolidation of a portfolio of employees to selectively create future expansion, as well as the incorporation of international experience in management careers.

Equality, work-life balance and integration

Banco Sabadell guarantees equal opportunities in all aspects of its relations with employees: recruitment, training, promotion, working conditions, remuneration, etc. These principles are also set out in the Group's equality plan, human resources policy and code of conduct.

Equality

In 2010, Banco Sabadell adopted an equality plan aimed at avoiding all types of employment discrimination between women and men in the company, as required by Organic Law 3/2007. Certain lines of action were established for this purpose, including effective tracking and goal evaluation systems covering training, promotion and career development, remuneration, work-life balance, gender violence and sexual harassment. The equality plan's Steering Committee, which consists of employee and bank representatives, meets twice per year to monitor progress and compliance with the equality plan.

	2015	2014
% of promoted employees who are women	56.45%	56.06%
% of managerial positions held by women (*)	21.85%	16.77%

Figures calculated for the group's total workforce.

Diversity and integration

Banco Sabadell promotes employee diversity and integration in the workplace and non-discriminatory recruitment processes. The group takes action to adapt workplaces wherever necessary. The bank also assists employees with paperwork in their dealings with municipal, regional and national governments, thus helping to improve employees' well-being outside the strictly professional sphere. In compliance with Spain's Integration of People with Disabilities act ("LISMI"), the bank pursues other measures such as buying services and supplies from special employment centres.

In 2015 the Group has 254 employees with some form of disability (156 at the end of 2014).

Disability is not the only diversity issue that the Bank handles in a special way.

The human resources master plan involves important changes to the way in which managers and directors manage people and equipment. As part of talent management, one of the immediate challenges is to attract, develop, maintain and transfer talent in accordance with the expectations of each of the generations working together in the bank (baby boomers, generation X and millenials). A very ambitious plan has been approved to tackle this issue, closely linked to current and future development of the age pyramid in the Group.

Work-life balance

Group employees enjoy a series of benefits thanks to an agreement between the bank and union representatives on ways of striking the right balance between work and personal and family life. Benefits include time off from work, paid or unpaid (e.g. to nurse an infant); unpaid leave (for maternity or to care for a relative); leave in special circumstances; paternity leave; and flexitime arrangements.

In this regard, another objective is to provide the organisation and people with tools and solutions for flexibility at work as required by the business strategy in order to improve productivity and competitiveness.

Compensation policy

Banco Sabadell's compensation policy is based on the principles of internal fairness, external competitiveness, transparency, differentiation, flexibility, simplicity, confidentiality and communication, as prescribed by the Group's human resources policy.

Compensation policy is based on the degree of responsibility attaching to the position and on each employee's professional development. This determines Group practices with regard to increases in both fixed and variable remuneration. In total, 89.7% of the workforce in Spain qualified for variable remuneration in 2015 (74.2% in 2014).

Other types of benefit are available to employees, including interest-free loans and grants to help with training or children's schooling.

Of particular relevance in this field is the launch of a new management model by objectives, with over 56,300 objectives, in a 'cascade' process, implemented in the first months of 2015.

Workplace hazards

Banco Sabadell has a policy of constantly striving to improve employees' health and working conditions.

As required by law, the bank has a health and safety plan setting out policy measures in this area. Each year it publishes a report on health and safety initiatives undertaken by the company which is available on the employee portal and the corporate website.

An initial risk assessment is performed on each new workplace and also on workplaces that have undergone refurbishment or alterations. A follow-up assessment is performed at a later date to evaluate both individual workstations and common areas, facilities as well as aspects such as temperature, lighting, etc. In 2015, 3,902 questionnaires on psycho-social risk were sent out, producing a 69.68% response rate.

All Banco Sabadell personnel and new employees receive information on workplace hazard prevention and are required to take an online course in health and safety at work. The training is supplemented by publications, such as ergonomics factsheets and equipment manuals, related to the specific hazards affecting bank employees.

Employee development

Training

Banco Sabadell provides employees with function-based training: continuous, progressive training adapted to each individual's position.

	2015	2014
Employees who received training (%)	98%	98%
Investment in training per employee (euro)	257.1	365.7

Figures for Spain.

The launch of a new language learning tool has been particularly significant this year, introduced in response to the growing needs to learn languages as a result of the Group's internationalisation process.
The definition of a structure and objectives for the future Commercial School is also particularly relevant, which will allow people to align learning with business and commercial transformation challenges in which the Bank is engaged.

At the same time, the Commercial School will also be a key lever to provide sustainability to the commercial systematic network model which has been implemented as part of the Commercial Development Programme. A first glimpse of this new learning focus in Banco Sabadell and something that shall form part of the School is the Grow Up programme for new Office managers. Its purpose is to develop and transform the Manager, allowing them to eventually become a Business leader and, also, a Team leader in their office.

To reinforce this, Excellence Centres have been created with consultants who are specialised in each area (Training, Remuneration, Recruitment, etc.) who centralise their functional knowledge in terms of the business needs.

Leadership development

The transformation of the Leadership Management unit into the Strategic Talent Division has represented a qualitative leap in the development of the leadership capacity at all managerial levels of the organisation. The group of managers that form part of the corporate development programme continues to carry out regular psychometric evaluation and 360º assessments which collect feedback from direct superiors, colleagues and subordinates. They also receive specific strategic leadership training designed to enhance their leadership and team management skills.

In this context, the figure of the Human Resources Business Partner (HRBP) is notable under the management of the Strategic Talent Division. The HRBP is a consultant with decision-making authorities in the planning, prioritisation and management of specific needs which, in terms of people, are derived from the strategy of each business.

In terms of specific programmes, the Leading the Future (*Liderando el Futuro)* programme is a comprehensive Leadership Development programme aimed at managers to strengthen a leadership style that is common in Banco Sabadell and which promotes cooperation and development of teams, with a strong focus on action and business.

With this programme, carried out through a cutting edge flexible and integrated methodology, we encourage our managers to have a shared leadership vision and standard, and we favour the professional growth and development in line with the Bank's culture, using personal change as a basis to facilitate changes at an organisational level. The programme has a synergic effect where it achieves the 'cascade' transfer of knowledge of the people forming part of the teams, as well as a warmer and more human attitude. These attitudes position our Managers as a reference of quality and openness, both internally and in the external market. 15 managers took part in one or more of the stages of this Programme in 2015.

One of the main outcomes of this exercise has been the continuation of the Corporate Management Programme, which is designed for new department heads and Central Services directors with subordinates working under them. The Programme is based on developing management and team-building skills, promoting joined-up management at Central Services divisions and improving familiarity with Human Resources policies as a way of managing professional development and promoting success-driven behaviours appropriate to each role. A total of 43 employees took this training in 2015, its fifth year.

One of the organisation's main tools in managing people and focusing on results is the annual performance review and interview, where managers hold a mandatory one-to-one meeting with their direct reports, the goal being also to foster professional growth and build trust. During the interview the employee's performance during the year and their performance assessment, occupational goals and geographic mobility are discussed. This year the assessment has been simplified, and the integration of the Management by Objectives and the evaluation of performance has been integrated into a single model.

HR Operations

In terms of operations, in 2015 a division has been created which combines the operating tasks of all Human Resources departments. The Shared Services Centre is added to the already existing Employee Assistance Office, which focuses on rendering services to the other departments, thereby achieving greater efficiency through specialisation. This allows the human resources teams to focus on their specific function, resulting in greater ambitions and an improved achievement of the corresponding objectives.

Communication, participation and the volunteer programme

Communication

Banco Sabadell has numerous channels of communication between the different levels of the organisation to enhance internal communication and involve employees in the bank's goals.

The "Banco Sabadell Idea" platform allows employees to propose improvements in any area of the organisation. The platform is also an excellent communication channel by which employees can make queries and share experiences on products and processes. The ideas with the most votes and those which add the greatest value to the bank are considered by the persons in charge of the processes concerned and by members of a Decision Committee, who together reach a decision on their implementation. The ideas with most votes also receive a cash prize.

Participation

Banco Sabadell respects and guarantees employees' basic rights, including freedom of association and collective bargaining, enshrined in Spanish law. These principles are set out in its code of conduct and human resources policy.

Union representatives represent the entire workforce, not just union members; accordingly, labour agreements apply to all employees at the level at which the negotiation was conducted (industry, group, company, etc.). All employees are given one month's notice of significant changes. Union elections are held every four years. Banco Sabadell's management meets periodically with the general secretaries of the various trade unions and the latter participate regularly in various committees (National Health and Safety Committee, Equal Opportunities Committee, Training Committee and the Pension Plan Oversight Committee). Workplaces with more than 50 workers have a works council. Workplaces with between 6 and 10 workers may elect a union representative.

Volunteer programme

In response to this line of action, defined in the Corporate Social Responsibility Plan 2013, SabadellLife, a new internal portal, has been introduced; it incorporates all actions that involve our employees in terms of health, solidarity and sport.

SabadellLife publicises social action and corporate volunteer initiatives. The successes achieved year after year has led to a substantial increase in the number of volunteers and in the activities organised in 2015, many of which were proposed by the employees themselves.

Details of some of the most significant activities in 2015 are given below:

Trailwalker of OxfamIIntermon. 324 people representing Banco Sabadell took part in this year's Trailwalker, making us the company with the largest number of employees taking part in Madrid, raising over €90,000 for water management projects carried out by Oxfam in the Sahara.

Sant Jordi Solidari en Centros Corporativos de Sant Cugat, Sabadell and Torre Diagonal. Associates such as Escuela Taiga (Special Needs Education), the Protectora de Sabadell, Ayuda en Acción and Sant Joan de Dèu, among others, raised over €7,500 (net) for charity.

Collection of toys and school supplies for children at risk of social exclusion in the various regions.

Collaboration with the Food Bank, where over a ton of foods have been collected for the needy among all regional branches.

Together with Banc de Sang y Teixits, Banco Sabadell makes blood donations, where year after year the number of blood donations has significantly increased.

For the third year in a row, 215 volunteers from the Bank participated in workshops for fourth grade pupils as part of the Schools Financial Education Programme in Catalonia (EFEC). The collaboration agreement with Catalonia's regional government (*Generalitat de Catalunya*) and the *Instituto de Estudios Financieros* covered 20% of schools in Catalonia. Additionally, this year Banco Sabadell has taken part in the "Tus Fianzas, tu futuro" (Spanish Banking Association) programme, where 35 volunteers shared basic knowledge about finance to second and third grade pupils throughout Spain.

In 2015, various corporate volunteer programmes have been carried out related to entrepreneurship through the senior collective, with the collaboration of particularly relevant Foundations with an important social impact: Fundación Emprèn, Fundación Príncesa de Girona, Proyecto Cecrem, ADEIT Generalitat Valenciana, Fundación Novia Salcedo, Fundación Cares-Codec, Mes que Emprenedors-COTM and Proyecto Hombre de reinserción laboral.

This year, 475 letters were requested from the Magone Foundation, so that Banco Sabadell employees could become Wise Men at Christmas for a day, sending a Christmas gift to children at risk of social exclusion.

As in previous years, 120 volunteers took part in the Marató de TV3 (a marathon organised by the television channel TV3), which this year raised funds for combatting cardiovascular diseases.

COACH Foundation: a corporate volunteer initiative aimed at improving employability of young people at risk of social exclusion through coaching and mentoring. Ten young people have benefitted from this Programme this year.

Social Business Mentoring with the SHIP2B Foundation. 17 directors of Banco Sabadell have taken part as mentors in the B-Ready programme to accelerate social start-ups.

"FeinaambCor" Project. Together with Cáritas, people over the age of 45 who were at risk of social exclusion have been employed by our temporary employment agencies.

5 – LIQUIDITY AND CAPITAL RESOURCES

5.1 Liquidity

The key aspects in the evolution of liquidity during the year at the group level have been as follows:

- The objective of recent years of generating a liquidity gap in commercial business, reducing overall financing in wholesale markets and increasing the liquidity position of the bank has continued to be followed.

- On-balance sheet customer funds have increased by 39.2% compared with 2014 year-end, mainly due to the acquisition of TSB.

- In 2015, the generation of a Commercial gap has stabilised, continuing to grow albeit at a more moderate pace than the positive trend seen in recent years. The Loan to Deposits (LTD) ratio of the group at year-end stood at

106.5% (108.2% excluding TSB).

- The group has slightly reduced (exTSB) its percentage of financing on wholesale markets. During the year, maturities in capital markets have been reached amounting to €3,277 million. On the other hand, Banco Sabadell performed two public issuances of five-year mortgage covered bonds in May and October 2015 for a total of €750 million and €1 billion euros, respectively. In November 2015, TSB launched a securitisation operation for the amount of GBP 535 million.

- In 2015, the three agencies that assessed the credit quality of Banco Sabadell were Standard & Poor's, Moody's and DBRS. In June, the credit rating agency Moody's, as a result of the publication of its new methodology and the review of governmental support, upgraded the rating of the long-term deposits of Banco Sabadell by +2 notches to Baa3 (from Ba2) and the long-term senior debt by +1 notch to Ba1 (from Ba2). The rating of short-term deposits was upgraded to P3 (from not-prime) and the rating of the short-term senior debt remained unchanged at not-prime. The rating of mortgage covered bonds and territorial bonds was upgraded by +4 notches up to Aa2 (from A3). In September, DBRS Ratings Limited downgraded the long-term rating of Banco Sabadell to BBB high (from A low) and confirmed the short-term rating of R1 low, reflecting the outlook that the agency has in terms of the evolution of European regulations and legislation, where there is less certainty in terms of the likelihood of systemic support.

- Banco Sabadell has participated in the targeted four-year liquidity auctions of BCE (TLTRO) for an aggregate amount at year end of €11 billion (€5 billion euros corresponding to the TLTRO of 17 December 2014.)

- The group has maintained a liquidity buffer in the form of liquid assets, to meet any possible future liquidity needs. The acquisition of TSB has positively affected the first line of liquidity of the entity by approximately €3 billion, with a high-quality portfolio of liquid assets mainly concentrated in cash and gilts.

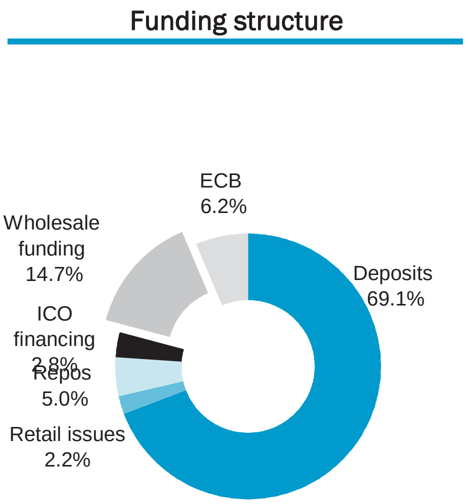
- On 1 October 2015, the Liquidity Coverage Ratio (LCR) came into force, with a regulatory minimum requirement of 60%. All UGLs of the group have widely surpassed this minimum. At the group level, the LCR ratio of the entity has been permanently and stably positioned over the year at well above 100%. As regards the Net Stable Funding Ratio (NSFR), with the date set for its implementation in January 2018, the entity has continued to maintain stable levels above 100%.

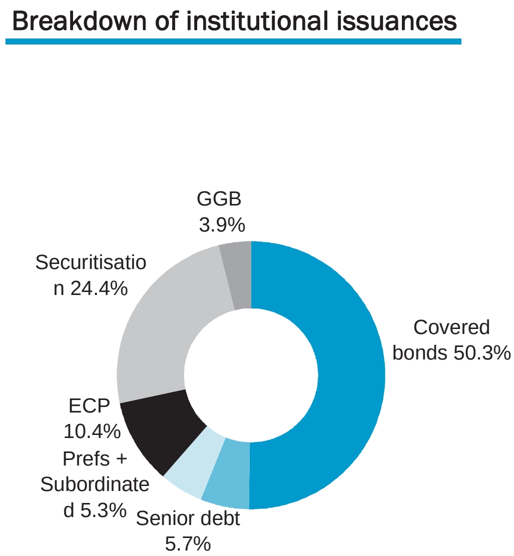
Key figures and basic liquidity ratios at the end of 2015 were:

€ million			**Ex TSB**
	2015	**2014**	**2015**
Gross loans and advances to customers without repos	152,697	117,964	116,635
Provisions fund for insolvencies and country risk	(6,610)	(7,716)	(6,426)
Credit mediation	(6,069)	(7,869)	(6,069)
Adjunsted net credit	**140,018**	**102,379**	**104,140**
On-balance sheet customer funds	131,489	94,461	96,227
Adjusted loans to deposits ratio (%)	**106.5**	**108.4**	**108.2**

Exchange rate EUR/GBP applied on the balance sheet is 0.7340 at 31.12.15 and 0.7789 at 31.12.14.

The Group’s principal sources of funding at the end of 2015 are shown in the following figures according to the type of instrument and counterparty:





For further information regarding the group’s liquidity management, strategy and evolution in 2015 see Note 4 on Risks, under the Liquidity Risk section in the notes to the annual accounts.

5.2. Capital resources

Note 5, Shareholders’ equity and capital management of the consolidated report of the group, contains a detailed report of the capital management (regulatory framework, detailed data and capital activity).

The main figures related to capital management are shown below:

% / million euro

	2015	2014
Core Capital	11,5	11,7
Tier I	11,5	11,7
Tier II	1,4	1,1
BIS Ratio	12,9	12,8
Capital base	11.417	9.541
Minimum required funds	7.102	5.953
Risk-weighted assets	88.769	74.418

Note 5 of the memorandum explains the main changes compared with the previous year in terms of regulation, evolution of risk weighted assets (RWAs) and the main components of own funds. Banco Sabadell has maintained an active capital management in 2015, which it has been carrying out in recent years, and which is a key aspect for the growth of the entity. Over the last four years, the bank has increased its capital base through issues classified as tier one capital, as shown in the table below:

M = million euro

		Amount	Impact on capital
February 2011	Debt-for-equity swap (equity through accelerated book building and buy back of prerential and subordinated shares)	411	+68 bp of *core tier* I
February 2012	Preferential shares swapped for ordinary shares	785	+131 bp of *core tier* I
March 2012	Capital increase	903	+161 bp of *core tier* I
July 2012	Preferential debt instruments and Banco CAM suborindated shares swapped for ordinary shares	1,404	+186 bp of *core tier* I
September 2013	Accelerated book building and capital increase with subscription rights	1,383	+178 bp of *core tier* I
October 2013	Issuance of Mandatorily Convertible Subordinated bonds for hybrid swap of Banco Gallego	122	+17 bp of core tier I
April 2015	Capital increase with preferential subscription rights - TSB	1,607	+181 bp of core tier I

Note: The capital impact (in basis points) is calculated using year-end data every year, and these figures have varied significantly due to new companies being incorporated into the group over the last few years.

6.-RISKS

In 2015, Banco Sabadell Group has continued to strengthen its risk management framework, making improvements in line with financial sector best practice.

For more details regarding the corporate risk culture, strategic risk framework and global organisation of the risks function, as well as the main financial and non-financial risks, see Note 4, *Financial Risk Management* in the consolidated annual accounts for 2015.

This year's main milestones in terms of the group's risk management have been the strengthening of the Risk Appetite Framework, adding an international focus point, and the improvement of the group's risk profile over the year, as explained in greater detail in Note 4 of the Memorandum.

7 – POST-BALANCE SHEET EVENTS

Since 31 December 2015, there have been no significant events worthy of mention.

8 – EXPECTED FUTURE DEVELOPMENTS

Banco Sabadell adopts three-year strategic plans designed in accordance with macroeconomic and regulatory conditions. The success it has had in implementing each of its previous strategic plans allowed Banco Sabadell to be ready for the new one and to have a high level of confidence in its successful outcome.

The "Óptima 2010" plan had the aim of preparing the bank to become an efficient platform for growth. Once that had been achieved, the "CREA" plan focused on organic and inorganic growth, which enabled the bank to reach critical mass so as to compete effectively in the Spanish financial system while the whole sector was undergoing a process of concentration.

During the implementation phase of the "CREA" plan, Banco Sabadell was able to transform itself commercially, growing its customer base by a factor of three, increasing market shares and optimising its resources.

In the current macroeconomic context, having completed the restructuring and integration of Banco CAM and several acquisitions in 2013 in order to continue strengthening its franchise, Banco Sabadell started a new business plan in 2014 that aims to extract value from their customer base by leveraging its new size and margin-generating capability. The main goal of the 2014-2016 Triple Plan is Profitability. Key themes of the new plan are Transformation (transformation of the business, transformation of the production process and transformation of the balance sheet) and Internationalisation (laying the foundations for becoming more international in terms of structure, resources, etc.) and entering new markets.

The result of the second year of the Plan's implementation in terms of the set targets has been very satisfactory.

In 2016 Banco Sabadell has already started to work on a new plan for the 2017-2019 period which is based on the strength of its sources of income.

The main financial elements are: substantial reduction of problem assets, normalisation of the balance sheet, achievement of double-digit profitability, continued advances in terms of digital transformation, consolidation of the America project and the value enhancement of TSB.

9 – RESEARCH, DEVELOPMENT AND INNOVATION

2015 has been marked by the start of the TSB project, with a strong impact on the technological organisation, which has been restructured to take on the project with the utmost guaranties. At the international level, the project that will allow the Bank to start operating in Mexico as a multi-purpose banking institution has also been completed.

A Systems Plan has been conducted in parallel, as intensively as in the previous year, in line with the objectives of the Triple business plan 2014-2016.

In terms of boosting commercial development, the implementation of the new campaign management tools has continued and the project for the development of the commercial portfolio of the managers and of the customer file is underway. A project has been developed to simplify the contracting of the basic pack for the Expansión Account, allowing the number of pages to be reduced from 40 to 4, and optimising its functionality. A move towards a more optimised process for the registration of new customers has also begun for individuals, sole proprietors and companies, linked to the contracting of the basic pack, and this is also being incorporated into a single Customer contract.

In the area of corporate mobility, the functions of product simulation, monitoring, reporting and contracting have been broadened, allowing commercial managers to perform all their activities on the move using their tablets. This has been aided by the completion of our Centralised Signature platform, incorporating new signature modalities: trusted third party, second distance banking password and biometric signature.

In the field of active Risk management, work is underway on the retailers and sole proprietors risk models, and on new means of sanctioning operations for retailers and companies, and to create a new end-to-end circuit in the area of loan/loss management.

Additionally, for Treasury, Markets and Asset Management, during this year the bank has worked to adapt the systems to negative rates and implement a new customer risk control system for Treasury operations in FX (TGR), and the adaptation of the platform to the New Markets Reform.

As regards to the Corporate Administration Systems, the most noteworthy actions performed during the year are centred on projects to adapt hub branches management systems (Hub&Spoke) and the Active Management Commercial Network. Also worthy of mention in the field of Human Resources are new projects for internal talent management, training and employee expense management.

10 – TREASURY SHARE SALES AND BUYBACKS

For information on treasury sales and buybacks see Note 26 to the Annual Accounts.

11 – ADDITIONAL INFORMATION

a) Shares and share price information

Some indicators of the bank's share performance are shown in the following table:

	2015	2014	Change YoY (%)
Shareholders and trading			
No. of shareholders	265,935	231,481	14.9
Number of shares	5,439,244,992	4,024,460,614	35.2
Average daily trading volume (number of shares)	32,155,802	27,272,221	17.9
Share price (€)			
Opening session	2.205	1.896	
High	2.499	2.713	
low	1.577	1.820	
Closing	1.635	2.205	
Market capitalisation (€'000)	8,893,166	8,873,936	
Market multiples			
Earnings per share (EPS) (€)	0.13	0.09	
Book value per share (€)	2.26	2.54	
Price/Book value	0.72	0.87	
Price/Earnings ratio (P/EPS)	12.55	23.88	
Assuming conversion of mandatory convertible bonds			
Total number of shares including those arising from conversion	5,472,251,402	4,289,732,386	
Earnings per share (EPS) (€)	0.13	0.09	
Book value per share (€)	2.24	2.38	
Price/Book value	0.73	0.93	

The bank's share price fell by 25.9% in 2015, in line with the average fall for all listed banks (-20%), while the IBEX-35 depreciated by 7.2%.

b) Dividend policy

The bank's shareholders' remuneration policy, in accordance with the bank's Statutes of Association, is submitted to shareholders for approval on a yearly basis at the Annual General Meeting.

In 2014, the bank compensated shareholders with €0.05 per share through a flexible remuneration scheme that offers them the chance to choose to receive this remuneration in cash and/or in new shares, and a complementary remuneration consisting in the handover of shares from the treasury portfolio. The percentage acceptance of remuneration in shares was 88.4%.

For 2015, the Board of Directors of the bank will propose the same remuneration scheme to the Annual General Meeting but with a value of €0.07 per share. This amount represents profits on the quoted share price of 4.3% (2.5% in 2014).

Over the coming years, Banco Sabadell foresees an increase in cash payments as remuneration to shareholders.

c) Managing the credit rating

In 2015 the three agencies rating Banco Sabadell's credit quality were Standard & Poor's, Moody's and DBRS. The current ratings, and the last dates on which they were affirmed, are as follows:

	Long term	Short term	Outlook	Last review
Standard & Poor´s	BB+	B	Stable	2/12/15
Moody´s	Ba1	NP	Stable	17/06/15
DBRS	BBB (high)	R-1 (low)	Stable	29/09/15

On 17 June 2015, Moody's Investor Service completed the review whereby it had allocated the ratings on 17 March 2015, as a result of the publication of its new methodology and the review of the government aid. The credit rating agency upgraded the rating for the long-term deposits of Banco Sabadell by +2 notches to Baa3 (from Ba2) and of the senior long-term debt by +1 notch to Ba1 (from Ba2). The rating of the short-term deposits increased to P3 (from not-prime) and the rating of the senior short-term debt remained at not-prime. The outlook changed to stable.

On 18 June 2015, Moody's Investor Service also concluded the review of the mortgage covered bonds started on 17 March 2015. The result was an upgrade in the rating of the mortgage covered bonds by +4 notches to Aa2 (from A3).

On 29 September 2015, DBRS Ratings Limited completed the review whereby it had allocated the ratings of various European banking groups on 20 May 2015, reflecting the outlook that the agency has in terms of the evolution of European regulations and legislation, where there is less certainty in terms of the likelihood of systemic support. This action implied a downgrade in the long-term rating of Banco Sabadell to BBB high (from A low). Short-term rating was confirmed at R1 low. DBRS also changed the outlook of Banco Sabadell to stable (formerly negative) reflecting the improvement of the bank's fundamentals, particularly asset quality and profitability.

On 2 December 2015, Standard & Poor's Ratings Services improved the outlook of Banco Sabadell to stable (from negative) and upheld the long-term rating of BB+, and the short-term rating of B. The credit rating agency has improved the intrinsic credit profile of the entity (Stand Alone Credit Profile – SACP) by +1 notch to bb+ (from bb) due to the improvement of the bank's risk profile, thus compensating the elimination of the notch from government support which the rating of Banco Sabadell had to date.

All agencies have stressed the improvement of the credit standing of Banco Sabadell and have favourably viewed the improvement made in its credit quality.

During 2015, Banco Sabadell has met with the three agencies. At these visits and teleconferences, the discussions have addressed subjects such as the bank's strategy, the acquisition of TSB, results, capital, liquidity, risks and credit quality, and the management of problem assets.

d) Branch network

At the end of 2015, Banco Sabadell was operating 2,873 branches (including 614 TSB branches), an increase of 553 branches compared with 31 December 2014 (61 fewer branches excluding TSB), that is mainly due to the acquisition of TSB's branch network.

Of the total number of Banco Sabadell group branches and offices, 1,647 were operating under the Sabadell brand (including 47 specialist business banking and 2 specialist corporate banking branches); 129 were under the Banco Gallego brand (with 3 business banking branches); 178 formed the Banco Herrero network in Asturias and León (including 5 business banking branches); 131 were under the SabadellGuipuzoano brand (including 5 business banking branches); 12 were operating under the SabadellUrquijo name; 105 were Solbank branches, and the remaining 669 made up the group's international network, of which 27 were operated by Sabadell United Bank, 7 by BancSabadell d'Andorra and 614 by TSB. Additionally, ActivoBank has two customer service centres. The distribution of the group's Spanish branches by region is as follows:

Region	Branche	Region	Branche
Andalusia	143	Valencia	387
Aragón	38	Extremadura	6
Asturias	146	Galicia	129
Balearic Islands	65	La Rioja	8
Canary Islands	30	Madrid	209
Cantabria	6	Murcia	148
Castilla-La Mancha	23	Navarra	19
Castilla y León	64	Basque Country	107
Catalonia	674	Ceuta and Melilla	2

The group is present in the following countries:

Country	Branch	Representative office	Subsidiaries and associates
Europe			
Andorra			•
France	•		
Poland		•	
Portugal			•
UK	•		•
Turkey		•	
America			
Brazil		•	
Colombia		•	•
USA	•	•	•
Mexico		•	•
Peru		•	
Dominican Republic		•	
Venezuela		•	
Asia			
China		•	
UAE		•	
India		•	
Singapore		•	
Africa			
Algeria		•	
Morocco	•		

Corporate Governance

As required by Article 540 of the Capital Companies Act, the Banco Sabadell group has prepared an Annual Report on Corporate Governance for the year 2015, which, in accordance with Article 49 of the Code of Commerce, forms part of this Report for the Directors and is attached as a separate document. It includes a section on the extent to which the bank is following recommendations on corporate governance that currently exist in Spain.

Information on Corporate Governance can be accessed via the "Shareholder and investor information" tab on the home page of the Group website (www.grupobancosabadell.com).

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App General Shareholders' Meeting 2016

This annual report is available on the group's website (www.grupobancosabadell.com), along with the full version and other reports and corporate policies.
If you have a smartphone or tablet, you can access these reports on your device using the QR code.

The legal name of the issuer is Banco de Sabadell, S.A., and its commercial name is Banco Sabadell.
It is registered in the Mercantile Registry of Barcelona, tome 20.093, folio 1, sheet B-1561, and it's domiciled in Sabadell, Plaza de Sant Roc, 20.