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.

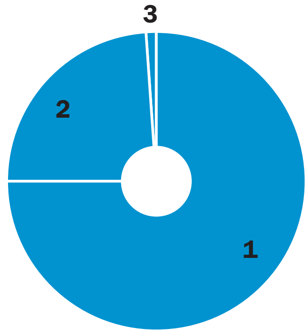
The Market Risk Department and the Audit and Control Department oversee compliance with the objectives and policies of the group and their effectiveness, reporting to the Risk Committee and the Audit and Control Committee, respectively.

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.

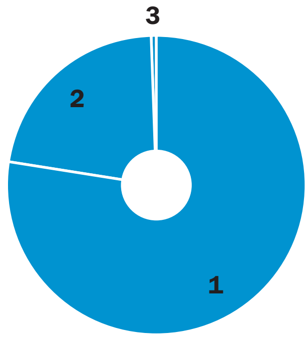
At year-end 2015 the equity exposure sensitivity to a 1% depreciation in exchange rates against the euro of the main currencies to which exposure exists amounted to €21 million, of which 60% pertains to the British Pound Sterling, 36% pertains to the US Dollar and the remaining amount pertains to other 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.

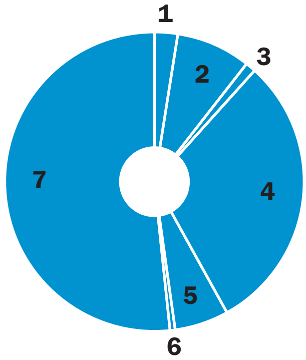
This is complemented by the identification, monitoring and active management of the risk through the use of key indicators, causing the establishment of alerts to warn of any increase in this exposure, the identification of the causes for this increase, and the measurement of the efficiency of the resulting 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.

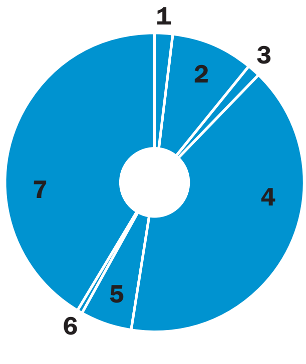
A database is available containing historical records of actual losses resulting from operational risk going back to 2002. It is constantly being updated as information is received on losses and recoveries, whether resulting from the bank's own efforts or from insurance provisions (G21 and G22).



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).